

**HM Revenue & Customs
Annual Report 2005-06**

Session 2005/2006

Cm 6983

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CORRECTION

Please note the following correction to Page 71

Special Civil Investigations 2005-06 outturn should be £1,650.0m.

Specialist offices

Large Business Service:-

- Corporation Tax	1,818 ¹	2,315 ²	2,159 ³
- Employer Compliance	51.7	53.5	62.2
- Petroleum Revenue Tax	33.4	27.5	23.7
Special Civil Investigations	387.7	1,035.0	1,650.0 ⁴
Stamp Taxes	35.6	8.7 ⁵	14.0
Charity, Assets and Residence businesses ⁶	187.8	223.2	385.2 ⁷

February 2007

LONDON: THE STATIONERY OFFICE



HM Revenue
& Customs

Annual Report 2005-06



the 1990s, the number of people in the UK who are aged 65 and over has increased from 10.5 million to 13.5 million, and the number of people aged 75 and over has increased from 4.5 million to 6.5 million (Office for National Statistics 2000). The number of people aged 65 and over is expected to increase to 16.5 million by 2020, and the number of people aged 75 and over to 8.5 million (Office for National Statistics 2000).

There is a growing awareness of the need to address the health care needs of the elderly population. The Department of Health (2000) has set out a strategy for the NHS to meet the needs of the elderly population. The strategy is based on the following principles: (1) to ensure that the elderly population has access to the services they need; (2) to ensure that the services are of high quality; (3) to ensure that the services are cost-effective; and (4) to ensure that the services are sustainable. The strategy is being implemented through a number of initiatives, including the development of new services, the improvement of existing services, and the promotion of self-help and community care.

The Department of Health (2000) has also set out a number of key objectives for the NHS to meet the needs of the elderly population. These objectives are: (1) to ensure that the elderly population has access to the services they need; (2) to ensure that the services are of high quality; (3) to ensure that the services are cost-effective; and (4) to ensure that the services are sustainable. The Department of Health (2000) has also set out a number of key actions to achieve these objectives, including the development of new services, the improvement of existing services, and the promotion of self-help and community care.

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Annual Report 2005-06 and Autumn
Performance Report 2006. Presented to
Parliament by the Paymaster General by
Command of Her Majesty.

December 2006

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Chairman's Foreword

I am very pleased to introduce the second HM Revenue & Customs Annual Report covering our performance during 2005-06.

There is much for the department to be proud of, not least, the fact that we continue to meet most of the Public Service Agreement targets set for us by Government. When we put this into the context of the integration of two major departments (which only became official on 18 April 2005) the achievement becomes all the more impressive.

We are making good progress in some key areas, notably: improvements in customer service; the introduction of new ways of working for our staff; addressing the challenge of getting tax credits right for the end user; taking swift and decisive action against those who seek to defraud the tax credit system and the VAT repayment system; and making it difficult for those who would seek to evade paying the correct amount across a broad range of taxes.

We are dedicated to continuing our work to develop the right tools for HMRC and safeguards for taxpayers. Recent announcements, in and around the Pre-Budget Report, reinforce our commitment to reducing the administrative burden for both business and individual taxpayers. We aim to achieve this through a process of wide consultation with business, taxpayers and their representatives. Good examples are the current review of the administrative rules for the main taxes which is working closely with the Customer Business Unit on reducing the administrative burden for small business and the work we are doing to develop a new Management Act.

We have already begun to deliver reductions in the burden on business of dealing with our forms and returns and e-delivery will be key to progress in this area. We are piloting ways of reducing the burden of audits and inspections. The establishment of the Administrative Burdens Advisory Board will ensure we correctly prioritise further actions in this area.

We are committed to consultation, with all interested parties, in the development of our services and processes. It is right and proper that those directly affected by our actions have a chance to contribute to the process from the earliest opportunity. Involving key stakeholders has played a major part in the development of many of our strategies, we will continue and develop this process to further improve service and performance.

I now come to the statistics of our core business. These are covered in detail elsewhere but I will highlight some key areas.

In 2005-06 we raised in excess of £400bn in revenue while managing within our allocated budget of just over £4bn.

We have had notable success in administering the Child Trust Fund (CTF). We issued 2.4 million CTF vouchers and 75% of parents and carers took the step of using the vouchers to open accounts for their children. We successfully opened accounts for those children whose parents did not open an account for them. This meant that by the end of the first year over 1.8 million children had a Child Trust Fund account.

Our Self Assessment online filing capability goes from strength to strength. Last year a record number of people submitted their tax returns online before the 31 January deadline. The system continued accepting returns under intense pressure towards the deadline and figures this year suggest the total will rise significantly once again.

6 April 2006 was 'Pensions A-Day'. Years of work by policy officials in consultation with the pensions industry culminated in the introduction of the 'Simplification of the Taxation of Pensions'. A new single regime of legislation was created, where previously there had been eight separate sets of rules.

We continue to protect the United Kingdom's frontiers against the continuing threat of drugs and protect the country's revenue and legitimate traders from being undermined by the flow of smuggled and illicit goods. We have seized large amounts of cigarettes and tobacco, counterfeit goods and more exotic items, such as those protected under the CITES (Convention on International Trade in Endangered Species) legislation. It should be kept in mind that smuggling is not a 'victimless' crime, the funds often supporting other criminal or even terrorist activities.

Our hard work has also gained external acknowledgment. The Employer CD-Rom won the 2006 Institute of Payroll Professionals' Award for Innovation, in recognition of a product that delivers significant improvements to the user. We had three finalists and won two of the seven awards at the Civil Service Diversity Awards. We were the only department to take more than one award.

These achievements are impressive when put into the context of a department in its first full year of existence continuing to implement efficiency targets which meant that, by September 2006 we had reduced our staffing levels by more than seven thousand. These staff savings were delivered as part of our commitment to reduce staffing levels and civil service spending. We have also delivered through our estates consolidation programme savings worth £12.6 million annually. This was achieved by partially or totally vacating 78 properties from the estate.

The pace of change within the department is about to increase following the recent introduction of our Five Year Aim, which sets out some of the detail of what we want to achieve in the near future. It will radically transform how we do business between now

and 2011 and will see HMRC progressing towards our target of setting the standard for a modern, efficient, top-performing organisation. The period ahead is one that offers a real opportunity to improve services and achieve major organisational change to meet the needs of the people we serve.

I am confident that next year HMRC's annual report will be able to show steady progress towards achieving this aim, across a wide range of parameters.



Paul Gray
Acting Chairman

Financial Highlights 2005-06

These figures provide a quick overview of some of the Financial Highlights we achieved in 2005-06

£405bn
+7%

Revenue accrued

At a time of great change within the department during 2005-06 we accrued over £400 billion in taxes, duties and other revenue.

£6m
+15%

We confiscated assets worth £6m of those involved in tobacco fraud.

£828m
+16.8%

Additional VAT identified from over 134,000 risk-based interventions.

£2.7bn
+8.5%

The Large Business Service secured additional liabilities of £2.7bn in Corporation Tax, an increase of 8.5% on 2004-05.

Strategic Highlights 2005-06

These provide a quick insight into some of our successful strategic aims met for 2005-06

Focus on people

Results from the 2005 Customer Satisfaction Survey show that overall satisfaction of small businesses that complete their own tax returns (Self Assessment, PAYE and VAT) has risen.

Self Assessment

By the 31 January 2006 filing deadline, we successfully processed almost 2 million online SA returns, an increase of nearly 25% over 2005. During the five days of the peak period we received a record 258,000 returns – including 161,000 in the last two days, and 8,700 (almost 150 a minute) at the peak hour – as our customers benefited from a stable and uninterrupted service.

Expand services

In 2005-06 the delivery of all business changes to frontier activity was brought together under a new Frontier Services Transformation Programme to maximise efficiency and benefits. The new programme will enable the electronic exchange of information between member states to strengthen our security at the frontier.

Primary Responsibility

During 2005-06 we had primary responsibility for tackling the smuggling of prohibited drugs into the UK.

Section 01

Progress of HM Revenue & Customs

The benefits of integration of the two former revenue departments is illustrated throughout the report. However, we cannot begin the next phase of our transformation without looking at what we want to achieve, what we stand for and our core values. We are embarking on a challenging Five Year Aim to transform the organisation by 2011.

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Dan is a part time freelance designer and every year files a tax return. With a turnover of only £14,000 his tax affairs are quite simple.

HMRC issued Dan with a short tax return and simplified guidance notes, and encouraged him to file online. HMRC successfully processed his SA return and by increasing the contact centre capacity, can handle any phone enquiries Dan may have in the meantime.



Section 01

HMRC's Aim

Our Aim

The aim of HM Revenue & Customs is to administer the tax and customs control systems fairly and efficiently and make it as easy as possible for individuals and businesses to understand and comply with their obligations and receive their tax credit and other entitlements.

Our Mission

Our mission is to provide an increasingly efficient and high quality service that:

- > helps people and businesses understand and meet their tax obligations and understand and receive their entitlements
- > strengthens frontier protection and
- > tackles those who do not comply

so we all contribute to the integrity and well-being of the UK.

Our Strategy

We will be alongside our customers, making it easy for them to participate and contribute to the UK's wellbeing.

- 1 We will be customer focused, treating our customers according to their needs and behaviours to deliver our corporate objectives:
 - a) we will design our processes from the customer perspective so that interactions feel tailored to their circumstances
 - b) we will simplify our interactions with customers
 - c) our guidance will be clear and strive to offer customers certainty wherever possible
 - d) we will be accessible, embracing effective new ways for delivering quality services.
- 2 We will tackle non-compliance while minimising the effect on the majority of our customers who want to comply.
- 3 We will work with others to deliver wider government outcomes, recognising customers want service without barriers.
- 4 We will use our understanding of customers' changing needs and behaviours continually to inform, challenge and improve everything we do.

Section 01

HM Revenue & Customs Departmental Board as at 1 December 2006



Paul Gray CB, Commissioner and acting Executive Chairman

Paul joined HM Treasury in 1969 as an economist. In the late 1970s he spent two years as a corporate planner with Booker McConnell Ltd. Between 1988 and 1990 he was Economic Affairs Private Secretary to the Prime Minister. In 1990 Paul returned to the Treasury working on monetary policy, serving as a member of the EU Monetary Committee. He then became Head of Personnel and Central Services, and was also a non-executive director of Laing Management Ltd. From 1995-98 he was Director of Budget and Public Finances in the Treasury. In 1998 Paul joined what was then the Department of Social Security (DSS) as Head of Policy. Before taking up the post of Deputy Chairman for HMRC, he was Second Permanent Secretary and Managing Director, Pensions and Disability in the Department for Work and Pensions (DWP) playing a major role in forming DWP through the merger of the former DSS, the Employment Service and parts of the Department for Education and Employment.



Mike Eland CB, Commissioner

Mike joined HM Customs and Excise in 1975, having been called to the bar in the same year. He spent six years at the Cabinet Office in various roles, including Private Secretary to the Deputy Prime Minister, and three years in the Home Office as Deputy Director General in the Immigration and Nationality Department. Mike's jobs with HM Customs and Excise included Director of Customs, dealing with policy in relation to international trade, drugs, pornography and trade sanctions and restrictions, and Director General of Business Services and Taxes, with overall responsibility for the collection of indirect taxes and customs duties, facilitating and regulating international trade and advising Ministers on these issues. Mike was acting Chairman of HM Customs and Excise between June 2003 and September 2004. He is currently a Director General and member of the HMRC Board and Executive Committee where he has portfolio responsibility for Enforcement and Compliance Operations, Central Policy and HMRC's relationship with individuals.



Mike Hanson MBE, Commissioner

Mike joined the Civil Service in 1974, serving in HM Customs and Excise, the Parliamentary Commissioner's Office and on secondment, via the Foreign and Commonwealth Office, to the Hong Kong Government. In Hong Kong, Mike performed a variety of roles, including head of the Government Property Agency, Refugee Co-ordinator, Information Co-ordinator and Government Spokesman. On returning to the UK and HM Customs and Excise, Mike became head of Logistics and Finance before moving to his present position of Director General Frontiers, Excise, Tax Credits and Corporate Services.



Dave Hartnett CB, Commissioner

Dave joined the Inland Revenue in 1976. He worked for nearly 10 years on investigation work before becoming Director of Claims Branch in 1991 and then Director of the Financial Intermediaries and Claims Office, moving in 1996 to lead the technical team on income and benefits from employment. In 1998 he was appointed Director of Capital and Savings, with tax policy responsibility for capital taxes, savings, pensions, share schemes, charity tax issues and stamp duty. He led the 2000 quinquennial review of the Valuation Office Agency before joining the Board of Inland Revenue in the same year. Dave also led the development of tax credits and new share schemes, the introduction of tax disclosure rules in 2004 and for the UK in setting up the Joint International Tax Shelter Information Centre (JITSIC) in Washington DC. He leads for OECD countries on an intended study of tax intermediaries. Dave is currently Director General Business & Compliance Strategy and has portfolio responsibility for large business, anti-avoidance, compliance strategy, business customer units and the review of Powers.



Stephen Jones, Commissioner

Stephen joined the Inland Revenue after graduating from Oxford in 1976. After training as an Inspector of Taxes in Stockport, he moved to London to work first on corporation tax policy and, in the mid-1980s, on financial sector issues, in particular the securities markets. 1988 brought a move to Manchester. After eight years running tax offices of various sizes – the last dealing with large businesses – Stephen took up his first Director post in March 1996. His experience as a Director, first in Inland Revenue and now in HMRC, covers charities, non-resident and specialist tax matters, the financial sector, large business work and most recently finance. Stephen is a Fellow of the Chartered Institute of Management Accountants (2006).



Steve Lamey, Commissioner

Steve graduated in Mining Engineering at University College Cardiff in 1978 before starting work with the BOC Group. He had a wide variety of roles there, working in project engineering and management roles before moving on to operational, commercial and senior management jobs. He became Director of Global Information and Management User Services in June 1998. In 2000, Steve joined the British Gas Group as CIO and Vice President Information Management (IM). This meant he was responsible for development and delivery of business strategy and services, ensuring that IM added business value. He became HMRC's Chief Information Officer in October 2004.



Steve Heminsley

Steve spent 18 years working in a range of jobs in the Department of (Health and) Social Security before in 1990, Steve became Finance Director of the Contributions Agency. In 1995 he transferred to the Child Support Agency as Planning and Support Services Director. In November 1997, he was appointed Strategy and Planning Director of the Benefits Agency. In 1999, Steve was appointed Director for Pensions and Children's Services and in April 2000 became DSS Pensions Director with responsibility for Strategy, Stewardship and Delivery. In June 2001, he moved to the Inland Revenue as Director of National Services and acting Director General for IR Service Delivery in 2004. At the end of 2004 Steve led the business design work in preparation for the merger of the Inland Revenue and Customs and Excise and is now Director General of Organisational Development.

Section 01



David Hogg CB

David joined the Treasury Solicitor's Department from private practice in 1978. He became an Assistant Treasury Solicitor in 1985 serving in various positions in the Treasury Solicitor's Department. As Deputy Treasury Solicitor (1993-97) he oversaw the Department's conversion to an Agency and the introduction of a charging regime. In 1997, he was appointed Solicitor and Legal Adviser to the Department for Environment, Transport and the Regions – a role he maintained in the Department for Transport, Local Government and the Regions and in the Office of the Deputy Prime Minister. In April 2004, he moved on loan to the Treasury where he worked on Equitable Life and Financial Sanctions. Separately he also provided legal advice to Lord Butler's Review of Intelligence on Weapons of Mass Destruction. David joined HM Customs and Excise in October 2004 and was appointed Acting General Counsel and Solicitor to HMRC in April 2005.



Chris Hopson

Chris joined HMRC in January 2005 from the private sector. Prior to joining the Department, Chris had been Board level Corporate Affairs Director at Granada Media Group (subsequently ITV plc), the first Political Adviser at the Department of National Heritage (now DCMS) and National Secretary of the Social Democratic Party. He has also been Managing Director of a start up schools educational software business and both a communications and management consultant.

Chris holds an MBA from Cranfield School of Management and is a Politics graduate from Sussex University. He also chairs the Foyer Federation, one of the UK's leading youth homelessness charities. Chris is Director General Communications and a member of ExCom.



Bernadette Kenny

Bernadette joined HMRC in May 2005, following a short period as acting Chief Executive of the Royal Parks. She had previously spent 24 years at the Department for Constitutional Affairs, having started in the then Lord Chancellor's Department as a Government Lawyer in 1980. After an early career in a range of both legal and policy posts, she moved into operations in 1991 managing civil and the higher criminal courts in the South East. She led the team that launched the Court Service as an executive agency in 1995 before setting up the new agency's HR and Learning function. She moved onto the agency board in 1999, leading on business change, IT, procurement and tribunals operations. She returned to DCA HQ in 2002 as Change Director. Bernadette is now Director General Customer Contact and Processing in HMRC.

Non-Executive Board Members

Bill Griffiths

Bill is Non-Executive Chairman of the Forensic Science Service. He has an international finance and general management background, chiefly with Unilever – including spells abroad in Ghana, Nigeria and Cote d'Ivoire – and with ICI. He is also a Non-Executive Director and chairs the Audit Committees at the Department for International Development, at the Department for Environment, Food and Rural Affairs, and at the CSA. In addition to his work in the public sector, Bill is involved with university spin-out technology businesses in Manchester.

Mark Haysom

Mark Haysom became Chief Executive of the Learning and Skills Council on 1 October 2003. Prior to his appointment, Mark had spent almost 30 years in the newspaper industry, with Reed International, Thomson Regional Newspapers and the Trinity Mirror Group. As Managing Director, National Newspapers for Trinity Mirror, Mark was responsible for such titles as the Daily Mirror, Sunday Mirror, Sunday People, Scottish Daily Record and Sunday Mail, with a turnover of £500 million and a workforce of 2,200 people. During his tenure, the Daily Mirror won three 'Newspaper of the Year' awards in the space of a year.

