



House of Commons
Committee of Public Accounts

The recovery of debt by the Inland Revenue

**Forty-ninth Report of
Session 2003–04**

*Report, together with formal minutes,
oral and written evidence*

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The Committee of Public Accounts

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Committee staff

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Summary

Introduction

The Inland Revenue collects over £200 billion a year in tax and National Insurance contributions from 30 million taxpayers ranging from individuals to multi-national corporations. Most people and businesses pay their taxes on time. Debts arise when people do not pay taxes that are legally due by the required date. This might be because people do not understand the requirement to pay, or have forgotten to do so. Some may face temporary or longstanding cash flow problems. Others may be unwilling to pay and seek to make it difficult for the Department to collect the debt in the hope that it will not be pursued further. Because the deadlines for paying different taxes vary the level of debt fluctuates throughout the year. The total amount of debt stood at £12 billion at the end of March 2004, of which £3 billion was more than a year old.

The longer a debt remains outstanding the more costly and difficult it becomes to collect. The Department may reach a point where it has to write off a debt because there is no longer any prospect of recovery. Around £0.7 billion is lost in write-offs each year. Preventing the accumulation of debt is therefore important in securing earlier receipt of taxes owed and keeping collection costs to a minimum.

On the basis of a Report and a memorandum by the Comptroller and Auditor General,¹ we examined the Inland Revenue on speeding up the recovery of debt; preventing the build-up of debt; and applying good practice in debt management.

1 C&AG's Report, *The Recovery of Debt by the Inland Revenue* (HC 363, Session 2003–04); Ev 21–22

Conclusions and recommendations

- 1. The Department should impose a surcharge on persistent late payers and oblige them to pay the tax and contributions they deduct from their employees into a designated bank account.** The Department writes off debts of almost £0.5 billion a year because of insolvencies and, of the £3 billion of debt over one year old, around £1.2 billion is owed by insolvent companies or individuals. Much of this is tax and contributions deducted by employers from the pay of their employees. The Department should, as a minimum, demand security from businesses who have a poor payment record to provide cover for future tax bills, as some overseas tax authorities and HM Customs and Excise can do.
- 2. The Department should make maximum use of other Departments' records to find taxpayers it cannot trace, and seek a legal power to require taxpayers to provide up to date contact details.** The Department has written off some £55 million a year because it could not trace the taxpayer and a further £300 million of debt over one year old relates to cases for which the Department does not have up to date contact telephone numbers and addresses.
- 3. The Department should seek to achieve similar debt clearance rates to the utilities sector.** On self-assessed Income Tax, the Department cleared only 59% of cases within 90 days compared with a debt clearance rate of 90% in the utilities sector. Eliminating the backlogs that build up periodically during the year would be a useful first step which could save around £2 million a year in preventing the build-up of older debt and associated write-offs.
- 4. To improve efficiency, all debts should initially be pursued through the Department's Telephone Centre. All debts should moreover be handled through the Department's automated Integrated Debt Management System.** The Department will then find it easier to pursue individuals and companies for the various debts they owe on different tax streams at the same time. This will be an important step in ensuring that the new HM Revenue and Customs has systems to manage debts efficiently across its customer base.
- 5. The Department should seek additional powers for enforcing debts, similar to those of other tax authorities.** These include recovery of debt from a person's salary or from funds held by their bank or other third party without the need to go to court. Recovering debts through court action is expensive for the Department and yet it has had to make increasing use of this method of enforcing debts.
- 6. The Department should provide the facility to pay by credit card, passing on any service charge to taxpayers who use this method. It should also be able to require payment by direct debit where the taxpayer has previously defaulted on a tax bill.** Giving taxpayers additional means of payment should help to speed up and increase the revenue actually collected. A number of other public authorities accept credit card payments.
- 7. The Department should provide up to date and accurate information and advice to those in debt on its website and in leaflets in different languages.** Improved

communication would help taxpayers understand their obligations and go some way towards helping those who do not have access to professional advice. The Department's leaflets have been out of date for too long, and its website does not provide important information on the Payment Helpline, codes of practice and other sources of advice.

- 8. The Department's performance measures should include, for all types of tax and national insurance contribution debt, the percentage of taxpayers who pay on time, the percentage of debt collected within 30 days and the percentage of debt collected within 90 days.** Such data would help focus on minimising debt levels and speeding up recovery, in line with good practice in debt management. The current targets focus solely on the percentage of taxpayers that pay their taxes within 12 months of the due date.
- 9. The Department should analyse the debt record of different types of taxpayer and use risk scoring techniques to identify the need for early action to support those taxpayers who are more likely to get into debt.** The Department analyses how taxpayers' characteristics affect their tax compliance record. Similar analysis of the debt record of taxpayer groups, combined with the use of risk scoring techniques, would enable the Department to develop expected payment profiles for taxpayers based on type and location.

1 Speeding up the recovery of debt

1. The Inland Revenue collected £219 billion in tax and National Insurance contributions in 2002–03 from 30 million taxpayers ranging from individuals to multi-national corporations. Most people and businesses pay their taxes on time but many thousands get into arrears because of financial difficulties or because they are unwilling to pay. The level of debt fluctuates throughout the year because the statutory deadlines for paying different taxes vary.²

2. At the end of March 2003 taxpayers owed the Inland Revenue around £14 billion and the Department estimated that around £12 billion was outstanding at the end of March 2004. Some of this debt had only recently become due and would be paid off quickly following automatic demand letters without any further action by the Department. But at the end of 2002–03 around £4 billion on PAYE, self-assessed Income Tax and Corporation Tax was more than one year old (**Figure 1**). The Department estimated that at the end of 2003–04 around £3 billion of debt was over one year old. It does not have data on the level of debt over one year old for other taxes and national insurance contributions.³

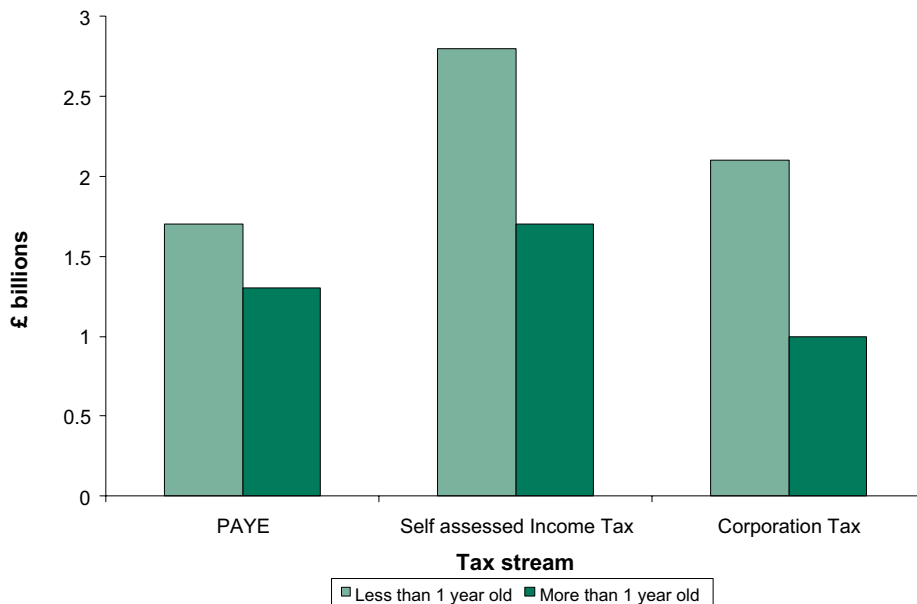
3. If a debt remains unpaid after an initial reminder, the Department's Telephone Centre attempts to contact the taxpayer to negotiate settlement. Cases which are not settled are passed to one of 143 local offices for recovery action. Where they are not successful the Department may instigate procedures to wind up a company, bankrupt an individual, or write off a debt it cannot recover. The Department wrote off tax debts of £523 million in the year to October 2002 and a further £275 million in National Insurance contributions in the year to the end of March 2003.⁴

2 C&AG's Report, para 1

3 *ibid*, Executive Summary paras 1, 1.8; Qq 4, 143–144

4 C&AG's Report, Executive Summary para 3

Figure 1: The age of debts on PAYE, self-assessed Income Tax and Corporation Tax at 31 March 2003



Note: On PAYE the level of debt less than one year old excludes £1.9 billion debt included in the £14 billion outstanding at the end of March 2003. This had only recently become due and is cleared quickly as a result of automatic demand letters.

Source: C&AG's Report Figure 6, page 13

Reducing the amount of debt over one year old

4. Of the £3 billion of debt over one year old at the end of March 2004:

- around £500 million was owed by taxpayers who were contesting the amount payable;
- around £300 million was owed by people that the Revenue was seeking to trace;
- £1 billion was covered by time to pay arrangements or still being actively pursued through normal recovery action;
- £1.2 billion was owed by companies or individuals who were insolvent.⁵

Tracing taxpayers

5. Around £300 million of debt was over one year old because the Department was trying to trace taxpayers, for whom it did not have up to date contact details. The Department wrote off debts of £55 million in 2002 because it could not trace the individuals concerned, an increase of over 70% on the previous year. In many cases the Department did not have up to date telephone numbers or addresses because the information had never been provided or contact details had changed. Although the Department asks for contact details on tax returns it is not a legal requirement to provide them, nor are taxpayers required to notify changes of address.⁶

5 Q 4

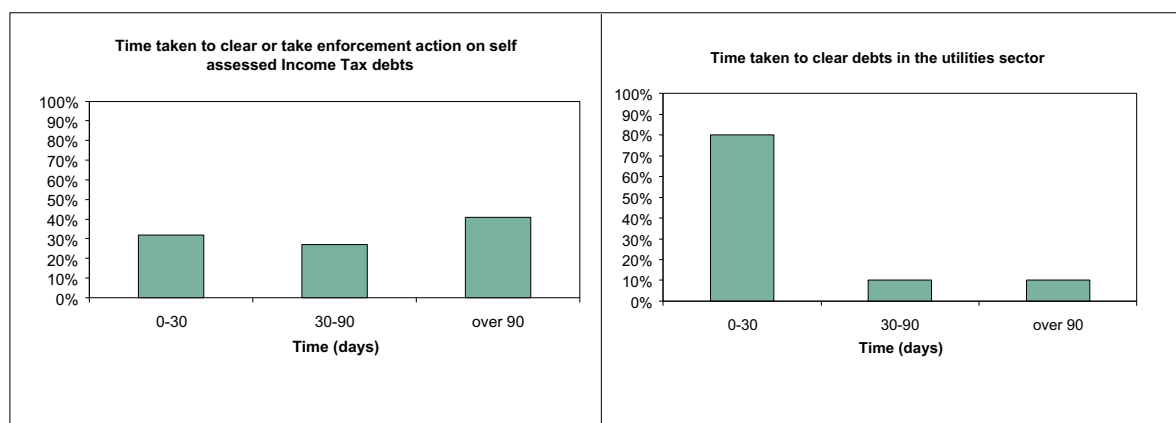
6 C&AG's Report, Figure 14; Qq 4, 44–46, 197–200

6. Around a quarter of all self-assessed Income Tax cases are passed to the Telephone Centre without a telephone number. In 2003 the Telephone Centre traced the telephone numbers of 22% of such cases. The Department improved its performance in tracing by enabling staff to search across its various computer systems for contact details. For cases which were easier to trace the Department had also used a specialist company which had been cost effective, and it is now making routine use of the private sector in tracing telephone numbers. The Department has concentrated on making full use of its own information systems, but has made little use of information held by other departments. It can however exchange information with a number of other departments, and intends to make better use of these arrangements to trace taxpayers.⁷

Pursuing recovery action

7. The longer a debt remains outstanding the more difficult it is to collect, so it is important to get people to pay as quickly as possible. The National Audit Office's modelling showed that on self-assessed Income Tax, the Department cleared only 59% of debt cases within 90 days, well below typical debt clearance rates in the utilities sector of 90% within 90 days (Figure 2), even though taxpayers have 10 months' notice of when a tax bill is due to be settled. The modelling showed that peaks in the debts on self-assessed Income Tax built up during September, January and March which took up to 10 weeks to clear. Reducing these peaks could save around £2 million a year by reducing the level of debt that becomes over one year old, part of which would eventually be written off.⁸

Figure 2: Time taken to clear debt cases on self-assessed Income Tax compared with the performance of the utilities sector



Source: C&AG's Report Figure 9, page 16

8. To reduce the level of debt over one year old, the Department received additional funding under the "Spend to Save" initiative in the 2003 Budget for an extra 75 staff to bring in £85 million a year in tax revenue by 2007–08. The Department believes it is on course to meet this target, having recovered £20 million in 2003–04 against a target of £11 million.⁹

7 C&AG's Report, para 2.1; Qq 46–47, 82–85; Ev 23

8 C&AG's Report, para 2.5; Qq 7, 99–100, 149–155

9 C&AG's Report, para 1.8; Qq 41–42, 97

9. The Department could make better use of its Telephone Centre. The Centre had been set up in 1999 to obtain outstanding tax returns and collect most debts on PAYE, and it now also deals with Corporation Tax and debts below £5,000 on self-assessed Income Tax. A review in 2002 confirmed that the Telephone Centre reduced the costs of servicing debt compared with other methods.¹⁰

10. To help speed up the collection of debt, large volume lenders in the private sector used four or five debt collection agencies and monitored the performance of each agent and their in-house collection service according to the type and age of debt. The Internal Revenue Service in the United States also plans to outsource to commercial debt collection agencies the collection of \$13 billion in tax debt which would allow staff to focus on the more complex, higher value cases. The Inland Revenue in the United Kingdom has not outsourced the collection of debt because of taxpayer confidentiality and data protection implications.¹¹

11. The Department employs around 5,000 staff at a cost of £92 million a year in local recovery offices which take enforcement action on debts where initial recovery action has been unsuccessful. This can involve seizing assets or court proceedings. The number of enforcement actions increased from 155,000 in 2001–02 to 181,000 in 2002–03. In the private sector there is a trend away from court action because of the costs involved. As an alternative they aim to maintain long term relations with the customer by trying to detect early those experiencing trouble paying their debts and negotiating repayment solutions such as rescheduling debt or suspending interest. Overseas tax authorities use a range of other practices to recover debt which could provide useful alternatives for the Inland Revenue to pursue instead of court action (**Figure 3**).¹²

10 C&AG's Report, paras 2.3–2.4; Qq 58–59

11 C&AG's Report, paras 3.2–3.4; Q 18

12 C&AG's Report, paras 3.2–3.5

Figure 3: Practices used by other tax authorities to recover debts

<p>Denmark – Withholding of salary</p> <p>A local authority can ask a debtor’s employer to withhold part of the debtor’s salary each month and pay it over to the Tax Authority. In the UK an Attachment of Earnings Order is needed from the courts.</p>
<p>Norway – Distraint on bank or credit card accounts</p> <p>The Tax Authority can distraint on the account set up by the business to handle customers’ credit card transactions. It is mainly used where businesses have few tangible assets and high daily takings, such as restaurants. All of the business’s takings from transactions using that company’s credit card over the period of the agreement are paid over directly to the Authority.</p>
<p>Republic of Ireland – Recovery of debt through a third party</p> <p>A third party, such as a bank, holds funds on behalf of the debtor. Where a debtor will not pay his taxes the Tax Authority can obtain these funds directly from the third party without going through the courts. In the UK the Inland Revenue can seek a Third Party Debt Order for the same purpose but they can only obtain this by going to the County Court.</p>

Source: C&AG’s Report Figure 12, page 21

Action on debts owed by insolvent companies or individuals

12. Around £1.2 billion of the debt over one year old is owed by insolvent companies or individuals and sums are written off each year because the debt cannot be recovered, amounting to £337 million in 2002. The Enterprise Act 2002 removed the Crown’s preferential rights in insolvency debts to ensure that unsecured creditors were major beneficiaries of monies available for distribution from liquidated companies. This meant that the Inland Revenue was no longer automatically paid before other creditors. The change in status put a premium on early identification of cases at risk and prompt action to avoid escalating debts.¹³

