



HM Revenue
& Customs

Jim Harra
Chief Executive and First Permanent
Secretary

Dame Meg Hillier
Chair, Public Accounts Committee

Room 2/75
100 Parliament Street
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By email only

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Dear Dame Meg,

Following the Committee's report into *Lessons from implementing IR35 reforms* in May 2022, you have asked His Majesty's Revenue and Customs (HMRC) for written updates on two of the six recommendations made – recommendations 1 and 4.

Recommendation 1

HMRC should develop robust estimates of non-compliance for the public sector as a whole and use this to identify areas where it can reduce the inherent challenge of complying with the reforms, for example by improving its guidance and tools. It should adopt a similar approach for the private sector as the reforms bed in and write to us with an update in six months' time.

HMRC remains committed to continuing to support customers with compliance, and we agree there is value in improving our guidance and tools and building on the extensive programme of customer education and support that we carried out during the implementation of the reforms. However, we disagree that developing overall estimates of non-compliance in the public and private sectors is the best way to inform this work.

HMRC intends to meet this recommendation by expanding our work to obtain customer insight, collecting data from a wide range of sources. This will enable us to identify common themes where targeted education and support can be provided, to reduce the challenges that client organisations face when considering the off-payroll working rules.

Since the Committee's report has been released, HMRC has identified several channels through which such insight can be collected – both internally and externally. The next step is to collect and analyse this insight on a routine basis and explore how this information can be harnessed to deliver the support that the Committee has recommended, for example through targeted communications, updates to guidance, or workshops/webinars. HMRC is also developing its off-payroll working stakeholder engagement strategy, to build its strategic links with customers and their representative bodies and enhance our understanding of the inherent

challenges they face. The outcomes of this engagement will be considered alongside other insight collected and will inform HMRC's overall approach to education and support.

HMRC is continuing work to further improve the Check Employment Status for Tax (CEST) tool that enables customers to determine the employment status for tax of off-payroll workers they engage. For example, we are migrating CEST onto a new online platform, granting us more comprehensive editorial control. This will allow faster integration of guidance into questions that are causing users most difficulty, a project that HMRC's Data Analysis team have recently been commissioned to undertake. We are also reviewing how users arrive at the CEST tool through Gov.UK, and what additional support users may require after using the tool, particularly where it is unable to provide a determination.

HMRC is also working to improve its guidance on off-payroll working by identifying opportunities to merge the guidance for the public and private sector reforms to reduce duplication. We are also analysing the possible journeys taken by different customer groups through our guidance and other support products. The outcome of this work may include making changes to how these are presented, for example introducing interactive guidance, to make the customer journey as streamlined and user friendly as possible. We will engage stakeholders such as the Employment Status and Intermediaries forum as this work develops to ensure it meets our customers' needs.

HMRC remains on course to deliver and conclude work to meet this recommendation by December 2023.

Recommendation 4

HMRC should proactively identify and work with sectors that have been particularly affected to understand the challenges, establish how to address them and make it easier to comply. HMRC should write to us with an update in six months with the outcome of this public engagement.

The government's initial response to the Committee in August outlined the many ways in which HMRC supported customers through the implementation of the reforms, including engaging representative bodies of sectors the department considered were most likely to be impacted, as well as producing sector-specific factsheets for the transport and construction sectors.

HMRC remains committed to identifying sectors that may face specific challenges, and to working with them and relevant representative bodies to understand what support we can offer to make it easier for these sectors to comply. The stakeholder engagement strategy that we are developing, referred to earlier in this letter, will include how we will proactively engage with customers and representative bodies from particular sectors so it can start progressing this work. We plan to share this strategy with external stakeholders at the earliest opportunity and will continue to adapt it as necessary to ensure it remains fit for purpose.

Since the government last responded to the Committee in August, HMRC have continued to work closely with external stakeholders on current issues faced by the sectors they represent. Those stakeholders include the Tax Centre for Excellence (TCOE) in the public sector, as well as the Employment Status and Intermediaries forum.

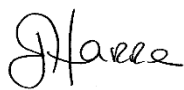
HMRC is also already undertaking an internal review to explore the usefulness of CEST across sectors. We are moving away from publishing sector specific guidance, as clients need to

apply the rules based on the specific circumstances of each engagement regardless of the sector. However, subject to the outcome of the internal review, HMRC will work with sectors if appropriate to help them better understand how to use CEST and apply the existing guidance. We will also provide additional support where necessary. The department aims to consult a range of stakeholders towards the end of 2022 on the outcomes of this report.

HMRC is due to publish externally commissioned research into the short-term effects of the 2021 reforms on client organisations by the end of the year and is exploring what sector-specific insights it can draw from this work. Outcomes will help us frame our stakeholder strategy and identify key issues we can work with customers to address.

Thank you for the opportunity to provide additional detail on the work we are doing to meet your recommendations.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Harra', written in a cursive style.

JIM HARRA
CHIEF EXECUTIVE AND FIRST PERMANENT SECRETARY