Nick Macpherson

Nick joined the civil service in 1985 after spells working as an economist at the CBI and Peat Marwick Consulting. From 2001 to 2004 Nick was head of the Public Services Directorate, where he managed the 2000 and 2002 spending review processes. Previous Treasury posts included Director of Welfare Reform (1998 to 2001) and Principal Private Secretary to the Chancellor of the Exchequer (1993 to 1997) where he oversaw the transition from Kenneth Clarke to Gordon Brown. Nick was Managing Director of the Budget and Public Finance Directorate from 2004, when he oversaw the implementation of the review carried out by his predecessor as Permanent Secretary, Gus O'Donnell. This involved the strengthening of the Treasury's strategic tax policy function and forging relations with the new HM Revenue & Customs Department. Nick took over as Permanent Secretary to the Treasury on 2 August 2005.

Penny Melville-Brown

Penny's first career was in the Royal Navy in which she reached the rank of Commander and became the first woman barrister. She also worked in NATO intelligence, corporate public relations, home defence planning, strategic personnel policy and lots more. She left the Navy in 1999 following the onset of visual impairment. She is a consultant on disability issues, holding several public appointments. Penny is a founding Director of Disability Dynamics Ltd, Chair of the Solent-based Diversity Works Partnership, and is an Associate of the Employers Forum on Disability.

Section 01

Kate Owen

Kate is now running her own consulting business, having retired from BP in December 2005. She was previously Vice President of BP, responsible for global learning and organisation development. She has been directly involved in the change and transformation of BP since 1990. Much of her work over recent years has been the development of executive leadership combining facilitation, coaching, top team building and executive education. Kate is a Governor of Imperial College and a Fellow of the Windsor Leadership Trust. She was Chair of the Conference Board, Europe, Organisation and Business Council, a member of the Ministry of Defence Armed Forces Training and Education Steering Group and a member of the UK Government Risk Review Steering Group.

John Spence OBE

John's career with Lloyds TSB spanned 32 years from 1973 to 2005. Senior appointments included Managing Director of Business Banking, Chief Executive of Lloyds TSB Scotland, and Managing Director of Retail Distribution. He had responsibility for policy and risk, forging industry-wide solutions on key issues. John is Deputy Chairman of Business in the Community, a governor of the Church Commissioners, chairing their Audit Committee, and a trustee of St Paul's Cathedral Foundation. Blind himself, John chairs Blind in Business and Vitalise. He is President of Enable, and of the Royal Zoological Society of Scotland. He is also on the Capital Enterprise Board, and is a non-executive director of Edrington Limited.

Sir David Varney

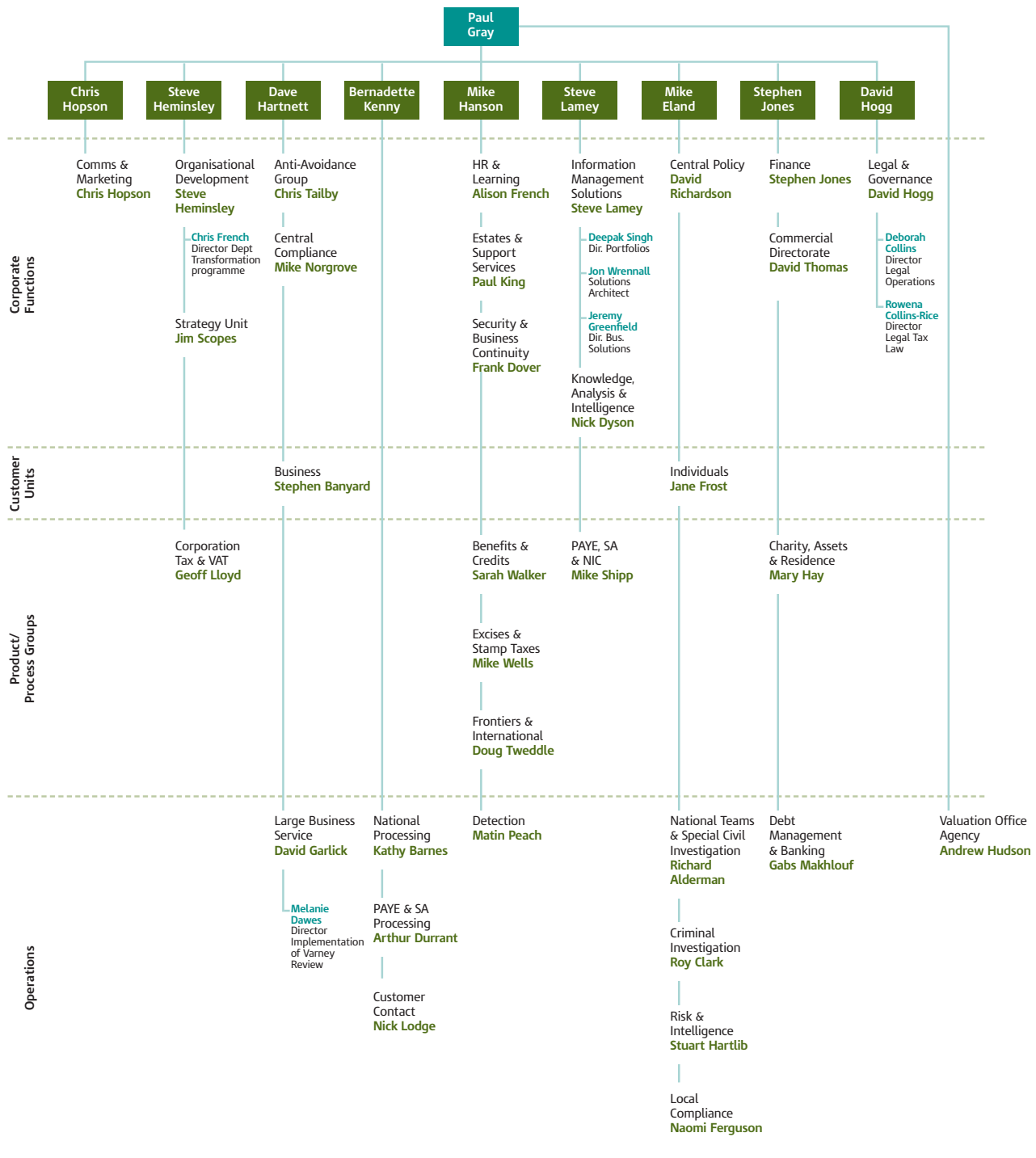
Sir David joined Shell in 1968 beginning a 28-year global career that spanned several continents. He was appointed a Director of Shell International Petroleum in 1996. In June 1996 David joined BG (formerly British Gas) as Chief Executive designate of the proposed BG plc and was appointed Chief Executive the following year. He oversaw the successful demerger of Lattice plc. In 2001, David was appointed Chairman of mm02. In September 2004 he was appointed Executive Chairman of both Inland Revenue and HM Customs & Excise. As a result of the merger in April 2005 he became Executive Chairman of the newly-formed HM Revenue and Customs. He stepped down as Executive Chairman at the end of August 2006. In September 2006 he was appointed the Chancellor's Senior Adviser on Transformational Government.

In March 2006 HMRC issued 2.4 million Child Trust Fund vouchers, 75% of which were used by parents and carers to open accounts for their children before expiry. We have successfully opened accounts for those children, whose parents did not open an account within 12 months, meaning that by the end of the first year over 1.8 million children had a CTF account, ensuring that they will have a financial asset with which to start their adult life.



Section 01

HMRC Organisation as at 1 December 2006



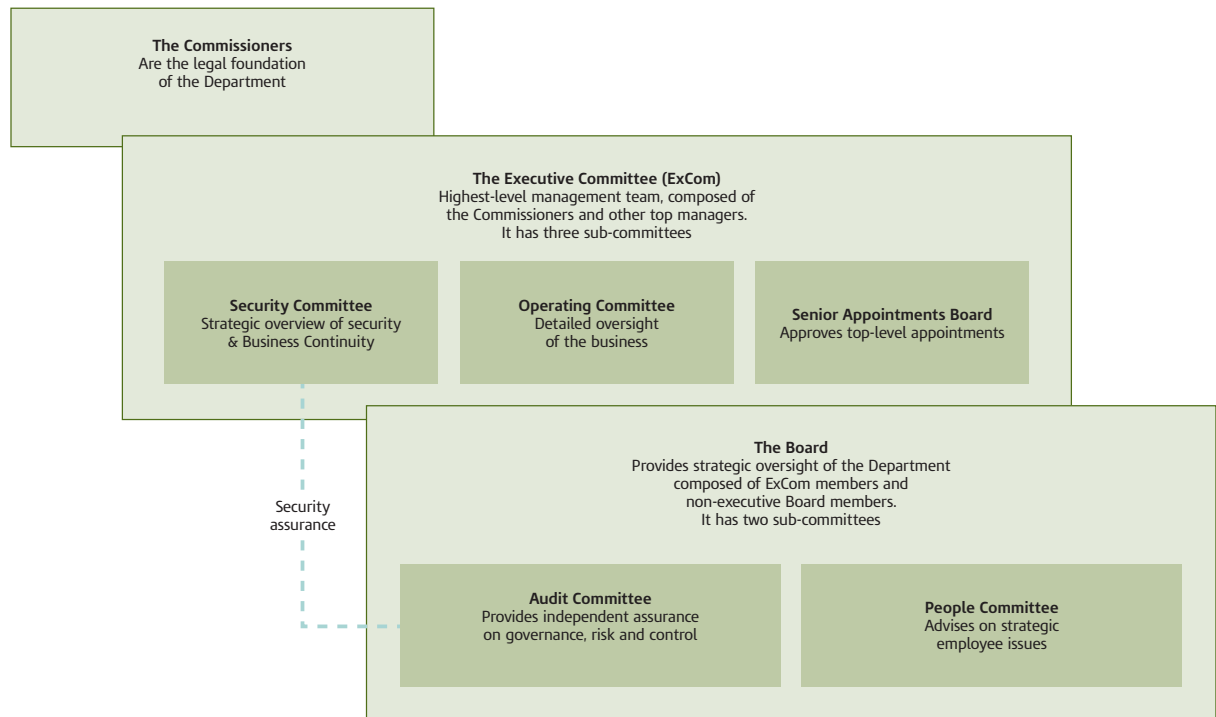
Top level governance structure

This diagram illustrates the relationship between the Board, the Executive Committee (ExCom) and other senior committees.

ExCom consists of the Commissioners as well as the Acting Solicitor and the Director General Organisational Development and, as such is the supreme decision-making body in HMRC. The Board is, in effect, ExCom plus the

non-executive directors (NEDs). As the NEDs have no executive authority or accountability, the role of the Board is to advise, influence and challenge.

The high level governance structure that was established at the formation of HMRC is described more fully in the Statement of Internal Control that forms part of the HM Revenue & Customs 2005-06 Accounts¹.



¹ HM Revenue & Customs 2005-06 Accounts (HC1159) is available on our website.

Section 02

Annual Report 2005-06 Review of the year

This report provides an overview of all aspects of our activities in 2005-06 and confirms the outturn against our PSA targets. Further on in the report we include updates on developments since the end of the year and a look ahead to future events.

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- 40 Corporate services



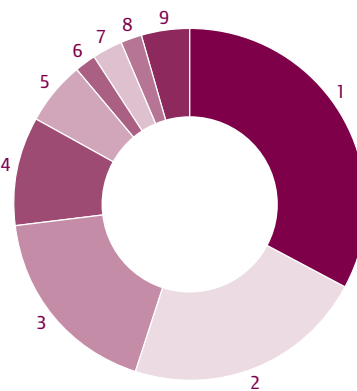
Doug runs a bakers shop and has often struggled with his tax and VAT affairs. As a small businessman HMRC issued him with an advice letter to help understand his needs and encouraged him to attend one of HMRC's educational events undertaken by the Business Support Team. Following the event, Doug felt more confident in dealing with his tax and VAT obligations and is now in regular contact with HMRC to help him comply and avoid unintentional errors.

Section 02

£405bn
+7%

Revenue accrued

At a time of continuing change within the department, in 2005-06 we accrued over £400 billion in taxes, duties and other revenue.



Revenue accrued in 2005-06 (£bn) ²	
1	Income Tax 135
2	NICs 91
3	VAT 74
4	Corporation Tax 41
5	Hydrocarbon Oils 24
6	Alcohol 8
7	Stamp Taxes 11
8	Tobacco 8
9	Other Taxes & Duties 17

Revenue Collection¹

At a time of continuing change within the Department, in 2005-06 we successfully accrued £405 billion in taxes, duties and other revenue, an increase of over £26 billion (7%) on the previous year.

Revenue from income tax and NICs accounted for 56% of the total and was £14.6 billion (7%) higher than in 2004-05, primarily due to increases in earnings.

VAT revenue accounted for 18% of the total. The amount accrued in 2005-06 was £0.4 billion lower than in 2004-05 and was affected by a combination of weak consumer spending, changes in the composition of consumer spending and an increase in the VAT gap, particularly from an increase in Missing Trader Intra-Community fraud.

Revenue for corporation tax accounted for 10% of the total. It was £8.4 billion (25%) higher than in 2004-05 mainly due to higher accruals from onshore financial companies and North Sea companies.

Hydrocarbon Oils accounted for 6% of the total, an increase of £0.2 billion (1%) on 2004-05.

Paying Entitlements

Tax Credits

At the end of 2005-06 tax credits benefited some 6 million families and 10 million children. The Department paid a net £17.3 billion to claimants. The Department made substantial progress on administration. Processing accuracy improved to 97.7% and 98% of callers to the helpline were answered on the day that they called. The Department improved its communication with customers so that the end of the year a new award notice and shorter clearer

guidance notes were available, giving customers a much clearer summary of their award, with an explanation of how it had been calculated and what they would be paid. Building on the success of the 2005-6 renewals exercise PBR 2005 announced as part of a package of measures that the renewal window would be shortened by one month in 2006 to the 31 August, which meant awards were based on prior year data for a shorter period. This was also handled successfully and as a result the Government announced in PBR 2006 that the renewal window would further shorten by one month to 31 July from 2007.

We are aiming for greater success at the first point of customer contact and a move away from a uniform service, to one that recognises that customers require different levels of support.

The Tax Credit Office (TCO) is working towards delivering this objective and work clustering, where similar work tasks are brought together in a single business unit, is a major step in the journey. For example, the complaints business stream is already demonstrating the advantages of this organisational change and the development of a more customer focused approach and is now delivering a significantly improved service. When responding to letters of complaint, TCO provide the customer with a direct dial telephone number to enable them to speak to the caseworker handling their complaint who then provides a personalised service through to resolution. Customer feedback and the public endorsements of both the Adjudicator and the Ombudsman demonstrate the success of this innovation.

We are working to prioritise and quicken the pace of improvements to tax credits and are focused on developing solutions for those areas where large amounts of resource are used, and where there is the best potential for efficiency gains. We have identified and prioritised improvements in

¹ HM Revenue & Customs 2005-06 Accounts (HC1159) were published on 11 July 2006 and are available on our website at www.hmrc.gov.uk

² Tax credits is treated as negative taxation (-£4.1 billion) are excluded from the above figures. Any discrepancy in the figures is due to roundings.

We continue to seek improvements and efficiencies in the delivery of tax credits in line with the Department's five year aim

key areas to help reduce processing times. We continue to seek improvements and efficiencies in the delivery of tax credits in line with the Department's five year aim.

A feature of the tax credits area of debt recovery is that the majority of customers are paying back their overpayments by instalments, either by recovery from their continuing entitlements or through direct debit arrangements. This reflects our policy to recover overpayments without causing financial hardship.

We have continued to refine our risk analysis and approach to non-compliance, both deliberate and that arising from ignorance or misunderstanding. Our compliance teams carried out 146,000 enquiries into claims showing the highest risk of fraud. This was a substantial increase on the number of checks undertaken in 2004-05, and reflects a corresponding increase in yield from compliance activities.

Whilst maintaining the balance between ensuring that tax credits are paid to those who need them and preventing incorrect claims, in 2005-06 we put more emphasis on enquiring into claims before payments were made. The percentage of such cases increased from 16% to 45%, reducing the number of incorrect claims in payment.

Until December 2005 tax credit claims could be made through the internet as well as on paper. During the latter part of 2005 the number of claims made using this channel increased significantly and it became apparent that many appeared to be fraudulent. Additional information from the Department of Work and Pensions that a large number of their employee's identities had been stolen led us to conclude that the e-portal should be shut. This was done on 2 December. We estimate that in 2005-06 some 62,000 fraudulent claims were made via the e-portal using stolen identities. In 2005-06 we identified attempts to defraud the tax system of around £540 million – the vast majority of this – approximately £409 million – was detected before the money was paid out. The extent of organised frauds dropped after the closure of the e-portal, but we

are continuing to monitor the situation and work to recognise and counter continuing attempts to defraud the tax credit system.

Child Benefits

The Child Benefit scheme was launched in the mid 1970's. It has worked well for the last 30 years and we take pride in the continuing, improving, efficiency of the scheme. The intent is that Child Benefit will continue to provide support for all families with children, while Tax Credits provides additional support for those that need it most. It is estimated that over 98% of families claim and obtain their Child Benefit. Over 150 million Child Benefit payments are made to over 7 million families, in respect of over 12 million children, every year. Some £10 billion of Child Benefit is paid out each year.

Child Trust Fund

The Child Trust Fund (CTF) was officially launched in January 2005 as part of the Government's strategy on saving and asset ownership. By March 2006, we had issued 2.4 million vouchers, 75% of which were used by parents and carers to open accounts for their children before expiry. We have successfully opened accounts for those children whose parents did not open an account within 12 months and this means that by the end of the first year over 1.8 million children had a CTF account, ensuring that they will have a financial asset with which to start their adult life.