13. The Department is looking to improve its performance by identifying businesses at risk early on and working with them to see whether it could help them with their financial difficulties. It received additional funding under the “Spend to Save” initiative in the 2003 Budget to improve debt recovery in cases under threat of insolvency with the aim of raising around £50 million a year at the end of three years. The Department was encouraged by early results, having collected £6.4 million compared with £5 million expected in the first year.¹⁴

14. Other tax authorities have powers which the Revenue does not currently have which help in reducing losses from companies going insolvent by requiring them to inform the tax authority as soon as they are unable to pay their tax and to hold their equivalent of PAYE in a separate bank account. In Denmark, the Central Customs and Tax Administration can also demand security from companies, such as bank guarantees, to provide cover for future tax debts. In the UK HM Customs and Excise can also require financial security from companies when registering for VAT.¹⁵

13 C&AG’s Report, para 3.11 and Figure 14; Q 4

14 C&AG’s Report, para 3.11; Qq 6, 12, 16, 66

15 C&AG’s Report, para 3.12, Case Study F; Qq 9–15, 111

2 Preventing the build up of debt

15. Encouraging taxpayers to pay their taxes on time helps to prevent the build up of debt, reduce the costs of collection and secure earlier receipt of sums owed. The Department can help to achieve this by making payment as easy as possible through a range of payment methods and providing information, support and advice to taxpayers on their responsibilities and what to do if they have a problem.¹⁶

Payment methods

16. To make payment more convenient and efficient, the Department produced a strategy in January 2003 to increase the use of electronic payment. The Department offers 33 different payment methods, 23 of which are electronically based. Payment by cheque is the most popular, but two-thirds of payments (almost 55% by value) are made by electronic means. The Department introduced the facility to pay by debit card in 2003 for debts settled by its Telephone Centre and it plans to extend this to local offices from mid 2005. The Department does not accept payment by credit card because this attracts a service charge and would increase collection costs. The Department is looking at ways of minimising the costs, but legislation would be needed to allow it to pass on the costs to taxpayers. The Department also has some concerns about increasing the level of consumer credit card debt although it already expects taxpayers to draw on bank or building society deposits, call on amounts owed by third parties, realise stocks and shares, sell assets such as cars or borrow funds to pay any taxes due.¹⁷

17. Where the taxpayer does not have sufficient realisable assets, or is unable to borrow sufficient funds, the Department considers requests to pay by instalments. In 2002–03, it received thousands of requests from customers for additional time to pay. For example there were over 27,000 arrangements in place in the local recovery offices for paying off arrears on self assessed Income Tax. Instalments can be paid by direct debit but the Department is unable to impose this arrangement even when the taxpayer has defaulted on a tax bill in the past. Such a requirement would help in recovering debts but a change in legislation would be required.¹⁸

18. Of the £14 billion outstanding at 31 March 2003, £4.9 billion was on PAYE. Employers should pay this over to the Department by the 19th of each month but, during 2002–03, only 52% of employers had paid by the 23rd of each month.¹⁹ In our previous Report on *Tax Credits and Tax Debt Management* (HC 332, Session 2002–03) we concluded that the Department should increase its current target of half of all employers paying over tax deducted from employees' earnings by the statutory date.²⁰ Since April 2004, the Department has required employers with 250 employees or more to pay their PAYE

16 C&AG's Report, Executive Summary para 16

17 C&AG's Report, paras 4.2–4.5, Figure 15; Qq 87–89, 205–206

18 Qq 103–105

19 C&AG's Report, para 4.9, Figure 4

20 29th Report from the Committee of Public Accounts, *Inland Revenue: Tax Credits and Tax Debt Management* (HC 332, Session 2002–03)

electronically and a new surcharge has been introduced for persistent late payment. No similar measures were in place for small and medium sized employers.²¹

Information and advice for taxpayers

19. The Department provides a range of support and advice to help taxpayers understand their responsibilities for paying tax on time. It has set up a Payment Helpline to provide information to those experiencing difficulties in paying their debts. It has also seconded staff to voluntary sector organisations that advise taxpayers on debts and provides a dedicated phone line for voluntary sector debt advisers to obtain information to help in dealing with clients' problems.²²

20. Some of the Department's leaflets on debt recovery were written in 1994, pre-dating the introduction of self-assessed Income Tax, and are out of date and inaccurate. The Department has therefore withdrawn these leaflets, and is updating them for issue during 2004. The material on the Department's website was limited to a high level summary of the collection processes, operational functions and enforcement actions. It does not include information on the Payment Helpline, which deals with time to pay requests, and the codes of practice. There are no links to other pages on the Department's website containing guides on enforcement action or links or contact details for other organisations that could help a taxpayer. Having upgraded its website in January 2004 the Department planned further improvements.²³

21. Between 1999–2000 and 2002–03 the Department wrote off £789 million in National Insurance contributions debt, mainly owed by businesses that had become insolvent. Although the employer's debt is written off, the individual employee's contributions are deemed to be paid so the write-off does not reduce their entitlement to related welfare benefits. Entitlement to pension and benefits is however reduced if an individual employee has not made sufficient annual contributions. The Inland Revenue has started to send out deficiency notices to people who have made insufficient annual contributions. Pension forecasts are also available on request, to help people decide whether it would be worthwhile making additional contributions. In time the Inland Revenue and the Department for Work and Pensions hope to enable people to check their contribution and pension forecast electronically, but this depends on linking up the departments' computer systems.²⁴ In *Simplicity, security and choice: Informed choices for working and saving* the Department for Work and Pensions announced plans for increasing the range and number of pension forecasts it provides, together with employers and pension providers.²⁵

21 C&AG's Report, para 4.9; Qq 90–92

22 C&AG's Report, para 4.13; Qq 120, 123

23 C&AG's Report, para 4.15; Q 17

24 Ev 22; para 10; Qq 64–66, 72–81

25 Department for Work and Pensions, *Simplicity, security and choice: Informed choices for work and saving* (Cm 6111) February 2004.

3 Applying good practice in debt management

22. The Department has made significant improvements in recent years in the way that it collects and enforces debts. It has compared its practices with a number of other tax authorities, but does not benchmark its performance on a regular basis with other public sector or private sector organisations.²⁶

The Department's targets and management information

23. The Department's main targets on debt management focus on the percentage of taxpayers who pay within 12 months of the due date (**Figure 4**). These targets do not provide a good measure of the effectiveness of the Department's debt collection as they do not focus on increasing the number of people who pay by the due date. Nor do they incorporate targets for collecting debt more quickly than 12 months after it is due.²⁷

Figure 4: The Department's main targets and outturn

Targets on tax collected	2002/03 Target %	2002/03 Outturn %	2003/04 Target %
Percentage of employers who pay within 12 months of the due date (19 May)	96.5	97.0	96.7
Percentage of self assessed taxpayers who pay within 12 months of the due date (31 January)	94.0	98.6	98.6

Source: C&AG's Report, Figure 2, page 10

24. The Department produces management information on the total amount of debt collected each month on each tax stream, and the number of enforcement actions and the amount of debt involved. But it does not have other important information such as the number and value of cases settled at each stage of the debt recovery process for each tax stream, where backlogs occur in the system and how long these take to clear, and the costs of taking each type of recovery action. The lack of such information affects the Department's ability to manage the work as efficiently as possible and to assess the effectiveness of actions taken. The Department expects to make significant improvements in its management information by early in 2005.²⁸

25. The Department uses an analysis package to segment the taxpayer population into different groups and examine the relationship between taxpayer characteristics and their tax compliance record. A number of private sector organisations including credit card and

26 C&AG's Report, Executive Summary paras 6–7, Figure 7

27 *ibid*, Figure 2; Qq 147–149

28 C&AG's Report, para 1.10; Qq 2–3

utility companies use a similar approach in managing debt. The Department has not analysed the debt record of taxpayers in this way.²⁹

The Department's computer systems for managing debts

26. The Department uses an automated Integrated Debt Management System to manage the collection and enforcement of debts for PAYE and Corporation Tax. The purpose of the system is to improve efficiency, reduce costs and tax arrears and to increase tax flows. The Department uses separate systems for other tax streams such as self assessed Income Tax and Class 2 National Insurance contributions. It intends to move self assessed Income Tax on to the Integrated Debt Management System by 2005 but has not set a date for Class 2 National Insurance contributions.³⁰

27. Using separate systems reduces staff productivity because it is more difficult to collate information on all debts relating to a taxpayer and pursue these as one case. Local recovery office staff can manually link related cases but they have to look across multiple screens to gauge the full extent of the debt. As a result taxpayers could sometimes be approached separately on each debt they owed.³¹

28. Using different systems also means that some processes have to be performed manually. For example Class 2 National Insurance debts are initially managed by the National Insurance Contributions Office. If the Office cannot recover the debt it is transferred for collection by the Receivables Management Service who have to input the details manually to the integrated system. If the process could be automated costs could be reduced by around half, saving around £1.6 million a year. The Department has feasibility work under way on fully automating those systems where records are maintained manually at present. The Department considers such changes would be cost effective but it does not currently have the capacity to implement them.³²

29 C&AG's Report, para 4.19; Qq 93, 135–137; Ev 24

30 C&AG's Report, para 1.9

31 *ibid*, paras 2.9, 3.9; Qq 170–177, 180–181

32 C&AG's Report, para 2.8; Qq 168, 180–181

Formal minutes

Monday 25 October 2004

Members present:

Mr Edward Leigh, in the Chair

Mr Richard Allan

Mr Richard Bacon

Mrs Angela Browning

Mr Ian Davidson

Mr Brian Jenkins

Mr Gerry Steinberg

Mr Alan Williams

The Committee deliberated.

Draft Report (The recovery of debt by the Inland Revenue), proposed by the Chairman, brought up and read.

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

Paragraphs 1 to 28 read and agreed to.

Conclusions and recommendations read and agreed to.

Summary read and agreed to.

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

Ordered, That the Chairman do make the Report to the House.

Ordered, That the provisions of Standing Order No. 134 (Select Committees (Reports)) be applied to the Report.

[Adjourned until Wednesday 27 October at 3.30pm]

Witnesses

Wednesday 5 May 2004

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Miss Ann Chant CB, Mr Stephen Jones, and Mr Gordon Smith, Inland Revenue

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Inland Revenue

Ev 22

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Third Report	The Sheep Annual Premium Scheme	HC 64 (<i>Cm 6136</i>)
Fourth Report	Improving service delivery: the Forensic Science Service	HC 137 (<i>Cm 6155</i>)
Fifth Report	Warm Front: helping to combat fuel poverty	HC 206 (<i>Cm 6175</i>)
Sixth Report	Department of Trade and Industry: Regional Grants in England	HC 207 (<i>Cm 6155</i>)
Seventh Report	Progress on 15 major capital projects funded by Arts Council England	HC 253 (<i>Cm 6155</i>)
Eighth Report	The English national stadium project at Wembley	HC 254 (<i>Cm 6155</i>)
Ninth Report	Review of grants made to the National Coalition of Anti-Deportation Campaigns	HC 305 (<i>Cm 6175</i>)
Tenth Report	Purchasing and managing software licences	HC 306 (<i>Cm 6175</i>)
Eleventh Report	Helping consumers benefit from competition in telecommunications	HC 405 (<i>Cm 6191</i>)
Twelfth Report	Getting it right, putting it right: Improving decision-making and appeals in social security benefits	HC 406 (<i>Cm 6191</i>)
Thirteenth Report	Excess Votes 2002–03	HC 407 (<i>N/A</i>)
Fourteenth Report	Inland Revenue: Tax Credits	HC 89 (<i>Cm 6244</i>)
Fifteenth Report	Procurement of vaccines by the Department of Health	HC 429 (<i>Cm 6244</i>)
Sixteenth Report	Progress in improving the medical assessment of incapacity and disability benefits	HC 120 (<i>Cm 6191</i>)
Seventeenth Report	Hip replacements: an update	HC 40 (<i>Cm 6271</i>)
Eighteenth Report	PFI: The new headquarters for the Home Office	HC 501 (<i>Cm 6244</i>)
Nineteenth Report	Making a difference: Performance of maintained secondary schools in England	HC 104 (<i>Cm 6244</i>)
Twentieth Report	Improving service delivery: the Veterans Agency	HC 551 (<i>Cm 6271</i>)
Twenty-first Report	Housing the homeless	HC 559 (<i>Cm 6283</i>)
Twenty-second Report	Excess Votes (Northern Ireland) 2002–03	HC 560 (<i>N/A</i>)
Twenty-third Report	Government Communications Headquarters (GCHQ): New Accommodation Programme	HC 65 (<i>Cm 6302</i>)
Twenty-fourth Report	Transforming the performance of HM Customs and Excise through electronic service delivery	HC 138 (<i>Cm 6302</i>)
Twenty-fifth Report	Managing resources to deliver better public services	HC 181
Twenty-sixth Report	Difficult forms: how government departments interact with citizens	HC 255 (<i>Cm 6302</i>)
Twenty-seventh Report	Identifying and tracking livestock in England	HC 326 (<i>Cm 6332</i>)
Twenty-eighth Report	Driver and Vehicle Licensing Agency: Trust Statement Report 2002–03	HC 336 (<i>Cm 6302</i>)
Twenty-ninth Report	Improving public services for older people	HC 626 (<i>Cm 6303</i>)

Thirtieth Report	Out of sight—not out of mind: Ofwat and the public sewer network in England and Wales	HC 463 (Cm 6303)
Thirty-first Report	Cambridge-MIT Institute	HC 502 (Cm 6302)
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Thirty-third Report	Income generated by the museums and galleries	HC 430 (Cm 6304)
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The reference number of the Treasury Minute to each Report is printed in brackets after the HC printing number

Oral evidence

Taken before the Committee of Public Accounts

on Wednesday 5 May 2004

Members present:

Mr Edward Leigh, in the Chair

Mr Richard Allan
Mrs Angela Browning
Mr Ian Davidson
Mr Frank Field
Mr Brian Jenkins

Jim Sheridan
Mr Gerry Steinberg
Jon Trickett
Mr Alan Williams

Sir John Bourn KCB, Comptroller and Auditor General, National Audit Office, further examined.

Mr Brian Glicksman, Treasury Officer of Accounts, HM Treasury, further examined.

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL:

The Recovery of Debt by the Inland Revenue (HC 363)

Witnesses: **Miss Ann Chant CB**, Acting Chairman, **Mr Stephen Jones**, Director of Finance and **Mr Gordon Smith**, Director, Receivables Management Service, Inland Revenue, examined.

Q1 Chairman: Good afternoon, welcome to the Committee of Public Accounts, where today we are looking at the Comptroller and Auditor General's Report into the recovery of debt by the Inland Revenue. We welcome for the first time Miss Ann Chant, who is the Acting Chairman of the Inland Revenue; you are very welcome. You have a hard act to follow, but we look forward to hearing from you.
Miss Chant: Thank you; indeed I do.

Q2 Chairman: Could you please turn to paragraph 1.10 on page 12? You will see there that there are gaps in the information available to you "... the information has been unreliable... there are gaps such as on the number and value of cases settled at each stage of the debt recovery process". How can you manage your business properly in these circumstances?

Miss Chant: I can say that although we have certainly had gaps in our management information, I am not going to sit here and say we have plugged every single one of them. What I can say is that there has been considerable progress in this over the last 12 months. Put simply, the basic problem is that we have been dealing with old legacy systems which have dealt separately with various aspects of tax and tax collection. The Department has accrued other responsibilities over the years and it has been a matter of, as fast and as prudently as we can, bolting that system together and getting coherent and comprehensive management information systems from it. In the last year, there have indeed been considerable improvements. We can now manage to check properly our main targets, the performance during the year, and within the next 11 months we will have managed to bring the other three main tax headings within that system.

Q3 Chairman: Within the next 11 months you can solve this problem, can you?

Miss Chant: Within the next 11 months we shall very largely have got ourselves the management information system that we really do want.

Q4 Chairman: Please turn now to page 13 and look at Figure 6 and paragraph 1.8 on page 11. You will see there that over £3 billion of PAYE and self-assessed income tax was more than one year old. I find this astonishing. Can you explain it please?

