



Committee of Public Accounts

House of Commons London SW1A 0AA

Tel 020 7219 4099 Email pubaccomm@parliament.uk Website www.parliament.uk/pac

Jon Thompson
Chief Executive and Permanent Secretary
HM Revenue & Customs

2 October 2018

Dear Permanent Secretary

The Customs Declaration Service

Thank you for the evidence that you and your colleagues gave to my Committee on 5 September on HMRC's performance in 2017-18.

We will publish our overall conclusions and recommendations on HMRC's performance in our formal report. However, given the short timescales you have to prepare for the UK's exit from the European Union, we are writing to set out our findings on the Customs Declaration Service.

We were disappointed that despite your previous and repeated assurances about the progress of CDS, there has yet again been a slip in the timing of the programme just weeks after we last took evidence on the subject. My letter to you in July set out my Committee's concerns that a fully functioning CDS would not be delivered by January 2019. You told us at our evidence session that CDS will not be ready for exports by January 2019, and as a consequence the period of dual running with CHIEF will be longer than you expected. In our November 2017 report on Brexit and the future of Customs, we identified the need for HMRC to have a viable contingency option for CDS. It is good news, therefore, that you are now testing your contingency arrangements.

In July, I also set out my Committee's concerns about the lack of HMRC's communication with businesses which may need to start making customs declarations in the event of a no deal Brexit. I am both concerned and disappointed that nearly two months on you have made little progress. You gave us no assurance that HMRC has a plan to ensure that businesses are aware of what they will need to do. We are particularly concerned about the 100,000 small traders that HMRC can not engage directly with, as you do not know who they are. I would be grateful if you would write to the Committee as soon as possible with an update on the level of business understanding and preparedness for changes to customs rules and procedures in the event of no deal.

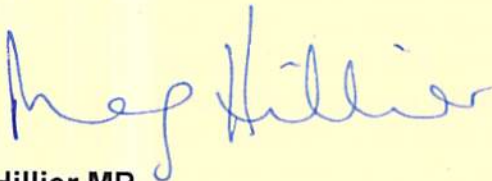
During our evidence session on CDS in July, you mentioned that after Brexit there could be a cash-flow disadvantage to business because VAT on goods imported from the EU would be due earlier. You said the Chancellor had announced in the November 2017 Budget that he wanted to work on a solution to mitigate this impact. During our latest evidence session, you explained that, to address this issue, postponed accounting would be introduced on all imports in the event of no deal so that UK importers of EU goods would not pay VAT earlier than they currently do.

To enable postponed accounting to be introduced, you said both HMRC and software developers will need to make further changes to systems by March 2019. You told us that HMRC had just begun to engage with software developers to understand what impact postponed accounting will have on them. Within HMRC, developing the new functionality needed for postponed accounting will require you to divert resources, such as from the later release of CDS. The potential move to postponed accounting is something that was foreseeable and it is reasonable to expect you to have been better prepared for it.

We understood from your evidence in September that, subject to getting a solution in place on import VAT, you consider HMRC's strategy will provide a customs system that could cope in April 2019 if there is no deal. You do not therefore currently see any significant risk to tax revenues or tax compliance. We do not share your optimism and expect you to inform the Committee immediately if this changes and you determine that tax revenue due from the start of 2019-20 is at risk if there is no deal.

The Committee recognises the scale of the challenge facing your department to deliver all this by the end of March. I look forward to hearing from you.

Yours sincerely



Meg Hillier MP
Chair of the Committee of Public Accounts