We also paid over 611,000 additional payments into the accounts of children in lower income families. Special arrangements are in place to ensure that looked-after children do not miss out on the benefits of the CTF and by April 2006 we had opened 8,269 accounts for these children.

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As well as developing a new IT system to ensure the effective delivery of the scheme, the Child Trust Fund Office was set up to administer the scheme, and a dedicated helpline and website were created to offer help and advice to parents.

Thanks to a successful marketing campaign, the Child Trust Fund has become part of the public consciousness, with research showing that 98% of eligible parents are aware of its existence.

The Customer Experience

Our aim is to put our customers at the heart of everything we do which means that we need to understand their needs and behaviours and to be able to tailor our response accordingly. In this way we will not only improve the delivery of our services but, by improving the overall customer experience, we will also improve compliance by:

- > making it easier for individuals and business to comply with their tax obligations,
- > ensuring that the administration of the tax system is designed to support compliance and improve the customer experience, and
- > tackling evasion among the minority who are engaged in deliberate non-compliance.

We have looked carefully at the needs of our different customer groups and have identified the key elements that influence their experience of HMRC. In doing so we have been able to produce an aspiration for the customer experience that will meet the needs of all of our customers:

- > I know what I have to do
- > I feel you make it as easy as you can
- > I can contact you easily and get the answers I need
- > I can rely on you to get it right and am confident that I have got it right
- > I feel well treated
- > I can rely on you to make sure that individuals and businesses keep to the rules.

Our business customers, both large and small, collect and pay a substantial proportion of the taxes and duties we collect and, as such, they are key customer groups. In addition, the majority of business customers also make use of agents to help them comply with their tax obligations. We have ensured that the needs of businesses and their agents are fully reflected in our Customer Experience statement that will drive our transformation over the coming years. We are now developing a standard for our key customer groups that can be used to track progress.

We recognise that agents have an important role in the tax system and have a crucial part to play in helping their clients get their tax affairs right. For a number of years the Working Together scheme has provided a forum for agents and the tax departments to work to reduce friction in the tax system. This year we attended a series of seminars to get feedback about agents' concerns and it is clear that we need to do more to address the needs of agents and the services we supply to them. In March we created the Tax Agents and Advisors Team to develop a shared way forward that will enhance the effectiveness of the working relationship between us and agents, reduce the administrative burden on agents and their clients, and improve the services we provide.

Employers

We have enhanced our focus on the 1.75 million employers who manage PAYE, National Insurance and other payments on behalf of their employees. We have started to strengthen our consultation practice with representatives of employers and the payroll industry, looking increasingly to expose our thinking on all changes likely to impact on employers and to discuss the practical consequences with them.

The 300,000 new employers who register each year can now do so online if they choose, rather than by telephone. This will reduce errors and provide benefits for busy employers.

In response to customer demand we have added to the existing suite of calculators and other tools on the popular Employer CD-Rom mailed to all employers twice yearly. Early feedback shows that the new calculator, that helps employers calculate the amount of tax and national insurance due, is a very welcome innovation to ease the payroll task for smaller employers and to improve accuracy. And the Employer Bulletin which is posted out with the CD-Rom is now also available in an online format. Consistent with these developments we have seen a continued sharp increase during 2005-06 in employers preferring to access electronic guidance and forms rather than the traditional paper packs, to the extent that from February 2007 employers will only receive the popular electronic packs centred on the Employer Bulletin and the CD-Rom. This change is expected to drive improvements in accuracy as well as further savings in the Department's mailing costs.

The Employer CD-Rom won the 2006 Institute of Payroll Professionals' Award for Innovation, in recognition of a product that delivers significant improvements to the user.

The EmployerTalk series of events visited 15 locations across the UK in 2005-06 and attracted 15,000 employers seeking payroll updates or access to Departmental specialists covering the range of payroll tasks.

Simplifying Our Processes

Self Assessment

In April 2005, we issued a new Short Tax Return (STR) to nearly 1.5 million people within self assessment. This is a 4-page paper return specifically designed for people with simpler tax affairs and is sent out with simplified and shortened guidance notes. Those who receive the STR include employees, pensioners and the self-employed with turnover below £15,000.

Following changes to the Self Assessment (SA) guidelines an additional 1.25 million people are no longer required to complete SA tax returns and many more customers are exempt from being brought into the SA system.

We are aiming to improve online filing (which already automatically calculates the tax for the customers and provides a digital receipt) by providing a product that is more tailored to the individual customer's circumstances. This will be achieved by making better use of the data we already hold, to pre-populate some elements of the online return presented to the customer for completion.

Independent research shows that customers' reaction to the STR and guide was overwhelmingly (90%+) positive in terms of how easy it was to understand, clarity and ease of use. And since it was issued we have seen a 2% increase in our annual customer satisfaction survey score for the number of small businesses that find it easy to complete their tax returns. Similarly, satisfaction levels with the outcome from the changes to the Self Assessment guidelines were very high at 90%¹.

We continue to develop our complementary online services and to encourage online filing and by the 31 January 2006 filing deadline, we successfully processed almost 2 million online SA returns, an increase of nearly 25% over 2005. During the five days of the peak period we received a record 258,000 returns – including 161,000 in the last two days, and 8,700 (almost 150 a minute) at the peak hour – as our customers benefited from a stable and uninterrupted service.

PAYE notice of coding

The P2 coding notice is the form issued in greatest numbers. In previous years it was issued to individual customers with a booklet, the P3, which described the full range of coding possibilities and ran to over 20 pages. We relied on customers to look through this booklet and find the notes that applied to them. Understandably this led to a high level of contact as customers tried to understand their coding notice.

Over the last year we have rolled out a new style P2, personalised to the individual customer by including only relevant items and explanation and removing the need for the P3. This has reduced the amount of paper we send out (we used to issue more than 10 million P3 booklets in a typical year) but, more importantly, should help us improve the customer experience.

Modernising PAYE Processes for Customers (MPPC)

The MPPC programme was established to improve internal business processes, IT infrastructure and customer service.

In 2004-05, employers with 250 or more employees had to file their Employer's Annual Return online and this was extended in 2005-06, to all employers with 50 or more employees. In 2004-05 99.6% of these two groups of employers who filed a return did so online. In total we received 1.18 million (76% of all returns received) for 2005-06 online.

Employer error rates fell from 13% in 2004-05 to just 5% in 2005-06. This was helped by the wide publication of the common errors employers made in 2004-05.

The online filing experience for employers for 2005-06 was greatly improved from 2004-05. We opened the portal before 6 April 2006 to help early filers, and began processing 2005-06 returns early in May. By the end of November 2006 we had processed 90% of 2005-06 return and details of 17 million more individuals than we had at the same stage in the previous year.

Over the next three years, MPPC will change the way we run PAYE by using the National Insurance Recording System for core PAYE information for individuals. Bringing together an individual's PAYE details onto one database (rather than the 12 over which they are spread now) will result in more accurate tax codes and employees with multiple sources of income will be less likely to have under- or over-paid tax at the end of the year.

The first step was rolling out a 'PAYE Browser' that gives all processing staff a more complete picture of tax and National Insurance payments across all a customer's employments. This information will help staff settle customers' liabilities far more quickly.

Stamp Duty Land Tax

2005-06 was the first full year in which the new automated system was used for processing returns. Early quality assurance reviews of the process enabled us to increase from 65% to 85% the number of returns that

¹ The research can be seen on our website: www.hmrc.gov.uk/research/rep8-main.pdf

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could be accepted immediately on submission. At the same time we were able to take account of customer feedback to simplify some of our processes.

The views of conveyancing practitioners were also taken into account in Budget 2006 when the Government announced the simplification of some areas of SDLT legislation. The creation of an SDLT Working Together Group, on which the major representative groups and the land registries are represented, has greatly assisted in channelling customer suggestions in how both processes and legislation can be improved.

Since August 2005, customers have been able to file SDLT returns online and by March 2006, 14% of returns were being filed this way. We are continuing to explore with practitioners ways of increasing this percentage and simplifying the online process.

Pensions Simplification

During 2005-06 we concentrated on ensuring everything and everyone was ready for the start of the new simplified regime for the taxation of pensions on 6 April 2006. We published the majority of the regulations and finalised the new business processes to support the administration of the new regime.

We created a new service 'Pension Schemes Online' to allow our customers (Scheme Administrators and Practitioners) from 6 April 2006 to file information with us online and to view their pension scheme records. The new forms were published in advance of the start of the new regime. In the main these were developed taking account of input received from the pensions industry on the content as well as usability of the forms.

The new guidance manual was published during the year and has been well received by the industry. We organised a series of workshops and took part in a number of industry-led events to prepare our customers for the new regime and the material from the workshops was published on our website.

Throughout the year we had regular meetings with pensions industry representatives to get their views on the draft regulations and the operational impact of the products we were developing such as business processes and forms. All of this fed through into the final products.

We also produced a monthly Newsletter to keep customers informed on progress and to articulate our view on the meaning of the legislation, again these have been very well received and widely read.

Progress against our PSA targets

In HMRC we are responsible for collecting the bulk of tax revenue, as well as paying Tax Credits and Child Benefits, and strengthening the UK's frontiers. In line with all government departments we must ensure that everything we do represents best value for taxpayers' money and that we are fully accountable to the public. This means all our activities are planned and prioritised to meet performance measures, known as Public Service Agreements (PSAs), agreed with Government Ministers. Our current Public Service Agreement covers the period 2005-06 to 2007-08. This section provides a review of the year 2005-06 with progress against our PSA targets and achievement of other activities within the Department.

Objective I: Improve the extent to which individuals and businesses pay the amount of tax due and receive the credits and payments to which they are entitled.

Target 1 : By 2007-08, reduce the scale of VAT losses to no more than 11% of the theoretical liability.

Following the introduction of the VAT Compliance Strategy (VCS) the VAT gap decreased sharply from 15.9% in 2002-03 to 12.4% in 2003-04 and 11.7% in 2004-05¹. However receipts in 2005-06 were affected by increased attacks on the system from Missing Trader Intra-Community (MTIC) fraud and the VAT gap rose to 14.5%.

During 2005-06 we concentrated on:

- > helping businesses to avoid unintentional error,
- > stopping and recovering losses and preventing them from recurring,
- > introducing a risk blueprint to identify and target the highest risk businesses and sectors,
- > strengthening debt management activity,
- > finding out about avoidance earlier and closing gaps in the law,
- > strengthening HMRC's response to MTIC fraud activity, and
- > using legislative change and litigation to defend the VAT base.

¹ Our estimate of the VAT gap is a broad measure, based largely on survey data. There is, therefore, a degree of uncertainty associated with it.

Missing Trader Intra-Community (MTIC) fraud

MTIC VAT fraud is a large-scale organised criminal attack on the EU VAT system, with the aim of creating large unpaid VAT liabilities and fraudulent VAT repayment claims. The scale of the attack on the VAT system increased in the latter part of 2005-06 and the first quarter of 2006-07, largely in response to a European Court case¹ which created legal uncertainty and removed one of our arguments used to deny suspect VAT repayment claims. New estimates published alongside the Pre-Budget Report², show that the scale of attempted MTIC fraud was between £3.5 billion and £4.75 billion in 2005-06; with an estimated negative impact on VAT receipts during the year of between £2 billion and £3 billion.

HMRC took proportionate steps to strengthen our operational response to MTIC fraud during 2005-06, including working with other law enforcement agencies to identify and destabilise the criminals behind the fraud and secure a number of convictions. We also built a strong evidence base of the goods, people and tactics used in MTIC fraud. A significant number of cases of attempted fraud are now being stopped and the strengthened operational strategy has greatly reduced the level of attack, as reflected in the rapid fall in missing imports³ reported in ONS trade statistics.

During 2005-06, there were six successful prosecutions resulting in 18 convictions with sentences totalling 72 years imprisonment. We also took action against 29 companies involved in MTIC fraud resulting in £9.4 million being recovered or frozen.

Tackling Failure to Register

During 2005-06 we successfully trialled a new approach to tackling the hidden economy and are now rolling out integrated Hidden Economy Teams comprising staff who have expertise in direct and indirect taxes. We are also setting up a dedicated risk team to source this work. During the year we secured 6,286 VAT registrations and identified additional revenue of £40.5 million. We also identified 35,901 'ghosts' (businesses or individuals who should be registered) and 'moonlighters' (those known in some capacity, but who have another source of income, not disclosed to HMRC). This work reported yields of £50.8 million.

Targeting General and Serious VAT non-Compliance Assurance

In 2005-06 we focused our VAT compliance activity on the businesses with the highest risk of defaulting, VAT repayment claims and a number of sector-based campaigns. This approach has had positive results, with over 134,000 risk-based interventions carried out and additional VAT of £828 million identified - an increase of 16.8% on 2004-05. In addition, 48,000 verifications of repayment claims were made that prevented invalid repayment of over £233 million.

In February 2005 we launched Regional Referral Teams to enhance the national risk and intelligence picture of VAT fraud and, since their launch they have successfully identified non-MTIC losses of over £500 million.

In 2005-06 we increased the number of risk-led campaigns to 26, tackling various risks across all taxes on a national basis. These include the Motor Dealers campaign that has already identified and recovered £36 million tax. A further campaign with the game shooting industry has identified potential VAT arrears of £60 million in an area that was previously considered low risk. We have worked with industry's two biggest membership organisations to educate and encourage voluntary compliance, followed by a series of interventions addressing tax non-compliance across the game-shooting industry. We will continue to evaluate and learn from all these activities to strengthen our approach.

The Targeted Education, Enabling and Leverage teams (former VAT Compliance Management teams) have continued to provide VAT registered businesses with education and support by phone and letter, or face-to-face at seminars and presentations. During the year the teams contacted 297,024 new and existing businesses.

We continue to work with government agencies such as the DWP and the Health and Safety Executive, as well as local business support organisations such as Business Link. Our focus for collaboration is the national programme of Business Advice Open Days.

These events combine a programme of education seminars with an open exhibition running throughout the day. For 2005-06, we ran a programme of 16 Business Advice Open Days attracting 9,000 visitors. This year we targeted some of the more remote areas of the UK - giving businesses in these locations the same opportunities as those from the major conurbations.

¹ The joined case of Bond House Systems Ltd and others (C-484/03, C-354/03, C-355/03)

² Measuring Indirect Tax Losses - 2006, published 6 December 2006 alongside the Pre-Budget Report

³ Published by the Office for National Statistics in the Balance of Trade in Goods

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2bn +54m

Cigarette seizures

Cigarette seizures, making a total of over 12 billion seized since the strategy was introduced in 2000

For new registered VAT business we are providing education that is targeted at trade-specific risks. In the first half of the year we also addressed these risks with existing business and identified £500,000 underdeclared tax. We are evaluating these errors in order to improve the education we provide to new business, helping them avoid similar mistakes.

Debt Management

Debt Management & Banking continues to contribute significantly to the VAT Compliance Strategy and during 2004-06, against a two year target of an additional £380 million, an outturn of £507 million was successfully achieved.

Target 2: By 2007-08:

- > reduce the illicit market share for cigarettes to no more than 13%;
- > reduce the illicit market share for spirits by at least a half; and
- > hold the illicit market share for oils in England, Scotland and Wales at no more than 2%.

Using ranges to represent the illicit market share

In *Measuring Indirect Tax Losses - 2005*¹ we discuss the statistical uncertainty surrounding the point estimates of the illicit market. As a consequence of a thorough review of the consumer survey data used to estimate total consumption of spirits and tobacco, we believe that it is more appropriate to express estimates of the illicit market for these products as a range, defined as the area between upper and lower estimates, which represent a region within which the illicit market is most likely to lie. The mid-point range does give an indication of the long-term trend in the illicit market.

This type of range is not presented for estimates of the illicit market for oils, as the method of estimating total consumption does not rely on consumer surveys. Accordingly, confidence intervals are presented for revenue losses for oils. However, the year-to-year changes in the illicit market share estimates are subject to significant statistical uncertainty and so should not be interpreted as representing short-term changes in compliance.

Tobacco

The 'Tackling Tobacco Smuggling Strategy' was launched in March 2000, when the illicit market share of cigarettes was estimated to be 21%. The latest estimates² show a continuing decline in the illicit market share, suggesting it was between 10% and 19% in 2004-05.

Tobacco smuggling not only undermines the Government's ambitious health objectives, it damages legitimate businesses, encourages wider criminality and costs nearly £3 billion per year in lost revenue. When the 'Tackling Tobacco Smuggling Strategy' was launched in March 2000 we were set challenging targets to slow, stabilise and reverse the trend of increasing tobacco smuggling so that by 2005-06 the illicit market share of smuggled cigarettes would represent no more than 17% of the market. Our target has since been extended to reduce the illicit market share further to 13% by 2007-08.

In 2005-06, we:

- > seized 2 billion cigarettes, nearly 54 million more than in 2004-05, making a total of over 12 billion seized since the strategy was introduced in 2000,
- > seized 160 tonnes of hand rolling tobacco,
- > broke up 46 criminal gangs both in the UK and overseas, and

¹ *Measuring Indirect Tax Losses - 2005*: HM Revenue and Customs, December 2005 is available on our website.

² Published in *'Measuring Indirect Tax Losses - 2006'* HM Revenue & Customs December 2006, published on our website.

- > confiscated £6 million worth of assets of those involved in tobacco fraud, bringing the total to more than £27 million since 2000.

In March 2006 we published 'New Responses to New Challenges – Reinforcing the Tackling Tobacco Smuggling Strategy'. This refreshed tobacco strategy built on measures announced in the 2005 Pre-Budget Report and sets out our response to the challenges we now face in combating the trade in illicit tobacco, in particular, the growth of counterfeit cigarettes, and the persistently high levels of smuggling of hand-rolling tobacco.