Miss Chant: Yes, I can. It is a large sum. May I explain what it currently consists of, because that was the figure at 31 March last year and broadly speaking we do have our 2003-04 performance figures? We shared these initially with the National Audit Office; we think they are broadly right. The sum of £3 billion outstanding over a year old will be about the same. Of that, £1.2 billion is because it is owed from companies or individuals who are insolvent, £0.5 billion is from people who are contesting the amount, so it is under debate and it may stay at that sum, it may go down. About £300 million is lying against people whom for the time being we simply cannot trace but we are not giving up on that. We are then left with £1 billion and of that billion, a large part, although it is outstanding and is old debt, is actually coming into us, because it is the subject of time-to-pay instalment arrangements. We are actively working the rest. The trouble is that we talk in telephone number figures for all this department's business, so I am not in any way minimising the sum of £3 billion, but it is in fact 1.8% of the amount we have collected.

Q5 Chairman: It is still £3 billion. Judging by your answer, if you were to come back here in a year or two years or three years' time you would give us much the same sort of figure, would you?

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Miss Chant: No, I do not think we would.

Q6 Chairman: Could you give us a ballpark figure to which you might reduce it with your efforts?

Miss Chant: No, I cannot do that, but I can tell you that we already have some indication. I would say that within a year or so we might be more confident to do that. As the NAO has pointed out to us, we need to get much better at getting alongside businesses and individuals before they do go into insolvency and we have done some work on that with encouraging results. We need to do better at tracing people and we are doing better at that and we need bluntly just to get on to debt, quicker than we are doing, that is a year old. There is always going to be a sort of residual sum which in an organisation which collects £219 billion a year is going to be old debt at a given moment.

Q7 Chairman: I should like to pursue with you now some ways in which we might attack this very large sum of money. Could you now turn to page 16 and look at Figure 9? You will see that you clear less than 40% of self-assessed income tax within 30 days. Do you see that in the first part of that figure? If you look at the utilities, they are clearing 80% within the same period of 30 days. The utilities are doing much better than you are on self-assessed income tax. Why is that, do you think? Does that point to a lack of effort?

Miss Chant: No. One very obvious point is that utility companies send out their bills to all of us every 90 days. It is a typical quarterly billing arrangement. Self-assessment will send out the bills every year, so there is obviously a discontinuity there. The second very simple point is—and I am trying to put this elegantly, but I will not—that we get more bangs for our bucks by not chasing debt within 30 days, because most of it comes in shortly afterwards. We get better return for the resources we have by chasing hard to get back debt within the 90 days and then within the year. We are not satisfied with that and we intend to keep bringing the parameters down. At the moment, for resources and for timing, it is a better use of resource, because, as you said, within the 90 days, our performance stands up well to scrutiny.

Q8 Chairman: That is at least an honest answer. Let us look at some of the things you are doing well. If you now look at paragraph 2.3 on page 15, it points there to the effectiveness of the telephone centre "... the Department estimated that, on PAYE debts, the Telephone Centre collects £887 for every £1 spent compared with £396 for local recovery offices". That leaves the obvious question: why do you not use these telephone centres more?

Miss Chant: Again a two-part answer. We are going to, we have used them a lot more in the last year and within the next 11 months we shall be using them even more because we shall be bringing all SA debt, even that over £5,000, into them. It is a bit of a simplistic line to say that because the telephone centre gets £877, so much more than £396, why does everything not go out of the offices? We actually put the more simple straightforward work to the

telephone centre. What goes to the local recovery offices will be the more complex cases, the more recalcitrant cases, the ones which are already in some difficulty, the ones who have given a soft answer to the telephone centre, but then have not kept it. That is a most important reason why the local recovery offices have a tougher row to plough really when they are dealing with their cases. By and large the telephone centre will be dealing with more relatively straightforward cases.

Q9 Chairman: In an earlier answer you pointed to some difficulties you were having in recovering this debt because of liquidations. If you now look at an interesting case example, Case Example F, which you will find on page 23, you will see that other countries are frankly more imaginative in the way they collect some of this money. For instance "In Norway, employers must put the payroll withholding tax into a separate bank account". Why are you not looking at what other countries are doing in order that you can try to resolve some of your problems with liquidations?

Miss Chant: Before I answer that with what we are doing, you will know that I am going to have to preface what I say by saying that we can only deal with what is in our legislation and it is up to ministers to decide what is in the legislation.

Q10 Chairman: Then my next question is: how do you put this to ministers?

Miss Chant: You will know I just had to say that.

Q11 Chairman: Yes, I know you had to say that.

Miss Chant: We do regularly benchmark and share experience with those countries. We do exchange ideas. That, for example, looks a very good idea, but it would have to be something which our ministers would have to think about.

Q12 Chairman: How do you put it to your ministers?

Miss Chant: You would know that I cannot go into detail about what advice I give to ministers, but I can try to give you as much information as possible by saying that many of the improvements which have been brought in and many of the extra powers we have had to pursue tax debts in the last few years have most certainly come as a result of advice and suggestions and data which we have given to ministers which we have gained from other countries. I would also say on the insolvency side, something else I would draw attention to, that we know we could do better merely by getting alongside failing companies more quickly. There is obviously a limit to what the Revenue can do to stop a company or an individual becoming insolvent, but if we can get alongside them quickly, we may help, and at the very least we may ensure that we get our debt back sooner. As an example, we have worked on that as a pilot with some extra investment money we were given this year, with extremely encouraging results. We hoped that we would bring in, for example, £5

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million; we have actually brought in £6.4 million through getting alongside failing companies more quickly.

Q13 Chairman: In Denmark we see that they can demand security from companies, which you do not do, do you?

Miss Chant: We do not.

Q14 Chairman: I understand that your sister organisation, Customs and Excise, can do and does so.

Miss Chant: They do before somebody can register to be a VAT registered company.

Q15 Chairman: It seems strange to me that Customs and Excise can do it and does it and you do not.

Miss Chant: It has only been for a particular tax—to be registered as a trader to pay VAT.

Q16 Chairman: Let us look now at page 23, paragraph 3.13. There we have the headline figure “Where the Department is unable to collect a debt they write it off. In the year to October 2002, the Department wrote off £523 million in taxes and miscellaneous duties”. Do you think it is fair to the rest of us who try to pay our taxes on time that you are writing off such large sums?

Miss Chant: If I thought that was the absolute minimum, that we simply could not have collected any more, I would have said yes, it is fair, but I take the criticism. We could do better at that. I would just say that is 0.3% of the amount of money which we collect. Any organisation is going to have a write-off. We come again to saying that if we could get alongside people quicker, companies quicker and individuals quicker we could make some progress there. We have indeed made some progress in the work we have done in the last year.

Mr Jones: The major part of that write-off arises because companies and businesses become insolvent.

Q17 Chairman: Yes, we have had that answer before and we want to learn from other countries as well. If you look at paragraph 4.14 on page 28 you will see that amazingly some of the leaflets which you produced, which you give to the public, were produced in 1994. If you look at paragraph 4.15 the material on your website “. . . is mainly limited to a high level summary of the collection processes . . . It does not include information on the Payment Helpline” and other obvious things like that. Is this a satisfactory state of affairs, where you are giving leaflets to the public produced in 1994?

Miss Chant: No, it was not; it is not so now. The website has been upgraded in January. We are doing more to it in July. It was absolutely “fair cop” criticism. May I stress that was on our receivables management service alone? Most of our leaflets and information are kept well up to date. We did not do that in receivables management because, bluntly, I had asked Gordon Smith and his team to concentrate on other areas of work first. We have withdrawn the leaflets, we will be replacing those

and we are giving more and more information through electronic means rather than a form to fill in, a stand-alone leaflet and we are working with the voluntary sector and debt advisory groups to upgrade those. I have no excuse other than to say that when that was looked at we just had to say we were very sorry. I must stress that was not a failure by the staff in that section, they were asked to concentrate on getting the debt up to date first.

Q18 Chairman: Lastly, I put it to you, Miss Chant, that if you were a private sector company, you could not cope with this level of debt. It would go straight through to your bottom line, it would roll the company over. If you were the private sector, you would factor some of this debt into debt recovery companies and have a far more vigorous way of pursuing these people than you are apparently willing or capable of doing. Is that an idea worth considering?

Miss Chant: May I just pick up the first point? If you look at the sheer scale of the business that we deal with, if we look for example over the four years which keep being mentioned in the Report, we have collected in £908 billion and we have only written off £2.8 billion, which is 0.3%. I know as I say that what that sounds like. Any woman who can say in the one sentence “only” and “£2.8 billion” is going to attract some criticism and ridicule. I can say, compared with the size of the business, I would have thought that was fairly respectable even for private sector companies. You then asked about factoring the debt out and that is a recommendation in the Report. Because it is in the Report, we are looking at it again, but it is a highly contentious point to think about. There are very practical downsides. A company will only usually sell off the debt if they really have written it off and regard themselves as having no chance at all of getting it. We will keep on and on before we finally write off a debt and even if we do write off the debt, if there is any chance of getting it back again, with all the resources, information and penalties at our disposal, it seems at first blush a bit perverse to sell it to somebody. I come back to saying that it would, to say the least, be a courageous decision and I could just imagine some of the criticisms which would be made if private sector companies were, for example, getting the National Insurance contributions and tax which people had had stopped out of their pay packets. I am much more interested in making us even more effective at pursuing that debt.

Q19 Mr Steinberg: Did ministers take your advice on the CSA?

Miss Chant: Do you mean when I was the chief executive of the CSA?

Q20 Mr Steinberg: I would not have thought you would be giving much advice afterwards.

Miss Chant: I was thinking of before, of course. I did not know whether you meant that.

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Q21 Mr Steinberg: The CSA was the worst organisation that Members of Parliament, or at least I have come into contact with. Did ministers take your advice then?

Miss Chant: I am trying to cast my mind back. It seems a very long time ago that you and I sat and talked about it. I regularly talked to ministers and I can remember that in the two and half years I was there it was an exceedingly difficult public service to deliver and there were significant improvements. You are going back a long way.

Q22 Mr Steinberg: Perhaps somebody could tell us what the improvements are then. Recovery of debt is not really consistent, is it? This is not in the Report, but it comes under the title of the Report. Do you know much about football?

Miss Chant: Nothing whatsoever.

Q23 Mr Steinberg: That is a pity because in terms of football the Inland Revenue have a very important role to play, so I suggest you learn a little bit about it.

Miss Chant: Football? Do you mean football clubs?

Q24 Mr Steinberg: I mean football clubs, yes.

Miss Chant: Only as a business. I know as much about a football club as a business as I would any other business.

Q25 Mr Steinberg: Do you know much about football clubs in administration?

Miss Chant: As I would with any other business.

Q26 Mr Steinberg: That is good then. If that is the case, could you explain to me, in recovering debt, which this Report is all about, why Leicester City Football Club, when they went into administration, paid 10p in the pound, along with other clubs which went into administration? Bradford City paid 20p in the pound in administration and they have gone into administration for the second time. York City Football Club went into administration. They paid 55p in the pound; quite a considerable amount more than Leicester and Bradford. Carlisle Football Club went into administration and they had to pay the Inland Revenue 100p in the pound that they owed. Because of the 10p in the pound Leicester City were able to continue as a football club; they survived with virtually no problems whatsoever, they did not have to sell their players and they became quite successful. Carlisle, because the Inland Revenue claimed 100p in the pound had to borrow £1.1 million, which cost them £17,000 per month to survive. Is it not funny that Carlisle and York have been relegated and are now out of the Football League? It is not funny, it is peoples' livelihoods. It is thousands of people who go there for pleasure, but because of Inland Revenue action, differential treatment was given to different clubs. Why?

Miss Chant: I have already said that I know absolutely nothing about football and I could not talk about an individual business anyway. Shall we just talk about a group of businesses who are in the same trade?

Q27 Mr Steinberg: Yes; absolutely.

Miss Chant: Some of them become insolvent and they come to different arrangements with Inland Revenue. That is absolutely normal, that would be entirely typical and understandable under insolvency legislation. It would entirely depend on the business set-up, the creditors, their liabilities, their business outcomes. They will just be treated like any other business. Let us go right away from football. If 10 sweet shops all went insolvent throughout the United Kingdom and you analysed what their creditors got, you would probably find 10 different answers.

Q28 Mr Steinberg: I want you to tell me, if you cannot tell me now that is fair enough because I have dropped this on you, but I want you to write to me and tell me why Leicester City Football Club paid 10p in the pound and other football clubs did when they went into administration—

Miss Chant: Do I take it you are a Leicester City supporter?

Q29 Mr Steinberg: No, I am not; I am not a supporter of any of them. I just read it in the newspapers and I think it is totally unfair that the Inland Revenue can determine the future of a football club and frankly you should not be able to do it. If you are going to charge the Carlisle United Football Club 100p in the pound in administration, why is Leicester City not charged 100p in the pound?

Miss Chant: I am going to ask Gordon Smith, who has a huge amount of detail on insolvency at his fingertips and indeed has given evidence to a particular select committee on this. Before I do, I am pretty sure I cannot write to you in those terms, because I cannot give details about any business.

Q30 Mr Steinberg: I want to know the reason behind your policy.

Miss Chant: But you started off by naming a football club and asking me to write to you.

Q31 Mr Steinberg: I had to give you an example, otherwise you would not have known what I was talking about, would you?

Miss Chant: I could have guessed. You could just have said a football club. We may be able to give you some general things. I certainly cannot explain in detail why one business would pay a certain rate.

Q32 Mr Steinberg: I am going to come off this in a minute because I want to come onto something else, but I want to know why the Inland Revenue sentenced York and Carlisle to oblivion and yet Leicester City Football Club and Bradford City, which has gone into liquidation twice, and others were given virtually no debt whatsoever by the Inland Revenue and you treated them differently and I want to know why.

Miss Chant: It is a general thing about businesses being treated differently when they go into liquidation.

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Q33 Mr Steinberg: Never mind about businesses: football clubs.

Miss Chant: That is the point, there is no difference, they are businesses.

Mr Smith: Let me repeat that we do not treat football clubs differently from any other businesses at all. We have no reason to. The parliamentary All-Party Football Group recently looked precisely at those allegations, those perceptions which have been generated by the media that we behave inconsistently or unfairly. They concluded that we had no case to answer. Alan Keen who chairs the group—

Q34 Mr Steinberg: I am not talking about Alan Keen. I am not talking about anybody.

Mr Smith: I am sorry, but—

Q35 Mr Steinberg: Never mind about being sorry. I am not talking about Alan Keen. Never mind about being sorry. I am asking a specific question, not what you did with the All-Party Football Group or whatever; we are not talking about them.

Mr Smith: If I may say so, I am going to give you the same answer I gave to the Football Group and that group accepted our explanation. We are governed by insolvency law. Although we cannot comment on individual cases, we absolutely refute any suggestion we behaved inconsistently or unfairly. Something I can say about Leicester City, which is in the public domain, is that we were a minority creditor. We had no say or influence at all in the final outcome of that case. I know it has been widely bandied about in the press as evidence that we have been unfair and inconsistent. There is just no basis for that.

Q36 Mr Steinberg: You write to the Committee and tell us why different football clubs were treated differently.¹

Mr Smith: Might I also suggest you read the All-Party Football Group's—

Q37 Mr Steinberg: No, I shall not read their report. I am asking you to supply—

Mr Smith: Perhaps I could invite other Committee members to do so then. It was published in February and it answers this point.

Q38 Mr Steinberg: I am asking you to send me a report. Thank you.

Miss Chant: Excuse me. Is it you or the Committee?

Mr Steinberg: Send it to the Committee.

Q39 Chairman: It is for the Committee. Please send it to the Clerk to the Committee.

Miss Chant: I thought so.

Q40 Mr Steinberg: To the Committee; thank you. Paragraph 1.8, page 11 tell us that over £3 billion of tax has been owing for more than a year. You said to the Chairman that you could not trace it and you

said one of the reasons was because you could not trace people. That is because your system for tracing people is so pathetic, to be quite honest, is it not?

Miss Chant: No.

Q41 Mr Steinberg: I shall come back to that in a minute. The budget for 2003 gave you an extra 75 debt collectors, who should bring in something like £85 million in the next year. This to me does not seem a very good rate of return for the amount of money which has been put into it. Other than with more staff, how are you going to get these people to be more productive?

Miss Chant: I think there were about three questions there, were there not?