As a consequence of our success during the first six years of the strategy, both operationally and in working with the tobacco manufacturers to restrict the availability of genuine products to smugglers, we face an increasing threat from counterfeit cigarettes. Predominantly produced in the Far East and Eastern Europe, this contraband is often visually indistinguishable from genuine product. Identifying the production source and maximizing our ability to intercept this product at the frontier through improved intelligence is key in tackling this problem.

The proportion of smokers using hand rolling tobacco (HRT) has increased in recent years. One in four cigarettes smoked each year in the UK is now hand-rolled. However, over half of all HRT smoked in the UK is smuggled. The illicit market consists mainly of a few UK manufactured brands exported and then smuggled back. As knowledge and understanding of the market has developed it has become clear that the illicit HRT market and the methods used by fraudsters differ significantly from those for cigarettes, and different responses are required. A range of new measures was therefore introduced, and a specific target for HRT was set to reduce the size of the illicit market by 1,200 tonnes (equivalent to around 20%) by 2007-08. The key strands of the refreshed strategy are:

- > working with tobacco manufacturers to improve the targeting of counterfeit product, and further restrict supply of both HRT and genuine cigarettes,
- > enhancing our operational response to strengthen enforcement at all the key points along the supply and distribution chain,
- > using technology to increase our ability to detect illicit goods and target resources effectively, and
- > publicity and communication to increase awareness of enforcement action and to undermine the appeal of smuggled product.

Alcohol

In 2001-02 the tax gap for spirits was estimated at 9%. The UK Alcohol Strategy: Spirits was launched in June 2005. Latest estimates suggest that levels of spirits fraud have declined steadily between 2000-01 and 2004-05¹, and the spirits illicit market share was between 0% and 8% in 2004-05. We are currently on track to meet the PSA target² of reducing the illicit market share by half (to 3%) by 2007-08. However, there are signs that fraudsters are already changing their methods in response to our success including, as we have seen with tobacco, moving into production of counterfeit product. Maintain progress will therefore be a major challenge, which we do not underestimate.

There are three key strands to our spirits strategy, designed to make fraud increasingly unattractive:

- > regulatory change (central to which is the introduction of duty stamps for spirits),
- > enhanced operational activity, and
- > working closely with the industry.

Most alcohol fraud is perpetrated by organised criminal gangs through the illegal removal (diversion) of non-duty paid products from the EU warehousing system into the UK market. Illicit alcohol is sold mainly through licensed outlets at full (or close to) retail price. Neither the consumer, nor the honest trader, can distinguish illicit from legitimate goods.

Duty stamps were introduced in October 2006, and from 1 January 2007 all qualifying spirits sold in the UK must bear a duty stamp. The memoranda of understanding that were signed last year between HMRC and industry have been working well, ensuring regular contact and improved transfer of information, which in turn enables more targeted operational activity.

This strategic approach has been backed by additional funding of £36 million over the three years of the PSA. This funding is being used to enhance our operational activity so that we make the chances of detection greater through more effective interventions all along the supply chains.

Oils

2005-06 was the third full year of the UK Oils Strategy, which was announced at the 2002 Budget. It was introduced to tackle significant misuse of rebated fuels such as red diesel and kerosene throughout the UK, including Northern Ireland. All of the fundamental aspects of the strategy are now in place.

¹ Published in "Measuring Indirect Tax Losses – 2006" HM Revenue & Customs December 2006, published on our website

² The methodology used to measure performance is set out in 'HM Revenue & Customs: Public Service Agreement 2005-06 to 2007-08: Technical note', available on our website.

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The main revenue loss continues to be from the misuse of rebated fuels, including laundering to remove chemical markers and dyes. Results of our operations and intelligence confirm that our strategy and interventions are helping to reduce the fraud by making it more difficult for criminals to acquire rebated fuels and by using intelligence to detect those who misuse it in road vehicles.

We maintain a high profile presence on the UK road network and have continued to increase the number of vehicles challenged and tested for misuse in the UK mainland and Northern Ireland.

In 2005-06, 2,000 detections (53% of all detections) were made of illicit fuel use by commercial businesses, with the majority in the road transport sector. We have also tackled the criminal organisations behind the large scale supply of illicit fuel, breaking up 4 criminal gangs and dismantling 37 laundering plants.

The Registered Dealers in Controlled Oils (RDCO) scheme, which requires all dealers in red diesel and kerosene to be authorised, and to exercise a duty of care when selling high-risk products, has now entered its fourth year of operation. Approximately 4,500 businesses have been authorised as registered dealers, each submitting monthly data on their supplies of rebated fuel. This informs the deployment of our assurance and enforcement activities, the focus of which is developing as our risk assessment capability improves.

Latest estimates show the illicit diesel market share in Great Britain to be 2% in 2005, down from 6% in 2001. We are currently on target to meet our PSA target of reducing the illicit market to no more than 2%, but recognise the challenge of maintaining this for the remainder of the PSA period. To this end, we will continue to undertake wider oils regime assurance activity and work with legitimate business to identify and examine ways of addressing potential fraud risks.

Target 3: By 2007-08, reduce underpayment of direct tax and National Insurance contributions due by at least £3.5 billion a year.

We continue to increase our understanding of who our customers are and what influences their behaviour. Understanding this behaviour results in earlier and more effective remedial action for people who fail to comply. Reasons for non-compliance range from ignorance, misunderstanding and error, through indifference and carelessness, to conscious and deliberate evasion or fraud.

We also continue to refine other ways in which we can improve compliance. These range from activities to inform, educate and support taxpayers, right through to criminal proceedings in the most serious cases.

The ongoing development of our risk assessment processes and tools, to aid better and quicker identification of non-compliant customers, paid dividends this year. The active partnership between risk analysts and compliance teams has resulted in nearly 15% fewer enquiries into all types of customers, when compared to the previous year, yet yield from the enquiries we do undertake has risen by over 17% during the same period.

Our light-touch approach was developed further during 2005-06. Over the period we issued 181,000 advice letters to small business, continued with both our Construction Industry Scheme and Share fisherman projects and also commenced projects on issues around the property sector and on untaxed bank interest.

In 2005-06 24,000 educational events were undertaken by our Business Support Teams. These events attracted audiences in excess of 322,000 from the small and medium business sector. New businesses and new employers were contacted with the offer of assistance as part of an initiative to help these groups get it right from the outset. Our most popular products were workshops for the newly self-employed and workshops for operation of the Construction Industry Scheme, each attracted over 2,800 people. Almost 98% of these felt more confident in dealing with their tax obligations after the workshop than they had done prior to it.

Enquiry targets have been met this year. Lower enquiry targets were set for 2005-06 to reflect the following factors, currently embedded in our compliance regime:

- > better risk assessment processes and structure – returns selected for enquiry are more likely to show evidence of non-compliance, and
- > improved customer focus – the necessary additional compliance burden created by the compliance regime is focused more effectively on the non-compliant.

This new approach produced record levels of yield from fewer enquiries.

The overall result for enquiries worked to a fully satisfactory standard (these include older legacy cases) needs to be assessed in the context of better yield from our compliance enquiries and an increase in our yield/cost ratios. In addition, the results from the most recent cases continue to show a significant improvement in performance when compared to 2003-04.

As part of a package of compliance measures announced in Budget 2004, we have completed a two-phased national publicity campaign to encourage people to telephone the Helpline for the Newly Self Employed and introduced a confidential Hotline for people to report individuals who are not paying their tax. This campaign has proved very

successful. The helpline has encouraged an additional 8,000 people to register as self-employed and from its launch on 17 October 2005 to 30 November 2006, the Tax Evasion Hotline has received approximately 80,000 reports of potential tax evasion.

Target 4: By 2007-08, increase the percentage of Self Assessment returns filed on time to at least 93%.

This target is to be achieved without detriment to the on time payment and filing performance of employers and companies, or to SA payment on time performance.

The percentage of taxpayers who file their Self Assessment (SA) returns by the 31 January deadline has been steady for a number of years at just over 90%. The 2005 NAO report on the filing of SA returns¹ recognised that achieving the new filing target of 93% by 2008 will be a challenge, principally because filing performance relies heavily on customer behaviour and also because of the removal of over a million customers from the requirement to file SA returns. Those customers had relatively simple tax affairs and a better record of filing on time.

Activity undertaken to encourage individuals to file their SA returns on time and to mitigate the effect of this removal included:

- > extensive media campaigns,
- > increased press advertising in January,
- > an extensive pro-active telephone campaign to remind those at highest risk of filing late about the deadline and pointing them towards help,
- > issuing reminder 'inserts' with Class 2 NIC quarterly bills in October and January,
- > piloting re-designed reminder forms,
- > raising awareness among agents, through publicity in our Tax Bulletin publication,
- > using our network of local radio broadcasters to promote the key messages, and
- > local newspaper press releases to advertise Enquiry Centre opening times around the filing deadline.

We improved our understanding of those groups of the SA population with a propensity for late filing and the causes of it by using the research into the behaviour of SA taxpayers. This has enabled us to identify and target groups most likely to need additional support. Using this research we ran a targeted direct mail campaign with

literature tailored to each group, offering help and advice on completing and filing returns. We have also continued to refine our telephone reminder campaign using the customer behaviour research. This year we attempted to contact over 400,000 people who had not yet filed their returns to offer help and advice and we are continuing to look for other ways to encourage and assist customers to file their returns on time.

Working with Large Businesses

The Large Business Service (LBS) deals with the direct and indirect tax work on the UK's largest businesses. In 2005-06 tax payments by large businesses represented a significant proportion of the total HMRC receipts. LBS staff work with large businesses to help them to pay the right amount of tax at the right time while risk-assessing each large business to identify areas where tax may be at risk. As a result of this work, LBS secured an additional £2.2 billion of corporation tax liability² and £1.29 billion of indirect tax, primarily VAT, during 2005-06.

During the year LBS started development of a new Business Design covering a new organisational structure, to be introduced in April 2006, together with new products and processes. In particular:

- > the Strategic Response Unit was set up to provide specialist technical assistance in the identification and working of major risks, and
- > the Risk & Resources Unit began development of new technologies to enable LBS to identify and prioritise risks and allocate resources.

During the last year we have been working to raise the profile of tax as a boardroom issue for large businesses, concentrating on governance and reputational issues.

After very wide consultation we have developed guidance for staff dealing with large businesses, which defines what we consider to be good practice with regard to companies' policies on tax. The content of this was developed in collaboration with other government departments, business representatives and individuals and is a good example of our partnership with our customers and stakeholders. The guidance recommends that businesses should have a policy on tax and underpinning procedures, and should maintain good relations with us based on openness and transparency. This document contributes to the developing basis of interactions with our large business customers.

We have also been contributing to the debate on the relationship between corporate responsibility and tax, and have looked at how large businesses perceive the link

¹ Filing of Income Tax Self Assessment Returns (HC74) published 22 June 2005 is available on the NAO website: nao.gov.uk

² LBS CT yield is now calculated on the basis of Economic Value (EV) as this method more accurately reflects the value of the work of the LBS. Calculating on this basis the LBS secured additional liabilities of £2.744bn, an increase of 8.5% on 2004-05.

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between them. The indications are that this debate is still at an early stage but that we should continue to engage in the debate as it develops.

We will also be contributing to wider work increasing business flexibility by reducing unnecessary burdens on business and creating certainty for business, through implementing the recommendations of the '2006 Review of Links with Large Business' and the 'Delivering a New Relationship with Business' report (see Section 4 – Progress against the 2006-07 Remit).

Labour Providers

We have established a national network of labour provider teams to tackle non-compliance in this sector and work to integrate the VAT and direct tax units into multi tax teams is well advanced.

In 2005-06 the teams either met or exceeded their targets with combined VAT and direct tax receipts in excess of £38 million. In order to focus operational activity on areas of highest risk, and enhance our performance, we have established a national Labour Provider Risk and Intelligence team. We are continuing to work collaboratively with external stakeholders, including the Gangmasters Licensing Authority and other government departments.

Risk Team

This year we have taken significant steps towards a fully integrated risk system across all tax streams, bringing together 3,000 people into one national risk organisation. This has allowed us to use the skills, knowledge and systems of both former departments to enhance our strategic approach to risk, across all taxes, identifying and documenting the greatest tax risks and prioritising our activities to address them.

Anti-Avoidance Group

Specialist teams across the Department are working increasingly in close collaboration on key avoidance and international risks to ensure that avoidance is challenged in a consistent way and that resources are targeted to where the risk is highest.

We have been involved in significant litigation and the courts found in our favour in many cases. Success in litigation is valuable in deterring customers from embarking on avoidance schemes.

In high profile NICs avoidance cases we make a clear statement that we will only settle on full payment of the tax due. Any cases where 100% is not offered will be litigated. There have been settlements on these terms with over £500 million collected in total.

The disclosure regime was amended to cover the whole of Income Tax, Corporation Tax and Capital Gains Tax with effect from 1 August 2006, following extensive consultation with tax advisers and businesses affected. This means we are finding out about potential tax avoidance quickly and, if necessary, can react swiftly to threats to the Exchequer.

Objective II: Improve customer experience, support business and reduce the compliance burden.

Target 5: Respond accurately and completely to requests for advice:

- > by 2007-08 increase to at least 80% the proportion of individuals and businesses who said they achieved success at first point of contact;
- > by 2007-08 increase to at least 90% the accuracy and completeness of information and advice given and actions taken in respect of contact.

We use a major annual customer satisfaction survey to measure success in three separate areas. It consists of a telephone survey with over 19,000 customers across 13 separate customer groups. It is part of our work to better understand customers' perceptions of their contact with the department and the processes for meeting their obligations and obtaining their entitlements.

The last survey measuring success at the first point of contact was undertaken in 2005. It showed that the overall result, although still high at over 71%, had not changed significantly since 2004. During the past year we have invested heavily in expanding our Contact Centre network, focused strongly on quality and productivity improvements and improved the tools our customer-facing staff use when handling customer queries. The first results from the 2006 survey are expected early in 2007.

We measure the accuracy and completeness of the information and advice we give from a representative sample of telephone calls to our Contact Centres and post received from the public. At the end of 2005-06 we were on track to achieve this 'quality' element of the target.

Target 6: Provide simple processes that enable individuals and businesses to meet their responsibilities and claim their entitlements easily and at minimum cost:

- > by 2007-08 increase to at least 90% the proportion of small businesses that find it easy to complete their tax returns;

- > by 2007-08 demonstrate a measurable improvement in new and growing businesses' ability to deal correctly with their tax affairs. This will include increasing the proportion of applications for VAT registration that are complete and accurate to at least 50%;
- > by 2007-08 increase to at least 85% the proportion of individuals who find their SA Statements of Account, PAYE Coding Notices and Tax Credit Award Notices easy to understand.

Results from the 2005 survey showed that overall satisfaction of small businesses that complete their own tax returns (Self Assessment, PAYE and VAT) had already risen to the levels required by our PSA target (90%). We will continue to monitor this target and any changes that may impact on small businesses so that satisfaction levels continue to rise.

Three areas of activity are covered by our new target to demonstrate a measurable improvement in new and growing businesses' ability to deal correctly with their tax affairs (Income Tax Self-Assessment, PAYE and VAT). Details are to be published in a revised Technical Note and reflect our increasing activity to improve our education and advice directed at new and growing businesses. These two groups have particular difficulties in understanding the extent of their new obligations at a time when many other factors demand their attention. We aim to help them with clear and timely interventions tailored to their circumstances.

One of the measures for this target includes increasing the proportion of applications for VAT registration that are 'complete and accurate' when received by HMRC. This is intended to help us make the form simpler and easier to understand. The VAT registration process now requires more detailed information from new businesses to help stem an increasing risk of Missing Trader Intra-Community and other VAT fraud. Among other actions, this has meant that the requirement for full and correct information has had to be applied more rigorously – with the result that a majority of applications were judged incorrect or incomplete. Telephone contact and correspondence with applicants to correct and expand on information and query those considered risky was delaying the issue of VAT numbers to all businesses, causing increasing customer complaints and putting the target at serious risk.

To remedy this we appointed a team to identify the key problems and options for improvements. We conducted a fresh analysis of the common causes of error by customers, assessed processing changes and devised options to address fraud risks, to limit the impact on genuine businesses. We have improved our risk-assessment of applications and,

revised the application form and guidance to make them simpler and easier to understand. These have been user-tested and were launched on 1 December 2006.

By bringing all necessary resources to bear on solving the problems, and adopting a holistic approach to looking for solutions, we are now confident of meeting the improvement target, without diminishing the anti-fraud effort and, at the same time, starting to tackle the delays that legitimate new businesses experience in getting a VAT registration number.

The measure to increase to at least 85% the proportion of individuals who find their SA Statements of Account, PAYE Coding Notices and Tax Credit Award Notices easy to understand, aims to drive up satisfaction levels through a series of simplifications and enhancements to the targeted forms (around 26 million are sent out every year). The 2005 survey showed that levels of understanding at 77% had not changed significantly since 2004. This is in line with our expectations, as most of the planned improvements occur later in the PSA period. External factors also have a considerable influence on our customers' perceptions and we are undertaking additional research to determine the extent to which customer understanding is likely to be influenced by the further simplifications we have planned.

Target 7: Deal effectively and appropriately with information provided, so that levels of contact are kept to a minimum:

- > by 2007-08 increase to at least 95% the rate of accuracy achieved in administering SA, PAYE, Tax Credits and NICs;
- > by 2007-08 increase to 35% the percentage of SA tax returns received online;
- > by 2007-08 increase to 50% the percentage of VAT returns filed online.

Our indicator to measure the accuracy and completeness of handling information provided by customers focuses on manual interventions and case working (rather than automated processing) in four processes: Self Assessment, Tax Credits, NICs and PAYE. Over 45 million manual transactions are covered by this target and current results show that we are on course to meet the target.

Levels of online filing for both individuals and agents are continuing to increase, and we remain on track to meet the 35% online filing target for Self Assessment returns by 2008.