Q42 Mr Steinberg: Yes.

Miss Chant: I lost the first one but in the second one you said that we were going to have an extra 75 staff, as we have, and get an extra £85 million a year by 2007–08. That is a very big return: £85 million a year by then.

Q43 Mr Steinberg: With 75 extra staff?

Miss Chant: Yes.

Q44 Mr Steinberg: I do not think that is a very good rate of return, to be quite honest.

Miss Chant: You do not? Right. Okay. We will differ on that. We have indeed started that and we are exceeding our target for bringing in what we thought we would bring in by way of extra yield for those people already. I have remembered what you started of by saying. You said a large part of it was because we could not find them. It is actually £300 million of that £3 billion and it is because temporarily we cannot trace them.

Q45 Mr Steinberg: You could not find them.

Miss Chant: Yes, find them; at the moment we just cannot trace them. We have enormous resources to trace people and we do actually trace hundreds of thousands of people very swiftly every year.

Q46 Mr Steinberg: You do not even ask for names and addresses on your income tax forms, do you?

You do not ask people to inform you whether they have changed address, you do not ask for telephone numbers. If I remember rightly from reading the Report, it costs the private sector 3p to chase somebody on the telephone and it cost your department £8.50. That is a big difference. You could just let the private sector do it and probably make a profit out of it.

Miss Chant: I am surprised somebody did not raise that before. I need to comment on paragraph 2.11.²

² *Note by witness:* Although the objectives were the same, the activities reflected in these costs were very different. Our costs involved extensive manual searches of IR systems and offices, and in some cases direct contact with taxpayers by letter. Private sector costs represented a single automated scan of a small number of IT databases. That is why we are now using the private sector routinely to look for telephone numbers for us. We expect to use them three times this year in support of our main SA telephone campaigns.

¹ Ev 22–23

Inland Revenue

Q47 Mr Steinberg: I dare say it is going to be raised again.

Miss Chant: Let me deal with that now. We do indeed trace people with the huge resources we have in our systems. We have already this year managed to bring in—I am sorry to be a bit technical—the simplest way to say it is a browser technique and instead of somebody having to search several different systems, they key in and it traces for our staff, right across our systems. We are increasing our productivity on that. In particular on paragraph 2.11, I am very sorry, Chairman, but might I be allowed to give an apology to the Committee. I had plenty of time to look at this Report and I was allowed as usual to give some amendments and amplifications where I thought this would be helpful.

Q48 Mr Steinberg: I only have two minutes left.

Miss Chant: But it is very important. That figure leapt out at me when I read it. I am terribly sorry but the 3p from the private sector and the £8.50 for us is the truth and nothing but the truth, but it is not the whole truth. The exercise which was carried out by that company privately was to trace automatically only through a small number of IT systems, completely automatically, and they did that for 3p. What our staff did in the telephone centre was (a) a lot of other work and (b) they had to deal with more complex work. They were writing, ringing, chasing, manually tracking all sorts of systems and it was their entire cost. You did ask that first question: why was it that we were not more effective?

Q49 Chairman: You are going to send us a note.³ If you convinced the All-Party Football Group, I suspect it did actually mention these clubs; it could not just be in general terms as mentioned by the Acting Chairman.

Mr Smith: Yes.

Chairman: So I hope you can give a fairly full answer to Mr Steinberg's question. Thank you.

The Committee suspended from 4.00pm to 4.20 pm for divisions in the House.

Q50 Jim Sheridan: I know a great deal about football, but very little about tax, so I hope you will be gentle with me.

Miss Chant: I shall try.

Q51 Jim Sheridan: The Chairman has already alluded to the fact that a great deal of revenue is lost because people go abroad and it was felt it was unnecessary, or not worth chasing them abroad. Is that a true analysis?

Miss Chant: I do not think so.

Chairman: I asked what foreign countries do in order to trace people, which you will find on page 29.

Q52 Jim Sheridan: Given that Europe is now a bigger place, shall we say, will that assist you in any way in terms of tracing these people or companies or whoever they may be?

Miss Chant: What I am just struggling to think is that we do of course successfully trace individuals wherever they are, but if they have gone abroad and are out of our jurisdiction, enforcing the debt can be difficult. Is that what you are getting at?

Q53 Jim Sheridan: How do you know they have gone abroad?

Miss Chant: By tracking them down basically. We have to confirm that they really have gone abroad, that they are not just giving that impression to throw anybody who is a creditor of theirs off the scent. If we can establish that, with liaison with foreign tax authorities, which we certainly do a great deal of, we would not necessarily be prevented from collecting tax which is owed if we have a suitable arrangement with the appropriate country.

Q54 Jim Sheridan: How do you know that someone has gone abroad? Do you depend on neighbours telling you or the police telling you?

Miss Chant: We need to know authoritatively. May I say that people going abroad is not a huge problem. This is not an enormous sum.

Q55 Jim Sheridan: Quite a lot of money is lost by people going abroad.

Miss Chant: We are looking at the total number of write-offs being something like £8 million⁴ in the last full year. I say again: we only write off if we are absolutely certain we are never going to get the money back. People do go abroad and come back again and we will wait and pick them up. We do quite a lot of that. We are not just fobbed off; we would authoritatively check that they really had gone abroad. We would then use our contacts, as far as we could when we had arrangements with the tax authorities and indeed, as you imply, other sources of information available to us. If we can collect wherever they are, we do, but we can also wait until they come back. I would not say that is an enormous source of difficulty.

Q56 Jim Sheridan: In 2002–03 there was a significant increase in the number of write-offs. I think the language used was that there was a special exercise to clear a backlog. Was that some kind of amnesty or something?

Miss Chant: No, that was National Insurance contributions. Even then we went from writing off 0.3% of what we would expect to collect, to 0.4%. We are still talking in terms of that end of the market, but we did indeed start an exercise to look at some very old debt cases which were pre-1999 and are working our way through them and that will be a one-off exercise of the sort a business does do. I know I keep saying this but I am acutely aware that any of the figures we use are enormous and I do not

⁴ Note by witness: £8 million was the figure for the total number of write-offs in 2001, it was £6 million in 2002 and the provisional figure for 2003 is £5 million.

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in any way say or want to sound as though I am minimising this. To get that into perspective, the amount of the National Insurance contribution write-offs is still one third of 1% of the £220 billion in National Insurance contributions which we would have collected over four years; it looks as though we shall be writing off something like £789 million. That is still around the 0.3% or 0.4% and it is a one-off exercise.

Q57 Jim Sheridan: May I just talk to you about the telephone centre? Do I assume that is a call centre?

Miss Chant: It is an Outward Bound call centre in three places: East Kilbride, Cumbernauld and Shipley.

Q58 Jim Sheridan: I think it says somewhere that we can make better use of this telephone centre.

Miss Chant: Yes.

Q59 Jim Sheridan: How can we make better use of it?

Miss Chant: We can do several things. It is relatively new, we started it up, it is huge. If anybody on the Committee would be interested in going to see it, it is pretty unique. If it is part of your research, you would be very welcome to go to any of those three sites. It has Rolls-Royce technology, it is predictive dialling, so the operators sit there, the system is checking thousands of calls at a time, you are only put through to an operator when somebody has answered. The operator then sees in front of them who you are, what the debt is, the script to follow and typically that centre will deal with three times the number of calls a normal telephone operator could make dialling up. We started slowly and built up, because we did not want to overload it or get it wrong. We are putting more debt to it, we are not routing some of the cases to it which we really already know do not respond to telephone calls, because we will now have dealt with them for two, possibly even three years, so there is no point wasting time making a telephone call if somebody's track record is not good. We will put those straight through to more aggressive intervention from a local office or enforcement office. We are now three times a year going to use the private sector agency which was mentioned by Mr Steinberg earlier to do some very simple, very straightforward tracing for us and we will increasingly use those call centre operators only to make a call if we cannot send an automated letter. Within the year, some people will just get a check-up off the system, a sort of reminder letter that their arrangement to pay has broken down; they will get a letter. We are improving the centre's productivity.

Q60 Jim Sheridan: If someone has a difficulty with their tax will these telephone centres talk them through the difficulties and explain what to do, how best to recover the debt, how to fill in forms?

Miss Chant: Yes. We have a special part of the telephone centre which deals with people who say they are frankly in difficulty, they do not know how they are going to pay this back, how can they be

helped. We do have a special part of the telephone centre which will do that, but all of those telephone centre operators will have some scripted material which makes it clear that we would rather people came to us, admitted some difficulty and we will do what we can to help.

Q61 Jim Sheridan: You mentioned the private sector earlier. Do you have any intention of using any more of the private sector to recover debt apart from the ones you mentioned you used on three occasions?

Miss Chant: Yes. We did that first experiment and used the private sector to do some very simple tracing for us at peak times in the year.

Q62 Jim Sheridan: Was that the one mentioned by Mr Steinberg, the 3p and £8.50.

Miss Chant: It was. They did that first exercise for us and that was the arrangement for that exercise. They quoted and delivered at 3p a time to do a very simple automated check of the telephone system for us to trace people. That was very different from making the call. It is still our staff making the calls and we have not factored out debt collecting other than the very last stage of distraint work, actually going in and removing the goods and taking them to an auction house. We outsourced that just over a year ago. We have not outsourced any other debt collecting work.

Q63 Jim Sheridan: Is it your intention to do so?

Miss Chant: We have no intention as such at all, but we shall always keep looking and comparing our operations against best practice in the private sector.

Q64 Jim Sheridan: One of the concerns I have is when employers go into insolvency it often affects their employees in that their National Insurance contributions have not been paid, *etcetera*; that then impacts on the benefits they claim. Is there any way we can address that so the employees are not affected in their benefits?

Miss Chant: Yes, the bottom line is that if the worst happens and the company becomes insolvent and there is no money and we cannot get at anything, the innocent employees have their National Insurance contributions deemed; that is the technical word for it. In other words, it is still taxpayers' money, but their record is made up. They do not suffer.

Q65 Jim Sheridan: What is the timescale? Do they wait weeks for that to be sorted out or days?

Miss Chant: Their record would be sorted out whenever it is needed to be sorted out. We would not just put those National Insurance contributions on too quickly, because we would hope to recover the money from the firm which had gone into insolvency.

Q66 Jim Sheridan: Meanwhile the employee will be without benefits.

Miss Chant: No; no. I am sorry, I did not put that very well. That is what I meant. As soon as we realise that we simply cannot get National Insurance

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contributions for somebody and they are putting in a claim and we have worked out that is the case, their record will be deemed to have been paid, they would not suffer. It is up to us then to try to get the money back and we do. It is also up to us to do better at getting alongside companies which are showing signs of getting into difficulty and we are getting much quicker at doing that. If they are showing certain symptoms, they are not paying their PAYE and National Insurance contributions over to us promptly, we will be alongside them more quickly.

Jim Sheridan: Thank you very much; you have been very gentle with me.

Q67 Mr Field: When you went to the Child Support Agency it was about to die and through your efforts and the team you built up, you resurrected it. The sad news is that the organisation is a recidivist one and it is back to its old habits of failing to deliver. Mr Steinberg hinted at how serious it is. Given that the Prime Minister talks, quite rightly, about joined up government, are there any contingency plans in the Revenue for the Revenue to take over the function of the Child Support Agency if it keels over again totally?

Miss Chant: You know perfectly well, Mr Field, what of course I am going to say, that any such decision would be entirely for ministers.

Mr Field: I was really hinting in a sense that civil servants might sensibly be making some contingency plans.

Chairman: How is that at all relevant to this?

Q68 Mr Field: If we come onto my next question, what similarities do you see between a department which was supposed to collect maintenance and a department which is aimed at collecting taxes? Apart from one being about to die when you were not there, what were the main differences when you walked in the door of the Revenue as Deputy Chairman, compared with your approach at the Child Support Agency?

Miss Chant: Do you mean what was the Department like?

Mr Field: Yes; differences in the culture.

Q69 Chairman: In managing debt.

Miss Chant: Thank you, Chairman; in managing debt.

Q70 Mr Field: In managing collection, because that is what you are both doing, is it not?

Miss Chant: The Inland Revenue has been built, up to 1999, to collect taxes and even then we have moved in those last few years to do that in a way which gets us tax in as painlessly and cheaply as possible while making it as easy as possible for people to comply. Since 1999 we have taken on other duties in the Revenue. We collect student loan payments, we police the national minimum wage and we pay tax credits. That is a different culture. The most obvious difference is that it is a completely different customer base and they have different needs and different pressures and they relate differently to an organisation. There is more

immediacy and all those lessons have been learned very quickly, with practical experience in the four and a half years I have been with the Revenue. Is that the sort of thing?

Q71 Mr Field: Yes, but your main effort is to collect.

Miss Chant: We exist either to get people to pay what they owe in full when they owe it or to collect everything they are entitled to, but no more, when they are due it. We have that dual responsibility, along with things like policing the national minimum wage, where people have to trust us and regard us as approachable, because we have to go into rather sensitive situations and end up with them still keeping a job, but being given quite a bit of extra back pay. It is a different culture, because it is a different client base.

Q72 Mr Field: I think you have said enough for our report on that one. I want to look at the collection of National Insurance and the whole business about the deficiencies in people's annual contributions which is important, both for their short-term benefit, but most importantly for their retirement pension. Why was it that in 1995–96 the Revenue stopped sending annual statements to people saying that their record was deficient?

Miss Chant: Again I am looking a bit blank and I do not like to be unhelpful, but the then Contributions Agency was not part of the Revenue when it suspended sending out deficiency notices. I know the background because we have worked together with the Contributions Agency since 1999. It stopped that service, because it had other pressures which were more important: paying out benefit, protecting benefit. It stopped providing that service which was a backup service to say to people "You may have had your P60 and not looked at it. You may have your own reasons for not paying a full year's contributions, but this is the fact. Do you want to make them up?". It stopped doing that and it did so for some years. We started that earlier this year, we have launched a big exercise, as I guess you know. This is not of course debt collecting but it is offering people the chance, if they wish, to make a qualifying year for pension or benefit purposes by paying some National Insurance contributions. We have started that exercise. We are absolutely on schedule with it, we are one third of the way through and the figures remain absolutely constant that about 15% of people respond to the letters and come and ask us things and 4%—about that I think and one of my colleagues will kick my ankle if I have got it wrong—pay some money. They choose to pay the money back again.

Q73 Mr Field: Are these deficiencies separate from or do they overlap the global figures we have been given in the NAO's special report on the non-payment of National Insurance largely due to employers going bankrupt.

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Miss Chant: That is completely different.

Q74 Mr Field: Totally separate.

Miss Chant: Yes.

Q75 Mr Field: When you write to them, what do you say to people?

Miss Chant: They will get a letter which says, "Hello, we have looked at your record and this year" or whatever year "it appears to us from our records that you have not paid enough National Insurance contributions to make that year a qualifying one for your pension or benefit. This is not a bill. Do you want to follow this up? Do you want to pay the contributions and make your record another year up to date?"

Q76 Mr Field: Does the letter explain to them how much pension they will lose by not making their full contributory years?

Miss Chant: It does not at that stage. One of the options we give to help them make their mind up is to ask whether they would like a pension forecast. We have worked closely with the Department for Work and Pensions because that is exactly what has happened. Some people have said they do not know whether it is worth their while and can they have a pension forecast. We had to work very carefully with that department, because we did not want to flood them by sending out a lot of letters. In fact we are on schedule, the usual percentage of people are doing this. Some people are asking whether it is worthwhile and just choosing not to. A small percentage is deciding to pay. What is very commonly the outcome of the letter is that the person who received it pops up and says it cannot be right as they know they worked that year, they know they paid contributions and why did their employer not hand that money over, which almost links back to Mr Sheridan's point. The usual answer is that the employer did not put the right personal details on their end of year return. We in the Revenue and our National Insurance Contributions Office have held that money, as we could not trace this person, but up pops the person, having got the letter and we re-unite them. They do not have to pay but it makes their record right.

Q77 Mr Field: Would they be part of your 3% or not part of your 3%?

Miss Chant: No, they are not part of the 3%.

Q78 Mr Field: So on top of that, by doing these letters, more people get more complete contributory records because you have written to them.

Miss Chant: Yes and more people pay contributions. So far we have had in £10 million in National Insurance contributions which people have actually chosen to pay. That happens to be absolutely par for the course. It is a very small number of people who choose to pay, but we have given them the double check so that they can do it if they want to.

Q79 Mr Field: All three political parties have talked about people receiving regular information about what their pension entitlement is each year. How difficult would it be for you to provide that information from the contributory record about what the National Insurance pension would be?

Miss Chant: It is the Department for Work and Pensions which provides the forecast for retirement pension. We in the Inland Revenue collect the money and we actually are the custodians of the National Insurance Recording System, but it is the Department for Work and Pensions which gives pension forecasts and pays the pension at the end. It is an aspiration.

Q80 Mr Field: So they would have to draw on your records to give the forecasts.

Miss Chant: Yes. It is very much a partnership arrangement. It is very much an aspiration of both departments that people be able to check what their contribution record is, hopefully electronically, check in, look at it, decide whether all is well. If there is a problem or an omission they can report it to us quickly and make up any contribution if they want.

Q81 Mr Field: It is quite an important objective, is it not, that people feel this is not a tax, but this is a contribution and they are building up a record and for government to be polite enough to tell them each year what they have contributed, what they gain, how near they are to their objective?

Miss Chant: It is the sort of service frankly which could only come basically electronically as one system talks to another. It is most definitely an objective to be able to give people that information. Obviously they can get it, if ever they ask for it.

Q82 Mr Field: You talked about tracing people "across our system".

Miss Chant: Our systems; we have more than one IT system in the Revenue.

Q83 Mr Field: Is the system just in your department or do you go into other departments like Work and Pensions to try to trace them?

Miss Chant: Yes, we go very wide indeed.

Q84 Mr Field: So you would go to look at motor taxation.

Miss Chant: We now have quite good gateways to check right across most departments; not all yet, but most departments. May I ask Gordon about that, because I do know we are working on a couple at the moment?

Mr Smith: We should like to be able to do that more extensively and routinely. We are building that capability now. We want to do better in tracing people we have lost track of. At the moment we are concentrating on making the fullest use of the information on all our departmental systems. We are actually doing some tracing for Customs as well. We want to build on that.

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Q85 Mr Field: May we have a note soon on those departments to which you do not yet have access where it would help to have access to trace people?

Miss Chant: I shall give a note to the Committee on where we contact other departments and sources as far as I can. There will be two reasons: one is if there is a legal impediment, the other is an IT impediment and the systems do not as yet talk to each other.

Mr Field: If we might have a note explaining that with a list it would be very helpful. Thank you.⁵

Q86 Mr Allan: I want to get a sense of how worried we should be about this aspect of your work. Could you set out where you think the worst area is for the taxpayer, whether it is the miscalculations which take place, such as those over tax credits, whether it is sums which have not been declared and are therefore not taxed at all, or whether it is what we are talking about here, which is money you know about and you are owed? I am trying to get a sense of the scale of this as opposed to money you do not know about which you should be getting.

Miss Chant: Right. Oh, dear, what a nasty question. You are encouraging me to say what is the worst area, the most worrying area. This is not a nice question. I would say this sitting here would I not, but my honest opinion is that if you look at our performance on debt management we needed to improve, we are improving and we have improved significantly. This Report has been enormously helpful to us. It is fair, it has got us bang to rights in two or three places, but it has also given good credit where credit is due. I would have to say that I think our performance in debt management, in my position looking right across the piece, is on the up. I, for example, would not lie awake worrying about that. The work of the Revenue is obviously concentrating more on making sure that we are ensuring everybody pays in full the tax they owe when they owe or does not over claim something. Obviously, and we always have to look at work on tax avoidance, we have to be looking at that angle of our operations—using “operations” with a small “o” now, the entirety of operations of the Revenue. On the actual bit about having identified it all, whether we get it in or not, which is what we are talking about this afternoon, I have tried to indicate, without sounding blasé or complacent, I think that is on the up. We have to do more about being better at enabling people to pay what they owe when they owe it, to come to us or to improve our compliance work and we are doing a great deal on that. On tax credit, obviously it is a matter of paying out the right amount, collecting it right when it is due in and maintaining the system, bedding it down. We are into the second year of it and ensuring that people know that claiming their tax credit from the Revenue is just as much a part of their relationship with this department as paying tax to it.

Q87 Mr Allan: That is helpful. I want to go through some of the carrots and sticks which are set out in here for you to deal with this area. First this question

of how people pay. I was a little shocked when I looked at paragraphs 4.2 and 4.3 on pages 25 and 26 to see that by far the most popular method is still cheques. You take in 16 million a year, which must cost an awful lot of money to process in the first instance. We then go on to read that mandatory electronic payments are being introduced for businesses with over 250 employees for the year 2004–05. Can you tell us how that is going? Are we going to get 100% of businesses over 250 employees paying electronically this year?

Miss Chant: Again I could spot three questions there and I got so carried away with them that I have lost the paragraph you gave.

Q88 Mr Allan: Paragraphs 4.2 and 4.3. Paragraph 4.2 told us that everybody is paying by cheque and 4.3 tells us you have a solution and they are not going to any more.

Miss Chant: I knew I was getting a bit agitated but I wanted to make the point that the cheque may be the single most popular channel, but actually 23 of those different channels are electronically based. We actually get in two thirds of our money electronically.⁶

Q89 Mr Allan: Because the big businesses pay electronically and the small ones pay by cheque.

Miss Chant: Yes and lots of people do use direct debit or CHAPS or BACS or whatever. So 23 of those channels on that rather impressive 33 payment option chart are actually electronic. Paying by cheque is indeed the single most popular. It is dying away quite naturally, because people are just changing their social habits, but it costs us about 51p to process a cheque. There are more expensive obscure ways in here which we offer people, which we are going to have to look at, but we offer a range of payments and electronic is the way we are going. We already have two thirds of the payments in through those channels. The mandatory requirement on the largest employers to pay their PAYE and NICs electronically is on a relatively small number of employers, but they produce well over two thirds of the PAYE and NICs payments; they are disproportionate.

Q90 Mr Allan: And they are paying electronically already so that is quite an ambitious target, is that not what you have just suggested?

Miss Chant: No, they are not actually. They can, but a lot of employers, even the very largest employers, deliberately choose not to pay electronically for their own purposes.

Q91 Mr Allan: For cash flow purposes.

Miss Chant: Yes. The system which came in is that they are required to pay electronically. There is a surcharge regime if they do not pay regularly 12 times a year by a date which is now three working days later. If you were operating a normal non-electronic system, you used to have to get the money to us by the nineteenth of the month. If you go

⁵ Ev 23

⁶ *Note by witness:* Two thirds of payments (63.6%) are made electronically, representing 54.7% of the total value.

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electronic, either voluntarily or mandatorily, you have until the twenty-second, so you do gain a bit of cash flow. We have only just started from this April. In the first five weeks we have already got 10 times the number of people paying electronically than we had last year, from the original figures we got. We look as though we shall be where we expected to be. Obviously the pace is going to quicken as the year goes on.

Q92 Mr Allan: That looks as though it is going to be a significant help.

Miss Chant: I think it will be a very significant help between electronic payment and surcharge. It is only mandatory for the largest employers to do it.

Q93 Mr Allan: Can we talk about small businesses as well? We talked a lot earlier about insolvency. Have you done work to look at the extent to which that is used as a strategy? In other words have people set up businesses on the basis that they are going to cheat PAYE and NICs and trade on that basis and then collapse their businesses? Is that a serious problem or are these businesses which genuinely accidentally go insolvent?

Miss Chant: There is a mix. Obviously amongst those will be people, as there always is in the realm of dealing with money, who will be out and out crooks and you will get a few companies which will do that. You will get the Phoenix companies which start up and go down again. Where we do get those cases, we can spot them pretty quickly because of the symptoms they display. We keep a record, we know who they are, we know who the directors are and we will get our special compliance office to follow them up. If I may just unpick what you said there when you asked whether we had done an analysis, we have begun now to do some very thorough analysis of the whole of our customer base in business so that people showing certain symptoms, and we are swapping this information with our sister department, Customs and Excise as well, or doing certain things will be spotted very quickly and we will be on to them very quickly.

Q94 Mr Allan: Just to clarify your powers, if somebody who is an out and out crook, sets up Phoenix companies, collapses them and comes along to you, you cannot ask for a bond, you cannot ask for payment up front, you are still stuck with the same conditions you apply to anyone else, are you?

Miss Chant: I shall bring in Gordon in one second. We work very closely now with Customs and Excise who of course can do that, especially if they are looking at particular directors. Even if we do not have that power we can be onto such people in the first five weeks; we can be alongside them very quickly indeed from our local enforcement area. I think Gordon is dying to get in to say what we do there.

Mr Smith: We try to get onto their case very quickly. The other thing to say is that we work with the DTI to make sure that if there is adequate evidence these people can be legally disqualified from being directors or even prosecuted. It is a joint effort:

Customs, DTI and Inland Revenue. We try to identify them very quickly. We know most of them. There is a phenomenon there, very low numbers, but we are pretty well geared up to deal with it.

Miss Chant: The majority of businesses which become insolvent do not do so because of crooked behaviour by the directors, they do it for a whole range of business failure reasons.

Q95 Mr Allan: A final question on the spend-to-save money. The figures are quite impressive: 75 people bringing in £85 million.

Miss Chant: I did think that.

Q96 Mr Allan: That sounds good to me. Could you tell me to what extent there is a limit to that? If we employed 1,000 people would we bring in £1 billion? At some point presumably it stops.

Miss Chant: Yes.

Q97 Mr Allan: How far do you think you can go with that or that we should be pressing for more spend-to-save to go in?

Miss Chant: We have the spend-to-save work on that. We have another spend-to-save initiative on really getting alongside businesses very quickly if we think they are going bankrupt. That is pretty impressive as well. We said we would identify £11 million last year; in fact we identified about £20 million. On that fast-tracking and getting quickly onto businesses which look as though they are going to go down, we thought last year we would find £5 million and we found £6.4 million. Then there was the point about already aiming to bring in that large sum annually within four years. The difficulty is that there would come a time when your bucket would just come up empty.

Q98 Mr Allan: Diminishing returns.

Miss Chant: However, as a very simple answer: we are not there yet and it will be up to us to prove what we can do and then talk to ministers who will take decisions as to whether or not it is worth doing more. My Finance Director can give you a little more on that.

Mr Jones: May I just come in on the financial criteria which we apply? Fundamentally what we want to avoid doing is writing off tax if we can and Miss Chant has quoted the figure we write off each year. If we can get tax in closer to the right time, that is good as well, but sometimes there is interest—an interest charge to recompense the exchequer. Where there is an interest charge and we can still get the money, we are perhaps less concerned than in cases where we absolutely have to write off the tax.

Q99 Mrs Browning: Would you agree that in any profile of debt, whether it is private sector or public sector debt, the longer the debt stays on the book the less chance there is of actually recovering it?

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Miss Chant: Yes.

Q100 Mrs Browning: So from what you have told us and from what we have read in the Report, your priority in improving this system is at all stages to try to speed up the point at which you actually recover the debt once it has been identified as a debt.

Miss Chant: Yes. To be pedantic, we would actually prefer people not to get into debt at all. The more we can be alongside them and helping them make sure they part with the money when it is due, the less likely they are to begin to accrue debt and then get into difficulties and then at the end of the day become insolvent. You are absolutely right. It is: let us get people paying as quickly as possible when it is due and not let a debt become very old.

Q101 Mrs Browning: In paragraph 1 it states that of the debt you are carrying at the moment “The largest amounts outstanding are on Pay As You Earn (PAYE which includes National Insurance contributions) and Corporation Tax (paid over by businesses) and self-assessed Income Tax (paid by individuals . . .)”. In terms of those people whom we have identified in this Report paying Class 2 National Insurance contributions, the self-employed, what is the situation there? What are you doing to get closer to the point at which they accrue debt? Of those self-employed people, are they primarily people who only pay Class 2 or are they the group which at the end of the year would have a reconciliation in terms of their Class 4 contributions.

Miss Chant: They are Class 4 as well. I am going to park that last one while either my subconscious or Mr Smith thinks about that one. The Class 2 debt, the National Insurance contributions, is and has been for a few years at £2 per week. Most people pay their National Insurance contributions quarterly by direct debit or other automatic processes. We have to and we do follow that up because, although it is a relatively small amount, it affects their benefit and pension, which Mr Sheridan was talking about earlier, and if we do not police the system we have a leverage problem. If a whole swathe of people thought that because the debt appeared relatively small they would not give any attention to it, then you begin to lose the compliance. Actually the proportion of Class 2 compliance is pretty good. I do not know, I really do not know what proportion of the people who do not pay their Class 2 have Class 4 liability as well. I am sorry if I ought to know that, but I do not.

Q102 Mrs Browning: The reason I am asking you is because it is a relatively small amount. I think you are right to say that if you are not quick with small debt, then it accumulates and it sends out the wrong message in turn and also from the point of view of the cost effectiveness of chasing it you want to get onto it as quickly as possible. Obviously someone who has a liability for Class 4 at the end of the financial year is going to have a larger debt. What I am trying to focus on is whether these are people at

a very low level flirting with self-employment, or whether these are the more serious amounts which would come under the Class 4 liability.

Miss Chant: My feel from looking at the figures is that there will be a spread, but for some time now on the actual compliance of Class 2, because of the quarterly arrangements, we can notice very quickly when they have not been paid. It goes back to that earlier point that if you are sending accounts out and dealing with them every 90 days, you notice a pattern and a breakdown much more quickly and therefore are more likely to get onto it. It will be a spread. I think we might have a bit more information on that.

Mr Smith: Two things. First, we try to collect the Class 2 debt. If we are unable to do that, we then look to see whether we can connect it with any self-assessment, including Class 4 NICs debt. So we try to bring things together as quickly as we can. The other thing I wanted to say, going back to the earlier conversation about making telephone contact, was that part of the philosophy there is to make the earliest possible contact with the debtor, preferably either face to face or voice to voice rather than by letter, so we can find out what the problem is. Just about everything we are doing is trying to make earlier contact progressively across all the liabilities we deal with for precisely the reason you give.

Miss Chant: The advantage of Class 2 is that you do know quarterly that somebody has not paid.

Q103 Mrs Browning: And most of them pay by direct debit.

Miss Chant: The great majority of people pay either by direct debit or we send out a quarterly bill. It is mostly direct debit.

Q104 Mrs Browning: If they were to default and they were not paying by direct debit, would you then demand a direct debit arrangement in future?

Miss Chant: My best information is that we cannot impose a direct debit arrangement on somebody.

Q105 Mrs Browning: Would it be helpful to you if you could?

Miss Chant: It could be but that would be a piece of legislation which ministers would have to think about, also weighing up things like compliance costs, burdens on business. There will be pros and cons on both sides there.

Mr Smith: It is generally the outcome when we are dealing with a Class 2 NICs debt that if somebody wants to get themselves back up to date we do that by direct debit. It is something which happens quite naturally. It is an easy way of solving the problem for us and for them.

Q106 Mrs Browning: Could I just bring you onto the larger end of the business sector? You mentioned that you have working relations with the DTI and the arrangements you have put in place for the larger employers to pay over electronically and that there is a penalty now attached to that. What about these smaller employers and medium-sized enterprises where there is no monthly penalty, although I understand, reading the Report, that there is a

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reconciliation often very rapidly on their part as you come to the beginning of the financial year because once you move from one financial year to the next there is a penalty if arrears are still due.

Miss Chant: Yes.

Q107 Mrs Browning: What are you actually going to do in practice about small and medium-sized enterprises, to make sure they pay over on a more regular basis?

Miss Chant: Gordon can give some detail on that, but in general terms we are into exactly the same strategy. The more we have moved people into complying regularly, in this case say the large businesses coming in electronically on time every single month, that is the point of PAYE, to meet that target, they have to pay on the nineteenth of the month every single month for 12 months, the more we have companies doing things right, the less we have to worry about them and the more attention we can give to companies who are not complying. We use the standard contact arrangements with telephones, the Outward Bound telephone can be extremely useful, or ask somebody from the local office to go along and talk with them. Handing over PAYE and NICs is extremely important. It has wider application than just the tax; it is the employees' own financial circumstances which are at stake.