Work on the VAT online filing target has been superseded by the recommendations of Lord Carter's Review of HMRC

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Online Services¹. Compulsory online filing of VAT returns is to be phased in from 2008 and we now expect to meet the 50% target in 2010-11. More information on the work we are doing to implement these recommendations is contained in Section 4.

Objective III: Strengthen frontier protection against threats to the security, social and economic integrity and environment of the United Kingdom in a way that balances the need to maintain the UK as a competitive location in which to do business.

For the first year of the SR04 PSA period we continued to report against the SR02 targets as reported in Annex B. During 2005-06 we focused on key activity areas while developing clear performance indicators and targets to demonstrate delivery. For the remainder of the PSA period our target is to improve our capability at the frontier and latest outturn is contained in Section 3.

A summary of seizures will be published on our website.

Frontier Services Transformation Programme

In 2005-06 the delivery of all business changes to frontier activity was brought together under a new single programme to maximise efficiency and benefits. The new programme will implement the changes brought about by the modernisation of EU legislation. This will introduce new simplifications to current regulatory controls and will enable the electronic exchange of information between member states to strengthen our security at the frontier. It also includes the tightening of security through the introduction of new freight and passenger scanning technology and co-operation with other UK border agencies to improve the effectiveness of border interventions.

Border Management Programme

In response to the 'One Step Ahead' White Paper², HMRC, Special Branch and the UK Immigration Service developed the Border Management Programme (BMP) to develop and implement more effective closer and joint working. This will strengthen border security while minimising the impact on legitimate traffic.

In 2005-06 progress was made in trialing and rolling out new and improved ways of working, including:

- > joint profiling and targeting,
- > more co-ordinated controls in ports and airports,

- > improved coverage of the border giving one agency the authority to intervene on behalf of the others, and
- > trialing HMRC as the lead search agency for freight.

The agencies are also working on the alignment of intelligence structures and processes, and have designed and trialed a common methodology for joint agency risk assessment of ports and airports.

Following Royal Assent of the Immigration, Asylum and Nationality Act in March 2006, we are now working together on the secondary legislation and codes of practice associated with the improved powers to acquire and share data. A national closer working strategy will be rolled out next year, but in the meantime we will operate BMP 'flagship' sites, where the programme can evidence visible and effective joint working, and other 'best practice' sites, where the agencies will be focusing on rolling out successful BMP strategies.

Resourcing to Risk

We continue to play a major role in protecting the UK from threats at our frontiers, and ensuring that fiscal fraud and smuggling is tackled. We deploy to risk and aim to maximise our effectiveness by targeting those travellers or businesses likely to pose the highest risk at our frontiers. This successful strategy led to UK seizures last year of over 2 billion cigarettes, and over 1,300 seizures of class A drugs.

As part of this strategy we improved our knowledge of passengers and freight moving through UK borders, adding more data from ferry operators, shippers, and airlines to develop the best ever real-time picture of passengers and vehicles arriving at our borders. We also developed an electronic Freight Targeting System, a risk assessment tool that allows us to electronically check freight movements against our intelligence database before it arrives in the UK. Initial results are promising and the system should be fully operational for all freight movements by 2008.

Public health concerns over the emergence of avian flu demonstrated the real benefits of our flexible and mobile approach to deployment. We were immediately able to switch resources in a managed way providing, and maintaining, a high level of public reassurance about importations from risk countries.

Supply Chain Security

New investment in people and resources to counter the threat posed by international terrorism saw screening of inward movements to detect the illicit importation

¹ Copies of the report and Partial Regulatory Impact Assessment are available on our website.

² One Step Ahead, a 21st Century Strategy to Defeat Organised Crime (Cm6167), published in March 2004, is available from www.homeoffice.gov.uk

We carry out our role in partnership with SOCA, and in support of the wider programmes SOCA are introducing

of radiological materials at three major ports and two major airports. Approximately 2 million movements were screened in the period April 2005-April 2006 and, where vehicles have triggered alarms, these have been intercepted and examined. Most alarms are caused by naturally occurring radioactive materials and give no cause for concern. Operating procedures to deal with, and dispose of, any materials that may be found are in place and fully tested.

Assistance to UK law enforcement agencies at the UK border includes:

- > leading a EU customs counter-terrorism project group to help strengthen the external border; and
- > leading a EC Expert Group of law enforcement officials and private sector representatives to develop minimum standards of control at the external border.

We also work with:

- > our EU partners to secure the supply chain between Europe and the US,
- > the World Customs Organisation developing its Framework of Standards to Secure and Facilitate Global Trade,
- > the EC, the Netherlands and China-Hong Kong to develop a secure supply chain pilot between the UK, the Netherlands and China-Hong Kong,
- > the EC to produce the Security Amendment to the Community Customs Code and the implementing Regulations, and
- > the USA and their Container Security Initiative.

Prohibited drugs

During 2005-06 we had primary responsibility for tackling the smuggling of prohibited drugs into the UK. We also managed the secretariat function for the cross-Whitehall, Concerted Inter-agency Drugs Action Group (CIDA) strategy.

In April 2006 the CIDA secretariat, along with primacy for Class A intelligence and investigation moved to the new Serious Organised Crime Agency (SOCA). Our strategic and operational focus is now split between interdicting the supply of prohibited drugs, particularly heroin and cocaine, at the physical frontier and providing support to SOCA. We also retain statutory obligations to investigate drug importation offences. We carry out our role in partnership with SOCA, and in support of the wider programmes SOCA are introducing to tackle supply-side drugs enforcement. We continue to support a range of international capacity building responsibilities, which include providing training resources to the Counter Narcotics Police of Afghanistan and the Jamaican Constabulary.

Counter-Proliferation

We continue to contribute to a multi-agency approach to prevent and deter the illegal trade in goods subject to export licensing, seizing goods found to be breaching controls and investigating serious cases. In 2005-06 we took action in 38 cases to prevent goods that could have assisted Weapons of Mass Destruction programmes from going to end-users of concern. We also continue to seek suitable strategic export cases for prosecution. There were two prosecutions this year for the illegal export of body armour, one resulting in a £10,000 fine. Additionally, the courts made an asset confiscation order of £69,980 in relation to an earlier prosecution.

Avian influenza

As part of our anti-smuggling controls on illegal imports of Products of Animal Origin, we have been targeting traffic from countries reporting highly pathogenic H5N1 avian influenza since outbreaks were first reported in 2003. In autumn 2005 we stepped up our enforcement controls at ports, airports and postal depots by targeting illegal imports from all those countries reporting new outbreaks.

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We produced a 'bird flu' poster and leaflet in 8 languages to alert travellers to the ban on importing live birds and poultry products and providing some basic information about health symptoms. We have also worked closely with Defra in continuing to develop our avian influenza contingency plans.

Cultural objects

We have made three seizures of illegally imported antiquities that we believe were excavated from protected sites of historical or archaeological interest. We are in the process of arranging their repatriation. Another successful anti-smuggling operation resulted in the detection of an illegally imported denarius (a rare and valuable Roman coin) that we suspect was illegally excavated and that has now been returned to the government of Greece. We also made two large seizures of UK archaeological material at export.

Intellectual Property Rights

We used the UK's Presidency of the EU to raise the profile of anti-counterfeiting work amongst member states. We secured agreement to an action plan that provides for closer working with affected businesses and for special exercises across the EU to target counterfeit and pirated goods with a focus on those that threaten the health and safety of consumers. We took part in a joint operation that led to 14 UK seizures over a 10 day period. Member States seized a total of 140 air and 60 sea containers during the exercise.

We work in partnership with other enforcement agencies such as Trading Standards in support of the government's Intellectual Property Crime Strategy. The number of businesses registering with us to protect their intellectual property rights has continued to rise steadily during the year to a new high of 410 live registrations.

Convention on International Trade in Endangered Species (CITES)

We worked closely with Defra and the European Commission on proposed legislative changes, which came into force in July 2006 to improve the regulation of the international trade in caviar.

One investigation case resulted in a conviction on 13 counts of attempting to import a number of CITES listed orchids.

Our other activities

Protecting the environment

The government's environmental policy is based on a combination of identifying where businesses and individuals can change their behaviour and incentivising that change through taxing activity that is not environmentally friendly. Our work in the environmental taxes directly supports this strategy.

- > In the 10 years since Landfill tax was introduced it has contributed to a reduction in waste disposed at landfill sites of 25%, despite a growing economy and subsequent increase in waste,
- > Climate change levy has, since its introduction in 2001, encouraged businesses to improve energy efficiency and reduce carbon dioxide emissions. The Government estimates that by 2010 the levy will deliver annual savings of around 3.5 million tonnes of carbon and will reduce energy demand in the economy as a whole by 2.9% a year.
- > Aggregates levy is part of a package of government measures to protect the countryside and natural resources, to ensure they are sustainable economically, socially and physically. The levy encourages the use of recycled aggregates and a number of alternatives to aggregate that are benefiting from levy exemptions. This results in less primary aggregate being quarried and the impact on the environment is reduced.

We work with other government departments and agencies, business, and environmental organisations to make sure that our management of the environmental taxes is in tune with the wider environmental strategy and delivers the outcomes described in a business friendly and cost effective manner.

The Pre-Budget Report 2006 set out the next stage in the Government's strategy for tackling climate change both domestically and globally, including:

- > An increase in all rates of air passenger duty (from £5 to £10 for EU economy flights with related increase in other rates), with effect from 1 February 2007, in recognition of the environmental costs of air travel.
- > An inflation-based increase of 1.25 pence per litre in the rates of road fuel duty with effect from 7 December 2006; and the same increase in duty for rebated fuels, maintaining the differential with main fuel duty rates; and
- > A package of measures to encourage the development / extension of the market for biofuels and also innovative means of production, including: the extension of the

Mai is setting up a new textile business and wants some assistance from HMRC to achieve this. The department has a workforce that represents both the various business sectors and diverse population across the UK, which allows it to call upon a local network of key individuals with the necessary skill-sets to meet its customers' needs. HMRC is also able to provide Mai with information on her eligibility for tax credits.



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20 pence per litre duty incentive to a new “second generation” biodiesel and a reduced duty rate for biodiesel/rebated oils mixes used off-road to be applied to specific pilot projects, with two schemes planned in the rail sector.

- > An aim for all new homes to be zero-carbon within a decade with a time-limited stamp duty exemption for the vast majority of new zero-carbon homes that meet this standard;
- > Legislation to ensure householders installing micro-generation are not subject to income tax on any payment for surplus electricity exported back to the grid;
- > Reform and expansion of the Landlord’s Energy Saving Allowance, including making it available to a further 25% of private rented sector properties by extending it to corporate landlords; applying the allowance per property rather than per building; and extending the scheme to cover installation of floor insulation; and
- > Confirmation of inflation based increase in climate change levy rates from 1 April 2007;

The Pre-Budget Report also reported on the Government’s strategy for tackling other environmental challenges, including confirmation that the standard rate of landfill tax will increase by £3 per tonne to £24 per tonne with effect from 1 April 2007. The Government will also consider the case for steeper increases in the tax from 2008.

Student Loan collection

We continue to collect repayments of student loans advanced under the Income Contingent Repayment Scheme for the Student Loans Company. Repayments are deducted from salary by employers where employees earn more than £15,000 in a year and from Self Assessment customers whose income exceeds the £15,000 income threshold. 1.3 million student loan borrowers are currently repaying their loans. We can confirm cash receipts of £176 million were collected in 2004-05 and receipts of £259 million are forecast for 2005-06.

We are working in partnership with the Student Loans Company on implementing the recommendations of a recent Review of Student Finance in England that relate to collection. These include measures to improve information for student loan customers and collection processes.

National Minimum Wage¹

We have enforced the National Minimum Wage (NMW) on behalf of the Department of Trade and Industry since 1 April 1999 and have identified over £22 million in wage

arrears. 2005-06 saw excellent results with over £3 million in arrears being identified for over 25,000 workers. More than 4,900 investigations were completed and the incidence of non-compliance detected was 32%.

We launched an education and enforcement campaign in July 2005 under which we targeted key low paying trade sectors. The hairdressing trade was the first sector chosen and over 500 cases were registered. Of those so far investigated and closed, 49% of employers were found to be non-compliant.

We now have a criminal prosecutions policy in place for repeat or major offenders and our first cases will shortly be submitted to the Revenue and Customs Prosecution Office.

We will be increasing the resource devoted to NMW enforcement by 50% from April 2007, to raise the standards of enforcement by providing better, risk-based and targeted enforcement action.

Our 16 compliance teams follow up complaints received about non-payment of NMW in addition to investigating employers identified through risk programmes. This, along with our targeted education and enforcement helps to ensure:

- > a level playing field for business in the UK, and
- > that employers understand their obligations under NMW law.

We will be increasing the resource devoted to NMW enforcement by 50% from April 2007, to raise the standards of enforcement by providing better, risk-based and targeted enforcement action.

Corporate Services

Supporting our Staff

Pay Reward and Grading Systems

During 2005 we introduced a new 7 band grade structure for staff below Senior Civil Service grades. Work on defining the new terms and conditions is nearing completion with 90% of staff having opted into the HMRC terms and conditions as at 1 June 2006.

A 3-year settlement provides pay awards for 2005, 2006 and 2007. We implemented an assimilation exercise in 2006 to ensure that all staff from the former departments were brought into line with each other and received the appropriate salary. We are now beginning the process of thinking about the reward strategy for 2008 onwards. We will be consulting with businesses, HM Treasury and other key stakeholders.

¹ The National Minimum Wage Annual Report 2005-06 is available on the DTI website, www.dti.gov.uk

We are developing a People Strategy to help ensure that by April 2011 we are an organisation led by energetic and skilled leaders

People Strategy

We recognise that people issues are the biggest challenge we face in transforming the department. We are developing a People Strategy to help ensure that, by April 2011 we are an organisation led by energetic and skilled leaders, whose employees are equipped with the appropriate knowledge and skills to deliver our objectives. Not only will our People Strategy aim to embed a performance management and improvement culture throughout the department, it will also identify and develop potential leaders and provide staff with the support and opportunities they need to develop their skills and careers.

Implementing new HR policies and processes

We have involved all our key stakeholders, including Trade Unions in the development of our HR policies and processes. We set up a Task Force to deliver presentations, workshops and master classes to managers across the business to explain the new policies and how to use them to raise their own performance and that of their staff. We expect to have completed implementation of the key policies that impact on terms and conditions by 31 December 2006.

Workforce Change

To meet our challenging efficiency and service improvement targets we have embarked on fundamental changes to the way we carry out our work across our entire business.

The Workforce Change team works closely with all business units to refine and align relocation and restructuring plans. By producing a unified people and property plan we will ensure that we make the best use of all our resources, maximising opportunities to redeploy staff and reshaping our estate to meet future business needs.

On 16 November 2006, Paul Gray announced the next stage in HMRC's transformation, into an organisation that

puts the customer at the heart of everything it does.

The statement set out a clear Aim for HMRC which summarised its role, aim, what it stands for and its values of customer focus, trust, support and protect. Starting with an outline proposal to reduce estate in central London to five main offices the announcement set out a programme of Regional Reviews, including consultation with staff, unions and interested MPs to form the basis for future restructuring proposals.

We plan to achieve our staff savings while avoiding redundancies as far as possible. We have published revised HR policies to support our managers and people in moving across jobs and locations so that we can be as flexible as possible in resourcing our future business model. We have continued to offer targeted early retirement schemes, and are also looking at other ways of helping those staff who may wish to leave the Department to pursue other career opportunities.

Management Capabilities

The Management Capability plan is designed to develop an effective management cadre capable of leading change and driving performance in order to deliver business outcomes. This is being delivered in a variety of ways including:

- > using our Management Framework to reflect Departmental developments and expectations,
- > embedding these changes into the appraisal system,
- > providing a learning support strategy consisting of mandatory and non-mandatory information for managers, and
- > developing alternative support mechanisms for managers.

To provide us with useful measures of success and, over time, identify trends we have

- > included specific management capability questions in our Staff Survey,

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86%

Renewable sources

During 2005-06 we ensured 86% of our electricity came from renewable sources

- > consulted with senior managers,
- > arranged focus groups, and
- > looked at the improvement of hard business results as a way of measuring improvements.

Senior Leadership

We continue to build and strengthen the leadership cadre in HMRC. We have reviewed the key capabilities we need in our most senior managers and are using this to drive improvements. External recruitment has allowed us to make a number of strategic appointments from across the civil service and the private sector, particularly in specialist and business areas such as IT, communications and procurement. A gateway arrangement for entry to SCS has been introduced and used to test candidates for leadership and management skills while a professional version is helping in identifying senior tax specialists. A similar arrangement but addressing a wider range of competencies is being piloted for entry to Grade 7.

We are piloting a development programme for senior staff with potential to take on key leadership roles, and are developing proposals to extend this to other grades in the coming year. Amongst the initiatives being driven by Business Units, the Pacesetter programme has a major focus on creating an environment to improve senior leadership and management as a core element in delivering service and performance improvements.

Diversity

We feel that, as a major employer and one of the largest government departments, we have a large part to play in implementing the Government's policies on diversity and equality. Our goal is to become a flagship organisation, leading by example and demonstrating that diversity is an integral part of our working life.

During 2005-06 we developed a comprehensive Diversity Action Plan that will enable us to meet our legislative

imperatives, business objectives and our obligations in the Cabinet Office 10-point plan. We have assigned specific responsibilities to Board Members and Directors for both internal and external activities.

We are building diversity reporting into our regular business monitoring processes so that diversity is an integral part of our work rather than an add-on element. A timetable is being drawn up to screen our policies and functions and complete Equality Impact Assessments. The plan will lead to a more diverse workforce, working in different ways, to deliver a better service to our large and varied customer base and ensure that our services are more effective and readily accessible.

We have set challenging targets for the employment of women, ethnic minorities and disabled people.

We have set up staff diversity networks to engage with staff at all levels to promote inclusivity, to value people and their contribution, to provide the business with information, to help in maintaining a diverse workforce and to meet the needs of our customers.