Q108 Mrs Browning: In terms of the insolvency of the incorporated companies which you bear a loss from, when you said you worked with the DTI, have you looked at the existing Companies Act to see whether there would be any changes you would like to recommend to that Companies Act which might assist you?

Miss Chant: I am slightly in the area of saying that we regularly would look across the radar, see what might help us and we do talk with our ministers regularly. I really cannot give any more detail than that, but I take your point and let me offer that we could do more than we do. I am quite sure that as more expertise develops and experience, we could do more and be more imaginative. However, all we can do is suggest certain things, discuss, put the pros and cons and it will be entirely for ministers what change to legislation they might want.

Q109 Mrs Browning: Of course. We hear quite frequently that more National Insurance numbers are issued than there are people working or people to take the numbers. How much of your debt do you think is possibly to do with fraud, or do you not know?

Miss Chant: It is not so much that I do not know, but that we are in a very interesting area here. It sounds a bit Jesuitical, but what is fraud?

Q110 Mrs Browning: People who do not exist, who have a NI number, or one person who has more than one NI number.

Miss Chant: To do that means we are talking about them having incurred a tax liability and they have not paid it and we are also into ghosts who are

operating without anything at all or moonlighters who declare one job and not another. We have had various studies into this. Lord Grabiner's report a few years ago certainly was around that end of the market. There is clearly a significant area of abuse of the tax and NICs system where it is our job to get our compliance work, which is more than debt recovery, it is actual compliance work better. Once we have at least identified people, tracked them down, got a liability established, it is then up to Receivables Management Service to recover it. There is no tax authority in the world which is not open to fraud and abuse and that particular one of National Insurance contributions, ghosts, moonlighters, is something we are very aware of.

Q111 Mrs Browning: The Chairman asked you about the system in Norway where companies set up a separate bank account to take their NI and tax contributions which they have collected on behalf of the employees and also their own contribution which they have to make. You did not actually express an opinion about that. Do you think that is a good idea? I am not asking whether you have put it to ministers, but do you think that is a good idea?

Miss Chant: Sitting here as a tax debt collector of PAYE and NICs it has obvious attractions.

Q112 Mr Davidson: Could I ask you to look at page 12, Figure 5, the analysis of debts? What I find quite interesting is the difference between the proportion of the debts and the value. For clarification, in terms of the amount you would expect to collect eventually is the percentage of debt you would eventually collect higher amongst those who are owing less than £1,000 than it is, say, amongst those owing between £1,000 and £4,500, or those who are owing more than £4,500 in the bottom chart. I think the figure is £5,000 in the top one.

Miss Chant: If I have understood correctly, you are asking whether there is any correlation between people who owe a small amount and people who owe a large amount.

Q113 Mr Davidson: Yes.

Miss Chant: I do not know. I cannot say I sit here at the moment and know that.

Mr Smith: We do not know that. My reaction would simply be to say that the main point is that we expect to collect the vast majority of that. Regardless of whether they are large debts or small debts, we expect to collect well over 99% of the taxes due.

Q114 Mr Davidson: This is debts outstanding at a certain point and I wondered whether or not there was any differential in how much was collected. May I relate that to the chart we have on another page?

Miss Chant: Before you leave that chart, and there might be a link with your next question, that is the amount of PAYE and self-assessed income tax outstanding last year. This year we have reduced that. We have shared those figures, which have just come in, with the National Audit Office. We hope that they are not going to change much, but there might be a link there, because you can see that we

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still have around one million self-assessment cases which owe, but instead of £4.5 billion outstanding at the end of this year it will be £3.3 billion and on the PAYE cases it was 1.2 million outstanding last year and we have got that slightly down to 1.1 million, but it is down to £2.8 billion outstanding. We shall do another analysis to match those pie charts to show the size of the debt and it will be interesting to see whether there is any correlation. I think Gordon Smith's point is the one to remember, that we expect to collect it all.

Q115 Mr Davidson: I understand that. I also just wanted to relate it to page 20, Figure 11 on the number of enforcement actions taken and the different types. Correlating it back, I wonder whether or not there was any tendency to take particular types of action for particular sizes of debt, or whether or not each was evenly spread across the three sizes of debt which have been identified in each of the two categories.

Miss Chant: No, it is not evenly spread. We have found, for example, that distraint levies are best used against larger debts. What I find particularly interesting is that all these enforcement actions have increased in 2003–04 from what that bar chart shows up to 2002–03. We have had some significant increases of all the enforcement actions in the last year. However, for example, with distraint we may say that in the last year we have only done 4,684 distraint levies, but we got 53,000 payments paid up in full at the time of the call for distraint. To put it rather crudely again, when the bailiff arrives, far more people pay up.

Q116 Mr Davidson: Yes, I understand that generally. I am just interested in clarifying whether or not methods like that are more effective with people who are owing relatively small amounts, who can be perhaps more easily intimidated than people who are owing substantial amounts because the figure above 5,000 or above 4,500 will contain quite a wide range of debts there. It is my impression from various events that the Revenue are much tougher on small people and tend to be soft on toffs.

Miss Chant: No; no, we are not.

Q117 Mr Davidson: Can you prove it to me?

Miss Chant: Yes, I can. The answer is just a straightforward assertion from an honest woman that we do treat everybody equally.

Q118 Mr Davidson: I have had lots of assertions from honest women and I do not necessarily believe any of them. Let us progress more scientifically from there.

Miss Chant: We would use distraint predominantly on larger debts actually, not smaller ones. We would use summary proceedings perhaps more against smaller debts.

Mr Smith: There is a limit of £2,000 before we use a magistrates' court.⁷

Miss Chant: County court proceedings are particularly useful if, for the purposes of debate, it is your soft-on-toffs point. It could often be a toff who would not want a county court judgment against him if he is professional person. That is why we used 64,000 county court proceedings last year.

Q119 Mr Davidson: It is frequently related to me that action is taken against relatively poorly off people, which seems to be quite heavy handed for relatively small amounts of money, which would not be applied to the professional classes or those who have professional advisers and the like. I am just seeking clarification as to how exactly you can either disabuse me of that or confess that it is true.

Miss Chant: We have confirmed that I will not confess that it is true, because it simply is not true. Looking at the numbers—I can hear Gordon champing at the bit here with the expertise—the summary proceedings and the county court judgments, to use your phrase, would be much more effective against people who did not want that sort of stain on their professional character and we are talking for last year of about 64,000 of those, whereas we might be talking of 17,800 summary warrants and 97,000 summary proceedings.

Mr Smith: Just to repeat the assertion, all our quality monitoring, everything we do, the reviews we make of complaints, the analysis we do of complaints, the way we look at MPs' letters and so on, we are looking out all the time for that consistency and I really do not believe there is any distinction at all between the way we treat large businesses or small businesses or wealthy taxpayers or others. Something which it is very important to say is that all these enforcement measures are last resort measures. We do not shoot into taking legal action or distraint until we have tried to explore with somebody what their financial circumstances are. When people are in genuine but temporary difficulty we endeavour to help them. The most likely outcome in those situations will be an extended time to pay arrangement, where they get back up to date by paying us through instalments. That is the most likely outcome for people in the kind of situation you are describing.

Q120 Mr Davidson: May I just ask about the role of advisers, professional accountants and so on? Presumably somebody who has an accountant and is able to get them to argue with you about wanting time to pay and so on is likely to get a better reception in many ways than somebody who does not have that professional assistance available to them and is therefore likely to get a much softer deal and they are able essentially to spin out the repayments in a way which somebody less articulate would not be able to do.

Miss Chant: I am really pausing there because that is a serious concern. Most of us working in the Revenue are aware that years ago there would have been a wide reputation that the Revenue would certainly be efficient and honest and professionally qualified, but you would be very scared to go to them. You might not readily come into an office or

⁷ Note by witness: The magistrates' court is used for recovering debts under £2,000.

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ring up just to say you were in trouble; you might keep your head down. One of the reasons might be, if you were not represented or you were relatively inarticulate and you just thought it would not be worth doing. We have worked very, very hard over the last few years to say we are trying to be an enabling as well as a regulating organisation. Anybody coming in or ringing up particularly to our helplines, even being approached by us—

Q121 Mr Davidson: Okay, you are nice people, but I have a limited amount of time to explore that.

Miss Chant: We do track it with customer research as well and that is the message we get.

Q122 Mr Davidson: It is contradicted by my experience of what people in my area tell me and that is the difficulty I have.

Miss Chant: If you ever have any cases of any constituent who does not feel they have been treated properly and fairly by us, we will want to know.

Q123 Mr Davidson: They feel they are being treated a lot more harshly if they are less articulate than some others and that is just through dialogue and discussion with others in similar circumstances and that is the conclusion they have come up with.

Miss Chant: Just to close that, you will note in the Report the work we have been doing with the voluntary sector, with debt management, debt counselling groups who really have said that we have gone a long way to being very helpful. We second people to them. If we ever pick up anything like that, it just does not suit us, because we are trying to get people to come to us. If there is any case, please always let me know. The Report itself does say that we are not—

Q124 Mr Davidson: May I refer you to the chart on page 21 about the workload and percentage which is collected in each area. It appears from this that people in London are less honest and pay less of their tax than people elsewhere in the country. I should be grateful if you could just confirm my prejudice.

Miss Chant: Yet again I am afraid I am not going to.

Q125 Mr Davidson: Why do you think then that you do not collect as much from people in London as you do from people particularly in an area like Northern Ireland? Is it a question of the staff you have? We often heard in the past that organisations based in London, because of uniform salaries and the like, find it difficult to retain staff, to hold staff and build up a level of expertise. Is that the issue or is it just the complexity of London, the number of ghosts, the percentage of the population which is fluid? What is the explanation for Londoners not paying?

Miss Chant: I am going to deliberately use the past tense because several of the things you described would have contributed to the situation which the National Audit Office pointed out to us when they were looking at our London recovery offices operating in 2002–03. I am very pleased to say that with some assistance we have worked hard at this

and the London recovery group has had an extremely good year's performance. So your concerns now do not apply as they did.

Q126 Mr Davidson: So this chart is out of date, is it?

Miss Chant: Yes, because it was 2002–03.

Q127 Mr Davidson: Why is it here, then?

Miss Chant: Because those were the latest figures available when the National Audit Office did that. We have just completed our own 2003–04 balancing of accounts. We have shared those with the National Audit Office, who will validate them.

Q128 Mr Davidson: Who is worst now then?

Miss Chant: That is a very nasty question. I think I would say that we do not have a group which is causing us individual concern. London has now raised its performance in PAYE, it is now above the average for all the groups.

Q129 Mr Davidson: Who is bottom?

Miss Chant: Name and shame? I do not know.

Mr Smith: I am not inclined to. We are running a national business stream.

Q130 Mr Davidson: I am sorry, it is not a question of whether you are inclined to. I am asking you the question and I want an answer.

Miss Chant: I am really trying to say that we do not—

Q131 Chairman: If you do not know the answer, then say so.

Miss Chant: I do not, but may I say that we do not have an area which is causing us concern, because we have raised the standard.

Q132 Mr Davidson: Could you give us a new chart then?⁸

Miss Chant: Yes, when we have cleared that and confirmed that with the National Audit Office. You were really concerned about London, but they have got themselves well above the average for PAYE and in the last year—

Q133 Mr Davidson: Right, okay. Time is limited. I do not know whether or not you get special training in the Inland Revenue but Sir Nicholas Montagu was also very good at talking out questions and we have limited time.

Miss Chant: I am just trying to be helpful in giving you as much information as possible.

Q134 Mr Davidson: It would be more helpful if answers were a bit more concise.

Miss Chant: I shall try.

Q135 Mr Davidson: May I finally pick up a point about whether or not there are any particular industries or areas of the economy which you would identify as causing particular concern or is all debt spread absolutely evenly across all the economic

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activity which takes place in the country? It is my impression again that the sort of things you indicated earlier, ghosts and people having two jobs and all the rest of it, is rife in the construction industry in particular. Are there any others which cause concern?

Miss Chant: There is a difference between debt and non-compliance in certain sectors. When it comes to debt, we have not done any analysis of where the debt lies in any particular sector, the answer being that we just go by size, freshness of the debt and go for it. I do not think we have done any analysis of that.

Q136 Mr Davidson: Is there not something which could have been gained from an analysis of it by industry just on the basis that if you did spot that an industry, say construction, apart from the issues we have identified, was also an area which was causing a disproportionate amount of debt and debt which perhaps lasted for a particularly long time, that would be something you would need to focus in on? It is risk management surely.

Miss Chant: It is, but we do the risk management on the compliance with paying tax; we try to get in before the debt arises. We do a lot of analysis ourselves and also with Customs and Excise now, looking at particular sectors who are most likely perhaps at any given time to be non-compliant.

Mr Smith: We have a joint survey with Customs and Excise which I think will cover this territory.

Q137 Mr Davidson: It would be very helpful if we could have access to that information once it has been obtained.⁹

Miss Chant: We certainly already have plenty of it and are building on it. I do take your point on debt, but we have been looking and have perhaps found it better to look at the sectors which are likely to be non-compliant.

Chairman: Thank you for that. You will give us some information.

Q138 Mr Jenkins: When you received the Report, read the Report, were you quite pleased with it or surprised by it?

Miss Chant: There were bits which surprised me, not pleasantly. I particularly noted the information we gave on websites and leaflets; that was a real "fair cop". I thought it was a very fair Report because it did reflect what I knew was the case, that there had been improvements, but it clearly told us the areas where we have to do better.

Q139 Mr Jenkins: We take these reports as gospel when they come before us. One thing which disappoints me and tends to upset me is when a witness comes before us and then challenges the Report on detail as you have this afternoon. I know it is only one small detail, but you said you overlooked it, you did not see it. It was the low cost of a private agency tracing telephone numbers against your centre. Why did you not see it? You

have a department, why did they not go through this and mention it in negotiations? Why has it been left to us to pick it up today?

Miss Chant: That is why I said I did not challenge it. I fully accept that it is the truth and nothing but the truth. However, if I could have given a bit more information about the size of our cost it would have been more helpful. I absolutely accept it fully.

Q140 Mr Jenkins: You had the opportunity.

Miss Chant: Absolutely.

Q141 Mr Jenkins: Why did you not raise it then when you had the opportunity?

Miss Chant: I have no excuse, that is why I apologised to the Committee.

Q142 Mr Jenkins: Lack of attention to detail.

Miss Chant: You would certainly have to blame me for that. I wish I had seen that, because it would have helped the Committee more to have that explanation about why our cost looks so high.

Q143 Mr Jenkins: When I read the Report I saw we have £14 billion outstanding in debt and that is over 6%. I think it is a horrific figure. You said in answer to the Chairman that you would largely solve the problems within the next 12 months. We often receive promises that these things are getting better, but we deal with historical facts. If it is 6.5% at the present time, what figure would you see as being successful and largely solved within the next 12 months?

Miss Chant: We talked to begin with about the £3 billion, which is debt which is over a year old. The £14 billion, as the Report makes extremely clear, was a snapshot of what was owed on a day and it was 31 March last year. I would suggest that is not the same as saying that is an outstanding debt. It is on that day. As the Report and figures say, large parts of that money will come in very quickly without any further action within a few days.

Q144 Mr Jenkins: I do not want to be pedantic but what do you expect the figure to be for a snapshot next year?

Miss Chant: I can tell you that it was £12 billion on the same day this year, but I am trying to say that really is not a debt; it is what on that day the organisation is owed, but you know most of it will come in. I am not trying to trivialise this, but if ten of us went out for lunch and I picked up the bill and sent a bill to you all the following day to say you owed me £20, on that particular day I am owed £200, but most of you would send your cheque into me the following day, so I would not feel I am in serious debt.

Q145 Chairman: Do not bank on it.

Miss Chant: I did say "most". Let us assume that one or two of you do not send your cheque in for a couple of days, then I begin to worry.

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Q146 Mr Jenkins: You would have a legacy debt then. I am not interested in legacy debt, I asked for a snapshot. A simple question: what would you see it set at? You said this year it is £12 billion. Will it be £10 billion next year?

Miss Chant: No. I cannot give that sort of figure, but I am really most anxious to make the point, as the Report does, that it is not a worrying debt.

Q147 Mr Jenkins: I know, that is why I asked a specific question. In Figure 2 I see you have actually bettered your target, but who gave you this target?

Miss Chant: Ministers.

Q148 Mr Jenkins: Ministers gave you a target. Policy is difficult for us, but I would not set anybody a target of 98.6% of self-assessed taxpayers paying within 12 months. What I want to know is the amount of tax collected rather than the number of payers, because 90% of them will pay on time whatever, so it is no indication of how effective you are being until you reach 100%.

Miss Chant: They are both relevant, are they not?

Q149 Mr Jenkins: I would rather have a sum of money there. One of the answers you gave to the Chairman on utilities and page 16 rather surprised me. You said the utilities get their debt in rather quickly because they send out a bill every three months. I know, but it is a bit of a shock when it comes through the door. I put it on one side and wait for the red one and then I probably pay it, but they send one every three months and within a short time, a week or two, I have to pay the bill. When I get my income tax forms—in fact I have received my income tax forms already for self-assessment—my due date is 31 January or whenever. That is on monies I have accrued to March this year.

Miss Chant: That is the last date to pay, 31 January.

Q150 Mr Jenkins: The last date, so I have all that time. To compare it with the short time the utilities allow as their standard, when that debt is now due to you from me for last March, so I should be paying it as soon as the information is available, so when it goes past 31 January that debt has then been due for 10 months, not 10 days like the utilities . . .

Miss Chant: I am just agreeing with the statement you have made so far: yes. And?

Q151 Mr Jenkins: When you said they send their bills every three months you made it sound as though it was easier for them to send in their bills every three months, but you have a much longer lead-in time and the payer has a much longer lead-in time to pay this debt off as regards self-assessed payment. Yes?

Miss Chant: Yes.

Q152 Mr Jenkins: So I did not think your answer was really a fair comparison.

Miss Chant: I was not sure what the question was. Your question is . . .?

Q153 Mr Jenkins: That you should be doing better than the utilities not worse.

Miss Chant: But we are on the 90 days. They send a bill in every quarter, so to succeed in 30 days is perhaps going to be easier. There is that point. We said that to get best return for our money we find it better not to use resources to get people to pay within 30 days, because self-assessment is an annual bill and for a lot of individuals it does take many weeks after the end of the financial year to get all their information together.

Q154 Mr Jenkins: Yes and they can get that information now; they can get the information by September to pay their debt.

Miss Chant: Yes; or before.

Q155 Mr Jenkins: Three or four months later they still have not paid you, then they go over that date for another 90 days and you think it is quite an achievement to get it paid within 90 days after 31 January. I think 31 January is the target date.

Miss Chant: It is.

Q156 Mr Jenkins: People should know they should pay it. If I look at Figure 14 on page 22, I find it interesting. We are now talking about written-off debt. The first line is bankruptcy and liquidation which is the biggest field. I should like to put it to you that since bankruptcy and liquidation can be affected by the state of the economy at any time, if we have a good, buoyant economy, then possibly the bankruptcies and liquidations drop dramatically. So take them out of the equation and just total up the other areas here: not worth pursuing; taxpayer not at address; miscellaneous; taxpayer gone abroad. When I total the first column up it is £90 million written off in 2001, but when I total the second it is £186 million in 2002, so your write-offs have gone up in a year by over 100%. Is there any reason for that?

Miss Chant: I looked at all four years and said the consistency was that we typically write-off 0.3%; that is an absolute typical annual figure over those last years and indeed in the year which has just finished. I said that we would collect in 99.7% and write-off 0.3% and even then we might re-open the case if we can.

Q157 Mr Jenkins: Look at Figure 14. Am I right in saying that the amount written off in millions of pounds in 2001, excluding bankruptcies and liquidations, totalled around £90 million.

Miss Chant: Yes.

Q158 Mr Jenkins: In 2002 it totalled £186 million. So my simple understanding of this, given a year on year basis is that your write-offs have actually gone up 100%. Is there any reason for that?

Miss Chant: No. I am trying to look at the difference between the two. It is probably me looking downwards at the column. The bankruptcies have gone down, between 2001 and 2002 from £416 million to £337 million. What has gone up is the clearing of the legacy debt; that is the biggest thing.

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Mr Smith: We have some provisional figures for the following year but the figures do fluctuate from year to year. The figure of “not worth further pursuit” which is £95 million in 2002 is down to £24 million in the provisional figures for the following year. The figure of £55 million for “taxpayer not at address” is down to £21 million.

Q159 Mr Jenkins: I do not have access to those figures; I only have the Report.

Mr Smith: No, I understand that.

Q160 Mr Jenkins: Mr Smith, are you and your team on an incentive to reduce this debt?

Mr Smith: The incentive we all have is to do our job as well as we can. The figure of £14 billion has come down to £12 billion. We are not remotely complacent about that, but all our efforts over the year ahead are going to be dedicated to getting that figure as low as we possibly can.

Miss Chant: Are you asking whether the staff have a financial incentive?

Q161 Mr Jenkins: Yes.

Miss Chant: No.

Q162 Chairman: Why not?

Miss Chant: What I was taking Mr Jenkins to ask was whether individual members of staff have a financial incentive to collect more money in tax.

Q163 Mr Jenkins: Yes.

Miss Chant: We do not do that. It is mentioned in the Report. There are considerable pros and cons for doing that. We have targets, we have team targets, but they are not all just for collecting money, because we are not only about collecting debt. We do have to get a balance between helping people, not getting it in too quickly, and pushing a business over into bankruptcy. If you put individual people in the position where they could be highly motivated to just push for money quickly, it is possible to do that, but you do have to look at what the downsides are as well. We do not have individual members of staff in debt collecting being rewarded for collecting in a certain percentage. They do have targets to meet and we will have team targets which some teams can hit but they will not just be for getting in the money but quality as well.

Mr Smith: We have seen very good evidence from around the world of the very bad behaviour deriving from individual collection agents being given personal cash targets. Looking at other countries, including the States and Canada and New Zealand over a period of years, we have seen good evidence of how distorting cash targets for individual collection agents can be and how damaging they can be.

Q164 Chairman: You might do a note for us on what the percentage level of debt is in those countries where those incentives are placed on the staff.¹⁰ I understand all the reasons you have given. I suspect this Committee would not make itself very popular

with the great British public if we recommended that your staff should be under an incentive to pursue people, but I suspect also—and you cannot deny this, can you?—that the level of debt would go down.

Miss Chant: I really do not know. One of the things, for example, is that we try hard to keep businesses viable by helping re-schedule payments and therefore if you go in with hobnailed boots to try to get money, you could possibly have quite a counter-productive effect.

Q165 Jon Trickett: Just a couple of tidying up questions. Paragraph 2.8 tells us that when this Report was written there were some manual systems in operation which look incredibly inefficient, do they not? Over 200 staff were maintaining manual records for a range of miscellaneous debts.

Miss Chant: Yes.

Q166 Jon Trickett: It appears to say in this paragraph that at a cost of £2 million you could have computerised and automated that system. Now 200 staff has to cost £4 million a year. I do not suppose all those staff would be saved, but for the sake of spending £2 million on the computer system, we are keeping manual records which must be inefficient and maintaining quite a large number of staff, certainly dozens, possibly well over 100 at an annual cost higher than the cost of the IT system. Why?

Miss Chant: The money was not the only reason. It was also doability for our IT systems and for the staff developing them. Sometimes as an operator you have to take a decision that you would have preferred not to have taken for those sorts of reasons. We have looked again. We have done a fresh study which is due to report in the autumn and we will be looking to automate the majority of that work by 2006. The good news again: our latest figures are that that is a much improved situation. Whereas we had 293,000 cases and £1.2 billion outstanding, in October last year it was 278,000 and down to £0.6 billion. That is not the only work those staff do; they have to maintain charges. It is not the only work they do. We shall be automating the majority of that part of our work by 2006.

Q167 Jon Trickett: Does that imply that the original decision was wrong?

Miss Chant: No. To be precise—I was not being funny—it would have been lovely to do it, but it was not solely money, it was what we could cope with.

Q168 Jon Trickett: I do not want you to go on; that is history. A quick answer was good enough. Class 2 National Insurance cases are also entered manually when they get into debt, are they not?

Miss Chant: Yes.

Q169 Jon Trickett: I could not find it anywhere but I assume that the National Insurance computer system and the debt recovery system for income tax do not speak to each other properly.

Miss Chant: We have not integrated those two systems fully.

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Q170 Jon Trickett: It is possible then that many of the 295,000, when the Report was written, debt cases on Class 2 NI, that is 295,000 people, could also be owing income tax of some kind or another as well.

Miss Chant: They could be, but we track them, though we have to do it manually rather than automatically.

Q171 Jon Trickett: So you would be pursuing almost one third of a million people twice, once for income tax and then for National Insurance without knowing.

Miss Chant: No, because we would check, but it has to be done manually.

Q172 Jon Trickett: So nobody is pursued twice.

Miss Chant: They should not be. The timing could be different.

Q173 Jon Trickett: What do you think the average cost of chasing the debt is?

Miss Chant: We have the return figures on whether you do it over the phone or whether you send a letter; we do it automatically.

Q174 Jon Trickett: All these are manual, are they not? You are saying you have to do a reconciliation manually. How do you do that reconciliation? Tell me just what the manual procedure involves?

Miss Chant: Somebody has to check. A person pops up with a debt on this system, we know it is not automatically picked up with the other one so somebody physically just checks whether Ann Chant is appearing as a debtor on any of the other systems. If it is just on that one—

Q175 Jon Trickett: On the same computer screen or on two computer screens, on a piece of paper or . . . ?

Miss Chant: A computer screen.

Q176 Jon Trickett: Two screens?

Mr Smith: Somebody has to load the NICs debt manually onto our main Integrated Debt Management System (IDMS) computer system. As NAO say, that is not the best way of doing it and we should like to improve that.

Q177 Jon Trickett: I did not understand what you said.

Mr Smith: We make the connection manually; somebody has to sit down, identify the NICs debt and add it to any existing SA debt and then we manage it together. We should like an automatic process to do that and that is what NAO are saying and we agree.

Q178 Jon Trickett: What are you doing about it?

Mr Smith: It is something, because of priorities, that we have not been able to do up to now. We have done a great deal.

Miss Chant: It is the last outstanding bit of our system for which we are responsible.

Q179 Jon Trickett: How much do you think you could save if it were computerised? Have you done a feasibility study?

Miss Chant: No, not since the study we would have done—

Q180 Jon Trickett: Do you think delays are occurring in the chasing of the debt because of the fact that the two systems do not speak to each other?

Mr Smith: I think we could get better value for money if we were able to make that automatic connection. It is a question of resources and priorities.

Q181 Jon Trickett: PAC might help; they might recommend such a course of action, but you are unable to tell us whether it is cost effective or not.

Mr Smith: Oh, we are sure it would be cost effective. It is not just a question of resources, it is a question of capacity and the ability of the department to deliver the change.

Miss Chant: We have the tax credit system coming onto the Integrated Debt Management System (IDMS) in October. We have self-assessment coming on next April, at which point only Class 2 National Insurance contributions, the £2 per week ones, will be outstanding. Then we shall be looking to see what is cost effective and what is doable as well.

Q182 Jon Trickett: So you cannot tell us whether it is something we could recommend or not because you are saying you have not really done a feasibility study and even if you had done, you do not think you could implement it because you have other priorities currently.

Miss Chant: The National Audit Office's Report says that would be more efficient; we entirely accept that.

Q183 Jon Trickett: What I am saying is that you have not done a precise cost/benefit analysis, nor can you say whether you could implement it if you had done such an analysis at the present time because you have other competing priorities.

Miss Chant: Yes, because, knowing already what the priorities to get better returns on what we could do were, we have left Class 2 National Insurance contributions to the end. We now have to start working out in detail when, how and if that would be the best cost-effective way of doing it.

Q184 Jon Trickett: Would it be fair to say that is slightly dilatory? You have had this Report for some time, you knew where they were coming from, why have you not done it?

Miss Chant: I accept your criticism, if you think that is the case.

Q185 Jon Trickett: I am only asking you whether you think it would be fair to say that.

Miss Chant: I should like to have been able to say we had, but we have already done enough to know that it was not of our top priorities.

 Inland Revenue

Q186 Jon Trickett: Appendix 5 is an organogram of your organisation. It is a complex one, is it not?

Miss Chant: The Inland Revenue is a very complex organisation.

Q187 Jon Trickett: Are you going to simplify it?

Miss Chant: Not without a sound business need.

Q188 Jon Trickett: It seems to me that debt management is fifth tier.

Miss Chant: Oh, no.

Q189 Jon Trickett: That is how this organogram shows it: debt management is down here and there are five tiers.

Miss Chant: Receivables management—

Q190 Jon Trickett: Debt management is fifth tier, is it not? You are the first tier and then there is second tier, third tier, fourth tier. Is that right?

Miss Chant: It is an organisational chart. To show that there is a director, Gordon Smith, the receivables management, who works directly to somebody who has responsibility for the national services which we provide—

Q191 Jon Trickett: I can see the structure; you do not need to tell me what is on a piece of paper. What I am saying is that it looks like a long way through to you in terms of lines of accountability, management and information systems going backwards and forwards.

Miss Chant: Let me assure you it is not. Okay, I am sitting here as the Chairman at the moment, but Gordon works directly to my old job, to somebody who works directly to me. I meet and talk with Gordon regularly, it is that clear line of responsibility. We are a huge organisation.

Q192 Jon Trickett: Is the National Insurance contributions office, which is adjacent on the fourth tier, as I am describing tiers, also for collecting dosh?

Miss Chant: No, it maintains National Insurance contributions records.

Q193 Jon Trickett: So the collection of money is done purely through this line here which is highlighted.

Miss Chant: Receivables management; yes.

Q194 Jon Trickett: On the question of these thousands of cases a year which come to the receivables management service and you do not know how to get hold of the people—

Miss Chant: When we get the cases we do not know.

Q195 Jon Trickett: You get the cases, you do not have a telephone number, you do not have an address for them and it costs a lot of money, though it is debatable how much, between 3p and £8.50.

Miss Chant: No, that was to trace.

Q196 Jon Trickett: The addresses and telephone numbers of the people; that is what I just said.

Miss Chant: Yes.

Q197 Jon Trickett: Is there anything you can do to secure the addresses and telephone numbers of these people to avoid this work?

Miss Chant: We do ask people, for example on the self-assessment forms and tax credit forms, to put their address and details. It is not a legislative requirement.

Q198 Jon Trickett: If PAC were minded to recommend that as something for consideration by the Treasury, what would be the arguments against such a suggestion, before we put it into our recommendations?

Miss Chant: Put very simply: practicality. You would have to work out how to enforce the fact that somebody had moved and had not told the Inland Revenue.

Q199 Jon Trickett: I did not say that; I am not talking about changes of address. I am simply talking about the address and telephone number at the point they fill in the form. Are there any arguments against it?

Miss Chant: We get the address certainly when somebody fills in a form and sends it to us.

Q200 Jon Trickett: But it is not a statutory requirement.

Miss Chant: No.

Q201 Jon Trickett: What I am saying is that if PAC were minded to recommend that such a change were made, are there any arguments against that?

Miss Chant: I just said that enforcing it would be interesting.

Q202 Jon Trickett: You were talking about changes of address during the year.

Miss Chant: Right; sorry. I am not trying to be difficult, I am trying to be helpful, because you were saying it was a legal requirement. We do not get blank forms back but what we do get is people who have changed their address during the year.

Jon Trickett: So nobody ever leaves the form blank with no address and telephone number. I am pleased about that.

Q203 Mr Allan: Jon Trickett focused on issues in the Report where they are talking about lack of automation. Am I right in thinking that these systems are part of the bundle of Inland Revenue systems which are going to be transferred from EDS to Cap Gemini Ernst Young in the summer?

Miss Chant: Yes and Accenture at the moment, who are looking after the National Insurance contributions system. Yes, all our IT systems will be supported now and development supplied by Cap Gemini.

Q204 Mr Allan: Is your expectation that we can expect to see increased capacity delivered by the new systems, decreased, or is it business as usual with that major transition going on?