Our Customer Relations Managers attend monthly panel meetings with other business people and community groups to answer questions raised by people setting up new businesses, a high percentage of whom are from minority ethnic backgrounds. Using local networks and the skills of key individuals in this way has encouraged a sense of self-reliance in the community and works to remove the barriers that entrepreneurs face. We have specifically provided Pakistani and Bangladeshi communities with information on eligibility for tax credits.

We subscribe to Business in the Community's (BitC) Opportunity Now and Race for Opportunity benchmarking tools as well as other groups and networks that help to provide independent assessment of our diversity performance, such as Stonewall and the Disability Standard led by the Employers Forum on Disability. In the past year we have been awarded the Race for Opportunity Gold

The creation of HMRC has brought together two departments with two very different contracts for the provision of IT services

Standard, Opportunity Now Gold Standard and the BitC 'Big Tick'.

Statistics on Diversity are published on our website.

Corporate Responsibility

For HMRC corporate responsibility (CR) means that if we are proactively responsible to all our stakeholders, we will enhance the achievement of our business goals. By doing this we will foster support from our customers and other stakeholders. This support will in turn enable us to be more effective in everything we do and help us realise our aim.

CR is helping us to think differently about the way we do business and the impact this has on our employees, our suppliers, our environment and the millions of people who come in contact with us every year. We are working hard to lead the way on CR within the public sector and to champion responsible business practices across the corporate community.

Key priorities for embedding CR include:

- > engaging a pioneer group of senior managers to take forward and integrate our CR framework in their business units
- > facilitating a direct relationship with our customers and stakeholders to help us understand them and them to understand us
- > developing a flagship programme to provide the focus for our community activity.

This work will continue well into next year.

Highlights of this year include:

- > being the only Government Department to feature in the Business in the Community (BitC) Corporate Responsibility Index and in 2005, we moved up ten places to 87th position,

- > being reaccredited with BitC Awards for Excellence for our work with homeless people, our approach to diversity and our commitment to the environment at our Newcastle estate,
- > two of our staff winning local awards for their commitment to community projects as a result of their involvement in the Prince's Trust Programme,
- > staff in our Contact Centres giving up their own time to answer telephones, in support of the BBC Children in Need appeal, and
- > a number of Directors attending BitC Seeing is Believing events and being committed to ensuring that community involvement becomes an integral part of their business.

Over the next year we will continue to work with BitC, the Prince's Trust and other organisations to involve staff in community-based activities designed to help us develop a more effective relationship with our customers and enable us to deliver improved business results.

Sustainable Development

Another key element of our CR strategy is to push forward with our sustainable development agenda. Government targets are challenging our approach to improving the environmental, social and economic impacts of our actions and operations.

During 2005-06 we:

- > ensured that 86% of our electricity came from renewable sources
- > reduced carbon dioxide emissions from business road mileage
- > recycled over 11 tonnes of printer toner cartridges, and
- > used desktop paper with a 100% recycled content.

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Estates Rationalisation

The integration has created an estate comprising almost 900 properties, including 600 staffed offices in 300 locations. The resulting portfolio exceeded HMRC's requirements with two or more buildings in many towns and cities. This, together with reductions in staffing over the period to March 2008 and beyond offers scope for significant rationalisation.

The Estate Consolidation Programme aims to achieve £30million in annual running cost savings by March 2008 rising to £100million by March 2011. During 2005-06 the programme has resulted in the part or total vacation of 78 properties worth £12.6million in annual savings.

The programme is being run in conjunction with Workforce Change to achieve the optimum benefit of maximising savings while delivering flexible accommodation to meet ongoing business requirements across the UK. A number of tactical closures are planned for 2006-07 with significant strategic change taking place in 2008-09 and beyond.

IT strategy developments

As a result of integration there are now over 100,000 computer screens in HMRC, with access to mainframe and other applications for around 75,000 end users. We have over 250 major IT systems that underpin the full range of business activities, including direct tax, indirect tax, National Insurance, Tax Credits and frontiers work. There are more than 1,200 releases each year updating these and other systems. Currently, the combined annual spend on IT-related activities is in excess of £1 billion.

Our revised IT Strategic Framework aligns to HMRC's Strategy, 5 Year Aim, and the Cabinet Office (eGU) Transformational Government Strategy. It provides an overarching vision for the future and demonstrates how we will use IT to help individuals and businesses pay the right amount of tax and receive the tax credits and payments to which they are entitled. The Framework looks at how IT can enhance the customer experience, support business and reduce the compliance burden and explains how IT can also help deliver our efficiency savings.

In order to meet our objectives we are:

- > establishing a vital link between IT development and our internal business areas, enabling their needs and strategy to be identified,
- > establishing a governance and approvals process which will enable us to prioritise IT development work,

- > working with IT partners to review live services in order to improve their day to day performance, and
- > launching a skills development programme in line with the wider Government initiative to increase professional skills in the Civil Service.

The creation of HMRC has brought together two departments with two very different contracts for the provision of IT services. These two contracts were merged at the end of March 2006, providing a value-for-money means of delivering an improved platform to align the provision and support of IT with our business objectives. The contract will cost less than the former departments would have paid for IT services over the same period.

The flexibility of the original ASPIRE contract allowed for the folding of the ISA services, and some in-house services, into that contract, avoiding the cost of re-tendering. The new contract merges the strengths of both major IT partners and ensures that a consistent IT service and associated support model can be provided to everyone in HMRC. The contract underpins our efforts to change and improve business processes to meet customer needs through strong IT partnerships and aligns the supplier's service delivery to the business objectives of HMRC.

The integration of the contract has enabled us to modernise our IT infrastructure during 2006 to allow all staff to communicate freely across a single environment and implementation has been completed on time and on budget with minimal disruption to the Department's everyday work.

We have also introduced an IT system that standardises Finance and Procurement within a single system. A single operating environment for HR was introduced in November 2006. By using market-centred standard industry software and innovative IT and business change approaches we, and our IT partners, have matched the best standards achieved within the private sector. The system provides best practice finance, HR and procurement services and offers a single, standardised approach to these corporate functions for everyone. This system will deliver significant transactional savings and contribute to meeting the 2004 spending review commitments in the areas of finance, HR and procurement. It is expected to facilitate reductions in expenditure on goods and services by around 6% per year.

We also successfully upgraded and re-platformed the National Insurance Recording System. NIRS2 is of strategic importance to the business of both HMRC and the Department of Work & Pensions, as well as other

Government Departments. The re-platforming represented Europe's largest ever infrastructure computer project and the transformation of one of the UK's largest Public Sector IT system, the UK Government's largest IT database, and the second largest relational database in the world. Almost 71 million records were moved off a 20 year old legacy platform in 16 working days without disruption of service. Availability since the re-platforming has consistently exceeded 99.4% and over the last twelve months to November 2006 has averaged 99.82%.

In 2006 we completed our high-level IT strategic architecture design (Enterprise Architecture). We are now working through the detail along with a roadmap for implementation in line with the 5 Year Aim.

HMRC is at the forefront of Government online services. The changes we have already made to employer online filing are at the heart of modernising HMRC-business communications. Lord Carter's Review of HMRC Online Services¹ commits us to deliver much more and demonstrates confidence in our ability to do so.

We plan to invest around £340 million in online service infrastructure over the next nine years and aim for universal electronic delivery of tax returns from businesses and IT-literate individuals by 2012.

We are tightly aligned with the eGU's Government IT Profession initiative, having contributed to the development of the materials for the initiative. 65% of the potential population have already registered and over the coming months we will be validating and moderating skill levels and capabilities, enabling gaps to be identified and addressed. We have committed to employing a skills framework as a key enabler in improving our capabilities and have defined a professional set of IT skills.

The Departmental Transformation Programme, that has the exploitation and development of IT at its heart, will in the coming years deliver improved customer services, helping HMRC provide more shared services, a clearer single customer view and faster, safer, more efficient customer centric processes for all taxes and benefits.

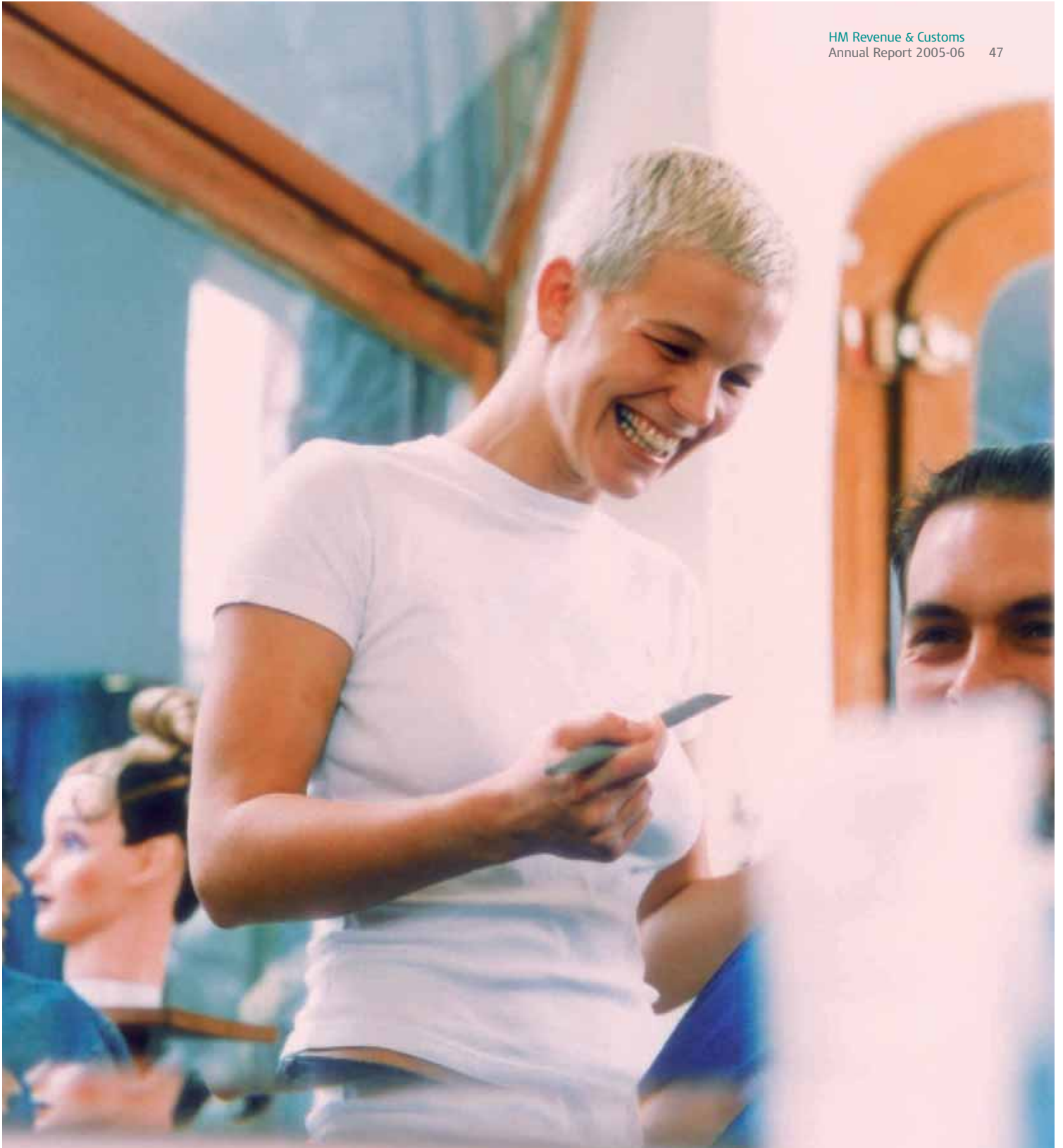
¹ The recommendations of Lord Carter's Review of HMRC Online Services is available on our website.

Section 03

Autumn Performance Report for 2006-07

This section reports progress against our activities in the first half of the current financial year, including progress against our PSA and efficiency targets.

- 48 PSA summary tables
- 51 Performance updates
- 52 Other Activities
- 53 Efficiency
- 55 Better ways of working



On behalf of the Department of Trade and Industry HMRC identified that Lesley was owed wage arrears under the National Minimum Wage. The hairdresser she now works for was included HMRC's targeted education and enforcement campaign this helped her new Manager understand his obligations under new NMW laws.

Section 03

The PSA summary tables include confirmation of 2005-06 outturn that, in some cases is updated from the Spring Departmental Report.

Objective I: Improve the extent to which individuals and businesses pay the amount of tax due and receive the credits and payments to which they are entitled.

		Baseline	2005-06 Outturn	Latest Assessment	Target
Target 1	By 2007-08, reduce the scale of VAT losses to no more than 11% of the theoretical liability	Not yet assessed			
		15.9% ¹ 2002-03	14.5% 2005-06	Not yet assessed 2006-07	11.0% March 2008
Target 2	By 2007-08	Not yet assessed			
2.1 ⁴	- reduce the illicit market share for cigarettes to no more than 13%	16.0% ¹ April 2003	10%-19% April 2005	— ² September 2006	13.0% March 2008
2.2 ⁴	- reduce the illicit market share for spirits by at least a half	6% 2002-03	0%-8% 2004-05	Not yet assessed 2006-07	3% March 2008
2.3	- hold the illicit market share for oils in England, Scotland and Wales at no more than 2%	2% April 2005	— ³ 2005-06	Not yet assessed 2006-07	2.0% March 2008
Target 3	By 2007-08, reduce underpayment of direct tax and National Insurance contributions due by at least £3.5 billion a year	On course			
		—	£1.53bn March 2006	£2.56bn [forecast] September 2006	£3.5bn March 2008
Target 4	By 2007-08, increase the percentage of Self Assessment returns filed on time to at least 93%	Slippage			
		90.6% April 2005	90.3% March 2006	Not yet assessed September 2006	93% March 2008

¹ The latest assessment of these baseline figures was published in 'Measuring Indirect Tax Losses - 2006' in December 2006, available from www.hmrc.gov.uk. Our estimate of the scale of VAT losses is a broad measure, based largely on survey data and there is, therefore, a degree of uncertainty associated with it.

² The outturn at March 2006 has not yet been assessed. Where available, the latest assessments are shown.

³ The baseline for this target will be the outturn at March 2006, at the end of the period for the previous SRO2 target in this area.

⁴ We believe that it is more appropriate to express estimates of the illicit market for these products as a range, defined as the area between upper and lower estimates, which represent a region within which the illicit market is most likely to lie. More information is available in 'Measuring Indirect Tax Losses - 2006'.

Objective II: Improve customer experience, support business and reduce the compliance burden.

		Baseline	2005-06 Outturn	Latest Assessment	Target
Target 5	Respond accurately and completely to requests for advice	Not yet assessed			
Indicator 1 ¹	By 2007-08, increase to at least 80% the proportion of individuals and businesses who said they achieved success at first point of contact	71.7%	71.2%	Not yet assessed	80.0%
		November 2004	November 2005	November 2006	November 2007
Indicator 2 ²	By 2007-08, increase to at least 90% the accuracy and completeness of information and advice given and actions taken in respect of contact	Not yet assessed	Not yet assessed	Not yet assessed	90.0%
		April 2005	March 2006	September 2006	March 2008
Target 6	Provide simple processes that enable individuals and businesses to meet their responsibilities and claim their entitlements easily and at minimum cost	Slippage			
Indicator 3 ¹	By 2007-08, increase to at least 90% the proportion of small businesses that find it easy to complete their tax returns	87.6%	90.2%	Not yet assessed	90%
		November 2004	November 2005	November 2006	November 2007
Indicator 4 ²	By 2007-08, demonstrate a measurable improvement in new and growing businesses' ability to deal correctly with their tax affairs including increasing the proportion of applications for VAT registration that are complete and accurate to 50%	67%	–	–	72%
		April 2006		March 2007	March 2008
		28%	27%	50%	50%
		April 2005	March 2006	October 2006	March 2008
Indicator 5 ¹	By 2007-08, increase to at least 85% the proportion of individuals who find their SA Statements of Account, PAYE Coding Notices and Tax Credit Award Notices easy to understand	77.6%	76.9%	Not yet assessed	85.0%
		November 2004	November 2005	November 2006	November 2007
Target 7	Deal effectively and appropriately with information provided, so that levels of contact are kept to a minimum	Slippage			
Indicator 6	By 2007-08, increase to at least 95% the rate of accuracy achieved in administering SA, PAYE, Tax Credits, and NICs	91.0%	92.4%	92.9%	95.0%
		April 2005	March 2006	October 2006	March 2008
Indicator 7 ³	By 2007-08, increase to 35% the percentage of SA tax returns received on line	13.24%	24.3%	Not yet assessed	35.0%
		April 2004	January 2006	January 2007	January 2008
Indicator 8 ⁴	By 2007-08, increase to 50% the percentage of VAT returns filed online	0.2%	4.9%	7.86%	50.0%
		April 2004	March 2006	October 2006	March 2008

¹ Key indicators 1, 3 and 5 are measured through an annual customer survey, conducted by telephone with 19,000 customers in 13 key HMRC customer groups, focusing on customers' actual experience of contact over the past 12 months. Margins of error (95% confidence intervals) are +/- 1.5% for Indicator 1 and +/- 1.7% for Indicator 3. For Indicator 5 they are +/- 1.7% for the baseline and +/- 2.0% for 2005-06. These figures update and revise those given in the HMRC Spring Departmental Report 2006 (Cm6832).

² The baseline and targets for Indicators 2 and 4 have not yet been fully agreed, and will be published in a revised Technical Note in due course.

³ K17 baseline has been revised and the Technical Note updated to show that returns counted against this measure are both online and filed on time.

⁴ K18: activity here is now subsumed into preparing for proposals by Lord Carter for HMRC Online Services (published report can be accessed on our website at www.hmrc.gov.uk?budget2006/carter-review.htm). More details are available in Section 4. The 50% online VAT returns target is expected to be reached in 2010.