 Inland Revenue

Miss Chant: Obviously one of the reasons for re-letting the contract and letting it the way we did was to say we want to do better.

Q205 Mr Allan: The other point of detail was on the credit card payments. I do not know whether my interpretation of the Report is right, but you could accept credit card payments now, but what you cannot do is absorb the service charges and you cannot legally pass them on to the customers.

Miss Chant: That would need a legislative change to allow us to do that. We do not know of a tax authority which does accept credit cards. Germany is considering enabling legislation, but it will be for each of its federal states to decide and one would have to decide then who picked up the cost.

Q206 Mr Allan: If the business went insolvent, do you think the credit card companies might have something to say about the fact that they are the ones who are going to get stiffed?

Miss Chant: That is another angle: do the credit card companies want that and would they accept a credit card to pay a debt, which is what we are talking about here? There is also the angle about increasing consumer credit card debt. There are advantages; we can see good examples, for example, in people using debit cards as we roll that out. Our experience already is that there is a very significant take-up of debit cards which helps us.

Q207 Mr Jenkins: Your spend-to-save initiative is intended to raise £85 million a year out of the £3 billion which is more than one year old. I was sitting here thinking £85 million out of £3 billion: how long will it take to get it down to zero? I worked out that it will take more than 35 years. Then I thought that if you charged interest on the outstanding amount at 6% you would be adding £180 million to the debts and £150 million at 5%, so you are collecting in

about half the interest accruing on the debt; the debt is not getting smaller, it is getting larger. Is there any scope for a more rapid reduction in this debt?

Miss Chant: Yes, we are doing a great deal to reduce the debt which is over a year old; that is just one initiative. We have several particular initiatives: tracing people more quickly, getting alongside failing companies, specialist recovery and enforcement action, but basically just using the Receivables Management Service staff more effectively to get alongside this true debt of money over one year old. We certainly want to make inroads into the £3 billion, but we do seem to keep coming back to saying that if you take insolvency out and you take out the £0.5 billion which is being contested by potential debtors, you get the fact that a good amount is actually coming into us because it is being paid in instalments.

Q208 Mr Jenkins: So it will not take 35 years then.

Miss Chant: It would not be the same £3 billion.

Q209 Mr Jenkins: That is the starting point.

Miss Chant: The answer is that there is always going to be a sum which any company, any organisation taking £219 billion a year, is going to say is debt. Typically for us we are showing £3 billion. We intend to get that down much further. This is absolutely something we should do, but it is not £3 billion sitting there with just 75 poor souls trying to bring it in all on their own. That is just one tiny bit of one area under improvement.

Chairman: That is a good answer on which to end. You were the woman who saved the Child Support Agency from implosion, so we expect a great deal from you in attacking this £800 million which is written off. I am sure that you can improve your management information systems and learn more from what other countries are doing. It has been a very interesting hearing and we are very grateful to you and to your colleagues Mr Smith and Mr Jones. Thank you very much.

 Memorandum submitted by the National Audit Office

NATIONAL INSURANCE CONTRIBUTION DEBTS WRITTEN-OFF

1. The Committee requested advice on the write-off of National Insurance (NI) contribution debts that had been reported in the media in late February 2004. This memorandum, which has been agreed with the Inland Revenue, explains the circumstances of these write-offs and associated affects on NI contributors.

2. The Paymaster General responded on 23 February 2004 (*Hansard Column* 113w) to a PQ from Mr Norman Lamb MP, to say:

National Insurance contributions identified as due but not paid and subsequently written off amounted to £189 million in 1999–2000; £180 million in 2000–01; £145 million in 2001–02; and £275 million in 2002–03. The amount in 2002–03 includes insolvent companies' debts accrued before July 2001 which were cleared from the accounts as part of a special exercise that year.

National Insurance contributions may be written off where pursuit is unlikely to be successful, for example, because a company is insolvent; or where it is regarded as neither practical nor cost effective to pursue the debt, for example, because the debtor has gone abroad. Underpayments of less than £150 are not identified separately and the information could be obtained only at disproportionate cost.

3. These figures, which were thereafter reported in the media, come directly from the audited statutory accounts of the National Insurance Fund (NIF). The total of £789 million represents about $\frac{1}{3}$ of 1% of the £220 billion in NI contributions over those four years. The write-offs include over 660,000 cases.

4. The NIF accounts are presented to Parliament on a cash basis showing receipts and payments. They do not include a balance-sheet and do not show figures for NI contribution debtors overall. The Inland Revenue's tax account, called the Trust Statement, is also on a cash basis only. The NI contributions debt write-off figure is shown in a note to the NIF account. The Inland Revenue produce each year the Board's Remission List which shows amounts of taxes and NI written-off as remissions or irrecoverables, analysed into classes including insolvency, taxpayer gone unknown, recovery action not cost effective and hardship.

5. Class I NI is payable in respect of normal employees. Class I contributions debtor cases represented the majority by value of all classes of NI contribution write-offs in 2002 and they are part of combined income tax and NI debtor cases. These cases arise mainly through company insolvency and also where the Inland Revenue regard it as neither practical nor cost effective to pursue the debt.

Analysis of Inland Revenue Board Remission Lists to show the main reasons for write-off of NI contributions (GB and Northern Ireland)

<i>Year to October</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>
Amount recoverable not sufficient to justify cost of proceeding	13%	12%	13%
Insolvency	76%	78%	78%
Gone unknown	6%	7%	5%
other	5%	3%	4%
Total	100%	100%	100%

6. As reported in paragraph 2 above, in 1999–2000 and 2000–01 the amounts of NI written-off were broadly similar followed by a slight reduction in 2001–02 and an increase in 2002–03. In this last year there was a one-off exercise to clear a backlog of pre-2001 insolvency cases, increasing the amount of write-off recorded.

7. All Inland Revenue claims in insolvency cases have been centralised in one specialist unit which identifies outstanding liabilities, formulates and lodges Inland Revenue claims, monitors progress and writes-off debts that are irrecoverable. Only when the process is exhausted is the debt written-off.

8. The 2003 Budget announced an initiative to set up a specialist team within the Inland Revenue to identify businesses heading for potential insolvency and to take early action to help secure the viability of the company and to reduce the accumulation of debt. Where there are no prospects of recovery and the company is clearly insolvent, by taking early action the Inland Revenue will reduce the amount of debt that has accrued and therefore the amount lost to the Exchequer.

9. Insolvency of a company and consequential write-off of Class 1 NI contribution debts does not in general affect the individual employees' entitlements to NI related benefits, other than Directors', as an individual's entitlement is not reduced in cases where their employer fails to pay over to the Inland Revenue the NI due.

10. Write-off of NI contribution debt is a separate matter from NI contribution Deficiency Notices. These are sent to any individual whose NI contribution record for a year is insufficient for it to be classed as a qualifying year for benefit or basic state pension purposes. The former Contributions Agency decided to suspend the Deficiency Notice exercise after the year 1995–96 and in the spring of 2003 the Paymaster General decided to run a six year catch up exercise to write to everyone due a Deficiency Notice up to 2001–02. The production of Deficiency Notices is planned to resume as an annual exercise in late 2004. The Inland Revenue conducted two pilot exercises in 2003 which showed that around 15% of people are likely to respond with further enquiries, although a very small percentage (around 2%) made immediate payments of voluntary contributions. Nearly half the enquiries concerned the need to make corrections to the NI contributions record because the individual had been working or receiving benefit during the relevant period.

April 2004

Supplementary memorandum submitted by the Inland Revenue

Questions 28–38 (Mr Steinberg): The Committee asked for an explanation for the widely reported differences in the returns paid to creditors in some recent cases involving insolvent football clubs, which have ranged from 10p in the £ to 100p in the £.

I hope the Committee will understand why I cannot say very much at all about individual cases. The rules on taxpayer confidentiality apply just as much to insolvent football clubs as to other taxpayers. However I shall try to explain, in general terms, the reasons for those differences. First of all though I want to say that we understand how unbalanced and sometimes wholly incorrect media has led to questions about consistency of treatment. For obvious reasons we have generally been unable to respond to or correct some of that coverage.

As I hope we made absolutely clear in our oral evidence we believe very firmly, in the reported cases and in others, that we have behaved properly, consistently and fairly in our dealings with individual clubs. In doing so we have sought to treat football clubs in exactly the same way that we would deal with other kinds of business. Our primary duty is of course to ensure that monies which should be paid to the Exchequer are paid over on time. This is particularly important for tax, National Insurance and other monies which businesses collect on behalf of the State from their employees' wages and salaries.

But we also aim do everything we reasonably can to help viable businesses get through temporary difficulties. We call this policy "Business Rescue". Provided that we are satisfied that a business's difficulties are genuine, that help may take the form of a short breathing space for the business to get its payments back up to date. Where the difficulties are more deep seated, and assuming that the core business remains viable, we will work with other creditors (and with Administrators) to support appropriate refinancing and/or restructuring proposals through formal mechanisms like Voluntary Arrangements. Such arrangements, both formal and informal, are intended to keep businesses going and secure jobs and people's livelihoods until they can get back on track.

We believe that in discharging our duties we have a good track record in balancing these objectives. The outcomes however are inevitably going to be different from one case to another because every case is different. The rate of return to creditors will depend upon the specific nature of the rescue arrangements themselves (including how much, if any, new money is being put in) as well as on the amount and nature of an individual business's debts and assets. As I said in evidence that is true for football clubs just as it is true for businesses generally.

Moreover, where we are a minority creditor—as we have been in some recent high profile cases—we may have no effective say at all in the eventual outcome, or in the number of pence in the pound which we and other unsecured creditors might receive.

As we mentioned in our oral evidence, the All Party Parliamentary Football Group addressed these issues as part of its recent review of "English Football and its Finances". The Group accepted our explanations for the different outcomes in different cases. Its report was published February of this year.

One final point. Taxpayer confidentiality does not prevent us giving constituency MPs, or indeed others, full explanations of our actions in individual cases. Indeed we'll always be happy to do so in order to put the record straight, provided of course that we have the appropriate authority from the club itself.

Question 85 (Mr Field): The Committee asked about the Inland Revenue's access to other Departments' systems and was promised a note on legal gateways open to us to assist in tracing people.

The Inland Revenue have legal gateways, that allow us to obtain information from the following other government departments in certain circumstances:

- Customs and Excise.
- Department for Work and Pensions (DWP).
- Department of Trade and Industry.
- Occupational Pensions Regulation Authority.
- Assets Recovery Agency.
- Immigration and Nationality Directorate.
- Serious Fraud Office.
- National Crime Squad.
- Financial Services Authority.
- Charity Commissioners.
- Local Authorities.

Only the DWP (DCI) system has an interface with IR systems and this is through the National Insurance Contributions Office (NIRS2) system.

In addition to the gateways listed above, the Inland Revenue can also obtain information by use of statutory provisions such as S18A Taxes Management Act 1970 from such departments as:

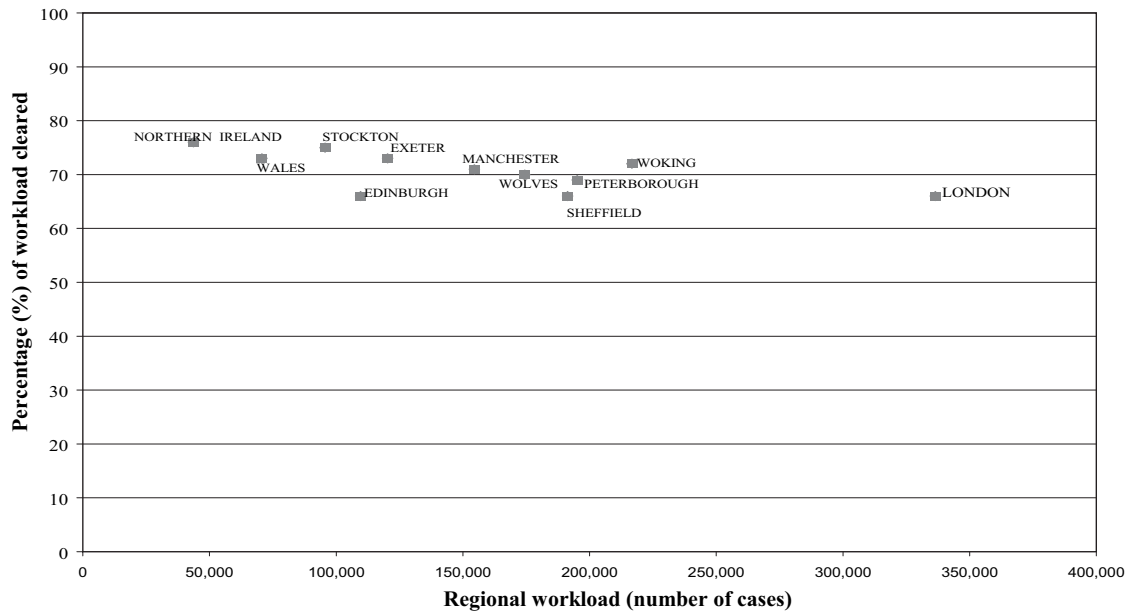
- Companies House.
- Land Registry.
- Driver Vehicle Licensing Authority (DVLA).
- Passport Office.

Most of the gateways provide information in an electronic form but some are restricted to paper requests for information eg DVLA, Companies House and Passport Office.

Question 132 (Mr Davidson): The Committee asked for the information in Figure 13 of the C&AG's Report, showing the workload and percentage of self-assessed income tax cases cleared in each region in 2002–03, to be updated.

A revised Figure 13 showing the figures for 2003–04 is below.

Figure shows the workload and percentage of self assessed Income Tax cases cleared in each region during 2003-04



Region	Workload (000s)	Cleared (000s)	Number of offices
London	337	222	19
Woking	217	156	17
Peterborough	195	135	16
Sheffield	191	126	12
Wolves	174	121	14
Manchester	155	110	19
Exeter	120	88	12
Edinburgh	110	73	10
Stockton	96	71	15
Wales	71	52	8
Northern Ireland	44	35	3

Notes:

1. Where a debt has been cleared this means that it has been collected, written off or passed to the Enforcement and Insolvency Service.
2. Workload consists of overdue self assessed Income Tax returns and debts, a significant number of which the Telephone Centre has attempted to pursue and has passed to a local recovery office for action.

Question 137 (Mr Davidson): The Committee asked for information on the joint exercise we are undertaking with Customs on debt analysis by sector.

Extensive research has been carried out into taxpayers attitudes and behaviour towards the filing of Self-Assessment tax returns. The results of this research were used to inform the selection of taxpayers for the customer service telephone calls prior to the Self-Assessment filing date of 31 January. The telephone calls made were to taxpayers new to Self-Assessment, taxpayers in the construction industry and taxpayers who filed late the year before.

We are currently carrying out research with the customs and excise to investigate how citizens and businesses view and prioritise liabilities to Government, commercial and personal debts. This research will examine people's awareness of and reaction to debt enforcement methods, including bankruptcy and what might influence attitudes.

We expect this research to be completed later this year.

Question 164 (Chairman): The Committee asked for a note on the percentage level of debt in those countries where staff are given financial incentives to collect more in tax debts.

We have consulted with our colleagues in Canada, New Zealand, Australia and the United States and all four departments our main international partners adopt the same approach as our own, and for the same reasons. All our agencies manage debt at a departmental level but do not believe that it is appropriate to give individual collectors numeric targets for the amount of debt which they are expected to collect. Canada and the United States both experienced serious difficulties when they did so (Canada in the 1980s and United States in the 1990s) and their experiences have informed our own view, now widely shared, that giving individual collection agents cash targets risks distorting their behaviour. Such an approach would also conflict with the stated aims of all our agencies to give help to people and businesses in genuine difficulty and avoid causing unnecessary hardship.

We have been unable to provide the sort of comparative information in relation to debt levels that the Committee was seeking from us. We can carry out further research if the Committee wishes, but we are clear in our own minds that it would be wrong for us to provide incentives to individual collection agents to collect more debt. The approach we all take is to target and manage work and productivity to ensure that our people are working effectively and efficiently and taking the correct course of action on individual cases. Sometimes the "right" action will be to allow someone more time rather than enforce immediate payment of the debt.

26 May 2004