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Objective III: Strengthen frontier protection against threats to the security, social and economic integrity and environment of the United Kingdom in a way that balances the need to maintain the UK as a competitive location in which to do business.

Target	Baseline	Latest Assessment September 2006	Target
8	By 2007-08 to improve our capability to intervene at the frontier	On course	
8.1	Number of seizures of prohibited and restricted goods		
	Cocaine	1,176 seizures, 2,600kgs 2005-06	644 seizures 1,238kgs September 2006
	Heroin	61 seizures 700kgs 2005-06	33 seizures 377kgs September 2006
	Products of Animal Origin	32,703 seizures, 237,703kgs 2005-06	19,182 seizures 110,750kgs September 2006
8.2	% of positive outcomes against requests received for interventions ¹	–	–
8.3	Service Level Agreements with lead government departments for prohibited and restricted goods	1	32
	By March 2007 to have SLAs in place; by March 2008, fulfilment of agreements		September 2006 March 2007
8.4	Effectiveness of Cyclamen capability (in line with the Service Level Agreement with the Home Office to intercept a proportion of vehicles triggering an alarm)	97%	99.75% September 2006 March 2008
9	By 2007-08 to improve our effectiveness by 50% in identifying irregularities in third country freight.	On course 18%	23% September 2006 March 2008
10	Maintain the extent to which importers, exporters and their agents believe we are striking the right balance between frontier protection and maintaining the UK as a competitive location in which to do business ² .	Not yet assessed +24%	Not yet assessed September 2006 +24 percentage points March 2008

¹ The baseline and targets for this indicator have not yet been established. At 31 August 2006, we had received 316 drug referrals

² This indicator measures the lead of positive over negative responses in the annual survey

On 1 January 2007 it will become law for qualifying bottles of spirits to carry the UK Duty Stamp if they passed the duty point on or after 1 October 2006

Performance updates

Target 1

VAT Compliance Strategy

During 2006-07, we have made a number of changes to our VAT Strategy in order to reduce losses and so increase VAT receipts. This has included a refreshed approach to risk targeting, improvements to productivity and a renewed focus on evasion. In addition we continue to strengthen our approach to MTIC fraud (see Section 4).

Tax Avoidance

The disclosure regime was amended to cover the whole of Income Tax, Corporation Tax and Capital Gains Tax with effect from 1 August 2006, following intensive consultation with tax advisers and businesses affected. The National Insurance Contributions Act 2006 received Royal Assent on 30 March 2006, and takes forward the Government's Pre-Budget Report 2004 announcement that action will be taken against income tax and National Insurance Contributions (NICs) avoidance involving employee remuneration. The Act gives HM Treasury the power to make regulations to enable NICs liability to be charged back to 2 December 2004 if necessary, and to extend the disclosure regime to cover NICs-only avoidance.

Target 2

Tobacco Strategy

During 2006-07, we will continue to implement the Refreshed Tackling Tobacco Strategy in order to drive down the illicit market, from the sourcing of illicit products overseas – genuine or counterfeit – to their eventual sale and consumption in the UK. We have now signed improved Memoranda of Understanding with UK tobacco manufacturers to further restrict availability of genuine tobacco products and to tackle the problem of counterfeit material and the growing threat of smuggled HRT. The proven impact of the MOUs will be supported by the

new supply chain control legislation, introduced on 1 October 2006.

We are also working with the largest UK tobacco manufacturers to identify a means of detecting counterfeit tobacco products and preventing these illicit goods from infiltrating the UK retail sector. The manufacturers have shared their experiences of technological anti-counterfeiting measures introduced in other countries, and we are evaluating these technologies. Several possible solutions are being closely examined with a view to identifying the best option.

Alcohol Strategy

Since 1 October 2006 qualifying bottles of spirits must bear a Duty Stamp when they pass the UK Excise duty point. On 1 January 2007 it will become law for bottles sold in retail outlets to carry the UK Duty Stamp if they passed the duty point on or after 1 October 2006. Unstamped bottles can still be sold after this date if duty was paid on them before 1 October 2006 and records are kept to show this. Over 400 producers and warehouse keepers worldwide are now registered for the scheme. Duty stamped product is now filtering through the supply chain and is already appearing on retail shelves.

Duty stamps for spirits will

- > make outward diversion fraud less attractive because it will not be possible to legitimately export products stamped for the UK market
- > make unstamped products sold in the UK identifiably illicit and therefore difficult to conceal and distribute within the apparently legitimate retail network at full, 'tax paid' value, reducing criminals' profits
- > drive fraud towards diversion which we will combat through targeted frontier and assurance activity, and
- > make imported spirits or the small minority of products with self-adhesive stamps the highest risk and consequently allow us to target those areas with particularly close scrutiny and control.

Section 03

Oils Strategy

We are continuing to work closely with the industry both in tackling fraud and in reducing burdens on business. We have engaged with industry to identify and address potential fraud risk, for example in developing a proportionate risk-based control scheme for aviation turbine fuel for introduction in 2006-07, and will maintain a collaborative approach through joint working with the industry in Great Britain and in Northern Ireland on security and intelligence issues.

Target 3

Direct Taxes

The next two years will be increasingly challenging, in terms of meeting the PSA 1.3 target. The assorted Spend to Raise initiatives were initially very productive but, by definition, the base of non-compliant customers, particularly in highly focused compliance projects, will decrease over time. This means that other compliance-based activities, such as efficiency/business improvements, will play an increasingly important role in contributing to the £3.5 billion target.

Progress on Targets 4, 5, 6 and 7 is covered in Section 2.

Target 8

Protecting our Frontiers

We have worked with SOCA to establish gateways and protocols for handling data and taskings of our frontier resources. The Partnership Agreement has been signed and of particular importance is the exchange of intelligence and information in respect of Class A drugs.

Service Level Agreements (SLAs) enable us, and other lead Departments, to clarify roles, responsibilities and ultimately manage expectations; and they are a vehicle for assessing performance and ensuring delivery. They codify the two-way relationship that exists between us for each prohibition and restriction by:

- > outlining our enforcement role at the frontier,
- > providing assurance that we are delivering on our responsibilities, and
- > providing for sharing of information.

Screening to detect the illicit importation of radiological materials is taking place alongside other frontier detection activities at three major ports and two major airports. Approximately 300,000 movements are being screened every month and, where vehicles have triggered alarms, these have been intercepted and examined. Most alarms are caused by naturally occurring radioactive materials and give no cause for concern. Operating procedures to deal with

and dispose of any materials that may be found are in place and fully tested.

We continue to work with the Home Office to complete the implementation of equipment for radiological screening of freight at seaports, airports and the Channel Tunnel by the end of 2007 and we will extend our operations to all locations as the equipment is rolled out. A substantial mobile capability will also be deployed during 2006. We will continue to work with port and airport authorities to ensure that implementation and operations progress with minimum disruption to commercial activity.

Target 9

We have a new target specifically aimed at measuring the effectiveness of our controls at the frontier and directly relating to the level of intervention required in respect of import and export customs declarations. The aim is to maintain the free flow of goods by limiting intervention activity to high-risk declarations that result in irregularities.

Data has proven to be volatile and we are keeping the original baseline calculation under review. This baseline was set on the basis of three months data only. The target will be further developed to identify the underlying reasons for non-compliance and measures introduced to raise compliance levels in the areas where the majority of irregularities are occurring.

Target 10

We have developed a survey with Ipsos/MORI, to show the views of importers, exporters and their agents on:

- > the perceived balance between frontier protection and facilitation, and
- > the extent to which international trade/border procedures are seen as significant in the overall perception of the UK as a competitive location in which to do business.

The initial results of the first survey will form the baseline of perception levels against which to assess performance. Thereafter, the survey will be embedded within the annual Customer Satisfaction Survey research programme and results reported annually.

Other Activities

Working with Large Business

The Large Business Service (LBS) deals with the UK's largest companies, employers and partnerships. LBS customers typically have high turnovers and diverse structures with complex tax and duty arrangements. Over the last year we have been working closely with those businesses, to improve the way we interact and work together.

Debates with the Large Corporates Forum, conversations with other key stakeholders and the piloting of new ideas and products with some large companies helped us to develop the new LBS Business Design which was launched on 1 April 2006. A document setting out the way in which we plan to work with customers 'Working with Large Business', was issued to every LBS business.

Key aspects of our new Business Design and Operating Model are:

- > each customer will have a Client Relationship Manager (CRM), to manage the relationship across all taxes and duties. An integrated risk assessment is then shared with the business to help them comply with their tax obligations and reduce their compliance costs,
- > dividing the businesses into 17 sectors, to get a clearer focus on sector-wide risks and enable CRMs and Sector Leaders to build up a better understanding of commercial drivers specific to that sector, and
- > greater emphasis on matching resources to risk, with businesses who have a good compliance record and good systems in place receiving fewer interventions. This will help to reduce their compliance costs while providing us with greater scope to re-allocate resources, and
- > the development of the Strategic Response Unit will, in collaboration with anti-avoidance colleagues and through the anti-avoidance strategy and disclosure regimes, transform our ability to identify and tackle avoidance risk quickly and flexibly.

Review of Links with Large Business

At Budget 2006 the Government announced that Sir David Varney would lead a review of our HMRC's links with large business. This is an excellent opportunity for both HMRC and business to take stock of our relationship and to consider how we can work better together to ensure the UK has a modern, responsive tax administration which meets our mutual needs.

The review seeks to build on the implementation of recommendations from the 2001 Inland Revenue review and the formation of the Business Tax Forum as a vehicle for consultation with business on matters relating to the administration of the tax system. The scope of the review is the administration and operation of the tax system and will focus on outcomes designed to ensure effective channels of communication between HMRC and business, seeking also to improve the tone of engagement between the parties.

The Review was published on 17 November 2006. In implementing the recommendations, we will be contributing to wider work increasing business flexibility by reducing unnecessary burdens on business and creating certainty for business.

Money Laundering Regulations

The legal framework supporting the UK's anti-money laundering controls continues to develop. The EU Payments Regulation, which places additional identification and record keeping requirements on money transmitters, comes into effect on 1 January 2007. The EU Third Money Laundering Directive comes into effect in December 2007. Under the terms of the Directive Money Service Businesses will have to satisfy criteria to show that they are fit and proper to be registered. The nature of the fit and proper test is currently subject to public consultation. Further measures, included in the consultation, deal with the requirement for other regulated businesses to be independently supervised. We have been proposed by HM Treasury as supervisor for certain Accountancy Service Providers and Trust and Company Service Providers who are not already subject to supervision by their professional body. Trust and Company Service Providers will also be subject to a fit and proper test similar to that for Money Service Businesses.

Excise Duty Simplification

We are radically reforming the excise duty deferment guarantee system that will reduce the number of instances where a trader will have to provide a guarantee and, therefore, reduce costs.

We have worked closely with the industry to identify legal requirements in the alcohol duty regimes that had outlived their usefulness. As a result, over 40 pieces of legislation have been repealed or simplified since Budget 2006, which helps to make the statute book in this sector more easily understood by business and, therefore, reduces barriers to entry.

This year has seen the introduction of electronic stock declarations for excise warehouse keepers, who have also been among the large number of businesses to have benefited from the ability to register online for the spirits duty stamps scheme. We are continuing to work with the alcohol industry on the scope for further deregulatory initiatives.

Efficiency

The 2004 Spending Review set us targets to position itself to achieve total annual efficiency savings of at least £507 million by the end of 2007-08, and to reduce full-time equivalent (FTE) posts by 16,000 gross, 12,500 net of redeployment of 3,500 to front-line activities by 31 March 2008. We are also committed to relocating 1,950 posts out of London and the South East by 31 March 2008. Further details and information about our efficiency programme can be found in the Efficiency Technical Note published on our website.

Section 03

Efficiency	Baseline 1 April 2004	2005-06 Outturn	Latest assessment September 2006		Target 1 April 2008								
Target 1													
Reduction in full-time equivalent (FTE) staff													
			FTE staff										
Overall gross FTE staff	97,755 ¹	92,888	90,040 ²		85,255								
Overall net FTE reduction		4,867	7,716		12,500								
FTE redeployed to front-line activities		2,672	2,745		3,500								
Overall gross FTE staff reduction		7,539	10,461		16,000								
Target 2													
Financial savings		£m		£m									
Total Monetary Savings from FTE Reductions		<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th colspan="2" style="text-align: center;">Total cashable</th> <th colspan="2" style="text-align: center;">Total cashable</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">61</td> <td style="text-align: center;">61</td> <td style="text-align: center;">119</td> <td style="text-align: center;">119</td> </tr> </tbody> </table>		Total cashable		Total cashable		61	61	119	119	363	
Total cashable		Total cashable											
61	61	119	119										
Total non-FTE Monetary Savings		64	64	94	94	106							
Inflation adjustment		6	6	12	12	38							
Total Annual Efficiency Savings³		131	131	225	225	507							
Government Relocation													
To relocate 1,950 FTE posts out of London and the South-East by April 2008													
			FTE staff										
FTE posts relocated		812	1,131		1,950								

¹ This has been revised from the original published baseline for 1 April 2004 of 98,270 following Machinery of Government changes and changes in definition for published data in respect of sickness absences and maternity leave. The latest adjustments have been applied from April 2006. These changes do not affect the targets or scale of efficiencies HMRC will achieve.

² This figure is less than the overall Departmental staff in post figure to reflect the deployment of extra staff needed to increase Contact Centre capacity. This is a 'new policy burden', which is outside of the scope of the Efficiency Programme.

³ Financial savings are currently expressed in 2006-07 prices.

As at 30 September we had achieved a net FTE post reduction of 7,716, which represents nearly 62% of the 12,500 net FTE target. In addition, we have redeployed 2,745 posts to frontline activities, which includes combating tax and excise fraud to help safeguard revenues and the strengthening of our frontier controls. We are also on track to deliver our financial savings targets.

To date the staff reductions have been achieved through natural wastage, a highly restricted approach to recruitment and the use of approved early retirement schemes. We are working to ensure that reductions in staff are achieved as far as possible without recourse to compulsory redundancies.

During 2004-05, 2005-06 and up to 31 August 2006, over 3,000 staff voluntarily left HMRC through limited approved early retirement schemes. Natural wastage, management of fixed term appointments and planned approved early retirement schemes through to April 2008 will reduce Departmental FTE staff numbers to the level necessary to achieve the 2004 Spending Review efficiency targets. We are actively managing staff releases to ensure we retain the right people, in the right places, with the right skills and behaviours to deliver business objectives.

A strategic overview is also being taken of our estate and location requirements, to ensure that customer service continues to be delivered at the right time, in the right place by the right people and our estate provision matches the number of staff we expect to need. Before decisions are taken on any office closure, we undertake a detailed customer, social, economic and service delivery impact assessment. Ahead of that process we consult with staff and other key stakeholders. Over the coming year we expect to complete and consult on region-based people and property plans across all of our locations and activity.

In line with our relocation targets, we had relocated 1,131 FTE posts by the 30 September 2006 (excluding a further 87 posts at the Valuation Office Agency, which do not count toward achieving the efficiency target). This represents nearly 58% of the 1,950 target.

To provide assurance that we are on track to deliver the efficiency targets, HMRC's Internal Audit team are engaged with the Efficiency Programme. Internal Audit has reviewed staff savings in both 2004-05 and 2005-06, and confirmed that the reported overall net reductions are accurate. Further, they have reported that in general Directorates have robust processes in place to monitor quality and performance as staffing levels reduce. During 2006-07, Internal Audit will conduct a quarterly rolling programme to review and validate reported efficiency savings.

We recognise the need to ensure that staff reductions are made through real efficiencies and not cuts, and that there is no detriment to customer service. To measure and monitor delivery and service quality alongside efficiency savings,

HMRC will primarily refer to its key PSA targets. We have, however, also agreed a set of quality measures, on which we report quarterly, that cover the main areas from which efficiencies will be drawn.

As part of a wider study on the progress of the Government's Efficiency Programme, the National Audit Office will review the reported headcount savings in HMRC and are expected to report in early 2007.

Better Ways of Working

Through our PaceSetter programme we are transforming processing and, migrating work to larger offices, so that we deliver a first class customer service, at a significantly lower cost. We aim to continually improve our performance, by embedding innovation in our culture. Processing will be a first class provider in the UK, able to compete successfully for additional work, within the public sector.

Plans include:

- > streamlining our processes to provide a significantly better service to our customers,
- > a set of leadership and management interventions designed to improve the competence and confidence of our managers,
- > reducing, over time, the number of Processing locations (currently over 300), by concentrating Processing work in larger offices,
- > reducing by 31 March 2008 staff numbers by over 4,000, and
- > relocating approximately 700 Processing staff away from the south east by 2010.

'Lean ways of working' are part of the PaceSetter programme. This involves a customer-focused approach to improving performance, measuring improvements against four key performance indicators: productivity, quality, 'lead time' and staff engagement. Lean eliminates everything that does not add value and encourages the smooth flow of work, achieving improved customer service. All Large Processing Offices, 17 Distributed Processing Offices, Child Benefit Office, Tax Credit Office, National Insurance Contributions Office and National Operational Services are in various stages of implementing Lean ways of working.

We have already begun to reduce the number of offices carrying out Processing work, as part of the ongoing restructuring programme. The work carried out in those offices has now transferred into locations where Lean has been introduced. We have recently announced our Strategic and Non-Strategic Sites. The former are sites in which it is proposed to concentrate Processing work in the future, and the latter are sites we wish to withdraw from. From December 2006 we will be consulting staff and stakeholders about the proposed changes to our office network.

Section 04

Progress against the 2006-07 Remit¹

Each year the Chancellor of the Exchequer writes to the Chairman setting out the general direction and priorities for HM Revenue & Customs over the following 12 months, as recommended by the O'Donnell review.

- 58 5 Year Aim
- 58 Tax Credits
- 59 Review of Powers, Deterrents and Safeguards
- 60 Reducing the Administrative Burden
- 61 Carter Review of Online Services
- 61 Construction Industry Scheme
- 61 Income tax and National Insurance Contributions policy
- 61 Response to MTIC fraud
- 62 Tackling tobacco smuggling including hand rolling tobacco
- 62 SOCA relationship

¹ The Chancellor's Annual Remit for 2006-07 was reproduced in full in the HMRC Spring Departmental Report 2006 (Cm6832) and is available on our website.

By collating data received from ferry operators, shippers and airlines we have improved our knowledge of passengers and freight moving through UK borders. This protects the UK from threats at its frontiers and ensures that fiscal fraud and smuggling is tackled.



Section 04

90%

New companies reporting

We have removed the requirement for 90% of new companies to report certain share transactions on Form 42.

The Chairman is accountable to Parliament, through the Paymaster General, for the delivery of the remit which will be monitored through established reporting processes including appearances before the Treasury Select Committee and the Public Accounts Committee, with a summary of progress in our Annual Report and a review of outcomes in our Spring Report.

5-Year Aim

In Budget 2006 the Chancellor announced an early Comprehensive Spending Review (CSR) financial settlement for HMRC. While funding remains unchanged to 2007-08, we will operate with a 5% reduction in real terms for each of the three CSR 2007 years (2008-09 to 2010-11).

This early settlement gave us the opportunity to plan for five years. In addition, it gave us access to a Modernisation Fund to help meet the transitional costs of transformation.

One of the conditions of the settlement is to prepare, and agree with HM Treasury, a plan that sets out our proposals for the next five years, incorporating our existing efficiency programme. Our proposals, setting out our high level aims over the next five years, were shared with Treasury ministers in July 2006. Since then, we have been refining our plans as part of the ongoing preparations for CSR 07 and expect to provide a detailed delivery plan with the final CSR submission next year.

Building on the HMRC strategy developed in our first year (set out in full in Section 1), the proposals set out a programme of service transformation that will:

- > deliver a customer focused organisation by radically improving the customer experience, making it easier for the customer and HMRC to fulfil their obligations,
- > ensure wilful non-compliance is detected and dealt with effectively, and

- > reduce running costs by improving the management of processes and assets and by sharing services with other government departments.

These proposals have been brought together with the existing change programmes delivering SR04 efficiencies to form the Departmental Transformation Programme. This enables all our major transformational programmes to be managed as one portfolio. A programme office has been created to ensure the programmes align with our longer term strategy and to support delivery of this ambitious programme of service transformation.

Tax Credits

On 26 May 2005 the Government announced 6 measures to improve the administration of tax credits. Since then substantial progress has been made.

- > From April 2006, a new award notice has been issued. It gives claimants a much clearer summary of their award, with an explanation of how it has been calculated and what they will be paid. The guidance notes that accompany the Award Notice have been replaced by a clearer and shorter version.
- > The tax credits section of our website¹ has been redesigned to improve access to forms and information.
- > A publicity campaign ran at the start of 2006 to remind claimants to notify us promptly of any changes in circumstances.
- > The Helpline has improved and call-back arrangements using a casework approach that provide more targeted support to the most complex cases are now in place and working well.
- > Significant new software releases were successfully introduced in November 2005 and April 2006 with the April release alone delivering over 100 improvements to the system, including a much improved award notice.

¹ www.hmrc.gov.uk

We have consulted on streamlining our traditional compliance procedures, both to reduce the burden on taxpayers and to maximise their effectiveness

- > New procedures to suspend recovery of a disputed overpayment were introduced in November 2005 and a revised and clearer version of our Code of Practice on Overpayments, was published in April 2006.

In the 2005 Pre-Budget Report (PBR) the Government announced a package of further improvements to the tax credits system and some of these improvements are already making an impact:

- > From April 2006 the disregard for increases in income between one tax year and the next rose from £2,500 to £25,000, ensuring that almost all families with increasing incomes will not have their tax credit entitlement reduced in the first year of the increase.
- > The time limit for providing information to finalise 2005-06 awards and set up 2006-07 awards was set at the end of August, rather than September. The reduction in the renewal window means that awards are based on prior year data for a shorter period of time.

Other measures will be introduced in 2007 and the PBR 2006 measure reducing the renewal period for tax credits from 5 months for 4 will help to reduce the end of year adjustments that lead to overpayments.

More and more people prefer the convenience of doing business by telephone, and caller volumes to our Contact Centres have been growing. In response, we further prioritised significant improvements to Contact Centre service levels, productivity and capacity during 2006.

As part of this initiative we expanded capacity in time to help meet the summer peak of tax credit renewals calls.

This expansion of capacity means that there are now the equivalent of over 1,000 extra full time staff deployed as front line Contact Centre advisers. Alongside this, we have seen some decline in the volume of contact by post

from our customers, allowing us to reduce staffing in our Processing offices.

This expansion is clear evidence of our determination to focus on the customer and to continuously improve front line delivery – and the results are already feeding through with shorter waiting times to speak to an adviser and significantly fewer engaged tones and busy messages during periods of peak demand.

Review of Powers, Deterrents and Safeguards

A review of HMRC powers and taxpayer safeguards was one of the key objectives set out in the Remit. The first phase of work concentrated on the overall design of powers, deterrents and safeguards, and the principal areas of mis-alignment between what was inherited from the predecessor departments. A second public consultation published in March 2006, found broad public support for the developing programme of work; including our approach to promoting customer compliance and tackling non-compliance, by supporting those who seek to comply while coming down hard on those who seek an unfair advantage through non-compliance¹. We have consulted and engaged at each stage of the review through the Consultative Committee, taxpayers and their representatives and in August 2006 a consultation document on criminal powers² was published, which closed at the beginning of November. Over the summer, workshops were held with 100 members of the public and two separate events both for 25 small and medium enterprise business. During September and October 2006 we held a series of consultative workshops with external representatives to look in more depth at our work on Compliance Interventions, Tackling Non-Compliance, Penalties, Information Powers and taxpayer safeguards.

¹ A summary of responses can be found on the HMRC website HM Revenue and Customs and the Taxpayer: Modernising Powers, Deterrents and Safeguards – A Consultation on the Developing Programme of Work: Responses to the March 2006 Consultation Document (December 2006): www.hmrc.gov.uk

² Criminal Investigation Powers – A Technical Consultation Document

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A detailed consultation on penalties for incorrect returns and a further consultation on criminal powers will be published shortly.

The review is working closely with the Customer Business Unit on reducing the administration burden for small business, in line with Lord Carter's recommendations for the increased take-up of online services and the work to develop a New Management Act.

Reducing the Administrative Burden

Research undertaken by KPMG modelled the administrative burden of the tax and duty system on UK businesses. Targets were announced at Budget 2006 with the aim of reducing the burden:

- > on businesses of dealing with our forms and returns by at least 10% over five years; and
- > of dealing with our audits and inspections by 10% over three years and at least 15% over five years.

The research also highlighted the burdens that irritated businesses the most, but did not necessarily score highly in administrative burden terms. To address these, Budget 2006 also included an announcement that HMRC, in discussion with business, would analyse the research to identify and prioritise further areas for action.

A new Administrative Burdens Advisory Board has been established, chaired by Teresa Graham, non-executive director of four businesses and Deputy Chair of the Better Regulation Commission, to work with us on this. The Board's purpose is to act as an external advisory group as we analyse the data from the KPMG research and help us prioritise options for action.

We have launched a web page dedicated to better regulation that brings together information about better regulation, how we are tackling administrative burdens and the role of the Advisory Board. It includes the papers published over the last 18 months on how we are improving our relationship with small business and the main findings and methodology from the KPMG research. The first volume of research provides the high level findings and methodology. The second provides further detail covering the 28 main tax areas for which we are responsible. Our analysts and policy makers have been trained on the use of the data and are studying it for priority areas for action.

We have established a programme of work to ensure delivery of the targets and have made progress on the delivery of admin burden reduction on forms and returns through:

- > piloting (from April) a new self-assessment return with simpler language and clearer guidance, including a reduction by half of the self-employment pages for businesses with a turnover of up to £40,000,

- > issuing simpler statements of account for Self Assessment,
- > removing payment of tax credits via the employer,
- > introducing a new form P46 which has enabled us to better match new employees to existing records and to allocate significantly more accurate tax codes to 1.1 million employees annually, thus reducing inconvenience and rework for employers,
- > removing the requirement for 90% of new companies to report certain share transactions on Form 42,
- > working closely with our EU partners, to radically simplify the gathering of intra-EU trade statistics such as Intrastat, and
- > making further improvements to the Employer CD-ROM that is especially popular with many smaller employers.

We have begun to pilot ways of delivering a reduction in admin burden on compliant businesses of audits and inspections. This includes new, quicker, more focused interventions, in areas of greatest risk. The new interventions will be piloted until October 2006. The pilot suggests new methods can produce a reduction in the number of interventions involving compliant businesses, such as:

- > sharpening up practices relating to full enquiries,
- > using a secure electronic workroom to speed up enquiries,
- > significantly expanding the secure electronic workroom to reduce the length and complexity of inspections, and
- > improving the risk assessment process to reduce the number of visits to compliant businesses.

For the longer term, we are continuing to work on proposals that will allow both customers and staff to manage customers' tax affairs in an integrated way. We are looking at the needs of all customers but focusing on businesses first. The vision is to allow customers to:

- > provide the same information only once for all their tax affairs,
- > have easy access to a clear and complete picture of their affairs with HMRC, including payments, liabilities and entitlements,
- > be able to deal with us easily, efficiently, effectively and confidentially across the range of their affairs in the ways that suit them, and getting the right support and guidance for their circumstances.

In delivering this vision, where customers wish us to do so and give the appropriate authorisation, we also want to make it easier for their agents to act on their behalf.

A document entitled *Delivering a new relationship with business: HMRC's plans to deliver a better service for business by 2010-11* was published at PBR 2006. The document sets out the milestones for the introduction

of new and improved services that will deliver the stretching targets announced at Budget 2006 to reduce administrative burdens.

Carter Review of Online Services

In July 2005 the Paymaster General asked Lord Carter of Coles to undertake a review of HMRC Online Services. He was asked to advise on measures to increase the use of key online services, in order to realise benefits for our customers and to ensure sustainable and efficient service delivery, whilst continuing to support compliance. His review specifically looked at online services for Self Assessment, PAYE, VAT and Corporation Tax.

Lord Carter's Report was published on 22 March as part of Budget 2006, alongside the Government response accepting the recommendations and a partial regulatory impact assessment. The recommendations were wide ranging but included:

- > requiring businesses to file their VAT returns, company tax returns and PAYE in-year forms online in phases from April 2008,
- > introducing new filing deadlines for Income Tax Self-Assessment (SA) returns,
- > promoting online filing by tax agents and better quality data by withdrawing computer-generated paper 'substitute' SA returns from 2007-08, and
- > removing perceived barriers to early filing of SA and company tax returns by linking the period that HMRC has to query a return to the date it is filed.

Following in excess of 5,000 responses to the Partial Regulatory Impact Assessment, and consultation with customer representatives and key stakeholders, Lord Carter reviewed his findings in respect of changes to the Self Assessment filing dates. He made a revised recommendation that for 2007-08 and subsequent returns, the filing period for paper returns should be reduced to seven months, with a new deadline of 31 October from 2008. Lord Carter also recommended that the filing period for online returns should remain at ten months with a deadline of 31 January. We are actively working with business representatives, agents and other stakeholders through a number of consultation forums on the implementation of the new measures.

Construction Industry Scheme

From 6 April 2007 the current Construction Industry Scheme (CIS) will be replaced by new CIS. The date was revised to allow the industry a further 12 months to prepare for the new scheme. The Department has used the extra time for a programme of activity designed to build confidence in the new Scheme and help customers prepare

for the change. Recent evidence suggests that awareness of new CIS is high and that readiness is increasing.

The present system of relying on cards and certificates as a means of determining tax treatment status for sub-contractors is being replaced by a verification service. Monthly returns will replace vouchers for accounting for payments made by contractors to subcontractors.

It was announced in the 2006 Pre-Budget Report that the new scheme will have a standard deduction rate of 20% and a higher deduction rate of 30% to enable unregistered subcontractors to get paid sooner and encourage them to register.

Income tax and National Insurance Contributions policy

Budget 2006 announced a review of income tax and National Insurance Contributions (NIC) to consider how the systems could be better aligned to improve outcomes for the low paid and to reduce administrative costs for employers, particularly small employers.

We are working closely with HM Treasury to identify areas for consideration and possible options to meet the objectives.

We are actively engaged with HM Treasury on developing policy to tackle tax-motivated incorporation; we worked together on action to tackle Managed Service Companies and published a consultation document alongside this year's Pre-Budget Report on the legislation to implement it.

Response to MTIC fraud

As a response to the increases in MTIC fraud in 2005-06 (as detailed in Section 2) we strengthened our strategy to combat mutations. Operational measures have led to a significant reduction in the level of attempted fraud, partially reflected in the rapid fall over the summer in the value of missing imports associated with MTIC fraud. Further legal rulings have provided us with a strengthened basis to deny suspect VAT repayment claims. The measures, together the redeployment of over 600 compliance officers, mean that the vast majority of suspect repayment claims are now subject to in depth checking and will not be paid unless and until found to be properly payable. HMRC is also pursuing monies previously paid out where there are suspicions they were associated with fraud.

Since April 2006, there have been 9 successful criminal investigations with 35 convictions resulting in combined sentences totalling almost 165 years and many new investigations have provided evidence to support the denial of fraudulent VAT repayment claims. We will continue to seek to prosecute the principals that conduct this fraud.

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Using powers, which were clarified in Finance Act 2006, we have scanned and recorded details of almost 2 million goods in order to build an evidence base of goods used in MTIC carousels. Around 65% of goods scanned to date had been previously caroused within the UK, providing evidence to support the denial of suspect or abusive VAT repayment claims.

The Government is determined to sustain the impact of the strategy and to ensure that HMRC has the tools we need to combat MTIC fraud. A further 100 staff are being redeployed to the MTIC strategy, bringing the total to 1500 to ensure that claims can be checked in a timely and proportionate manner. As part of its wider strategy of working internationally to combat cross-border fraud, the Government is confident that EU partners will shortly agree to the introduction in the UK of a reverse charge VAT accounting system for goods most commonly used in MTIC fraud. Further legislative measures will be brought forward in Budget 2007 as required.

Tackling tobacco smuggling including hand rolling tobacco

The illicit HRT market and the methods used by fraudsters differ significantly from those for cigarettes, and different responses are required. A range of new measures was therefore introduced, and a specific target for HRT has been set – to reduce the size of the illicit market by 1,200 tonnes (equivalent to around 20%) by 2007-08.

The new operational HRT strategy comprises a number of key initiatives:

- > working with the Tobacco Manufacturers to restrict the access of the smuggling gangs to supplies of HRT through existing MOUs and new legislation implemented in October 2006 to control tobacco supply chains and which will incur penalties of up to £5 million for non-compliance,
- > enhancing HMRC's operational response to refocus and, in certain areas, strengthen our enforcement capability in order to target all key points along the HRT supply and distribution chain, and supporting frontline operations with the latest technology (including x-ray scanner equipment and automated targeting systems),

- > extending and developing contacts with overseas agencies to identify and target overseas based criminal gangs (including money launderers),
- > improving our understanding of domestic and international HRT markets by analysing independent and industry data, and
- > focusing inland activity on hotspot regions and highest risk locations – such as large workplaces and street markets – and on tackling illicit distribution chains.

SOCA relationship

We are working very closely with SOCA and developing methods with them to measure the impact that our frontier interdictions have on the over-arching Government aim to reduce the harm caused by prohibited drugs. The exchange of intelligence and information in respect of Class A drugs will be key to the future of an effective and progressive relationship between us. We have established a Partnership Agreement and continue to develop the operational processes and procedures to support it. The creation of SOCA is leading to changes in the supply side drugs enforcement environment, as they tackle their responsibilities in new and different ways. During this transition period we continue to work closely together to improve the effectiveness of both organisations.

Annex A: VOA Annual Report 2005-06

2005-06 was a year of change for the Valuation Office Agency (VOA). New rating lists came into force in England and Wales and new council tax lists took effect in Wales. During the year the postponement of the council tax revaluation in England required a change in focus for the Agency, switching from rapid recruitment to a phase of major reductions in staffing.

Overall, the Agency achieved significant improvements in timeliness and customer service in 2005-06. Good progress was made towards reaching the challenging targets set as the Agency's key performance indicators, though only three out of seven were fully met with a further indicator no longer relevant following the postponement of the Council Tax Revaluation in September 2005.

The new council tax valuation lists in Wales, containing some 1.3 million entries, went live on 1 April 2005. Our aim in introducing the new 'fast track' process for queries was to handle enquiries from taxpayers efficiently, reduce the volume of appeals, and ensure that appeals only arose where a taxpayer remained unsatisfied after we had given a clear decision on the initial enquiry. This objective was met, with some 20,000 taxpayers following the 'informal' fast track route. We did not meet the volume target for complete clearance of council tax appeals in Wales. In over 95% of cases all Agency action had been concluded but the ultimate resolution of some of those left outstanding was conditional on an independent Valuation Tribunal hearing and decision.

£19.7 million of the ambitious £21.1 million targeted income for Land Services work was generated. The shortfall was due to the fall off in some traditional areas of business.

The performance on Customer Satisfaction was a 6% improvement on the 2004-05 but fell short of the 86% target by 3%. 21 of the 22 local Group offices had achieved Charter Mark success by the end of March and confirmation of the last success was received in April.

The majority of staff - 57% - rated the Agency as one of the best or an above average place to work. This was the same score as the previous year, despite a challenging time for staff following the change in direction after the Council Tax revaluation postponement in England. This did however miss the target of a 1% improvement.

The success for the Agency's Right First Time initiative, which was developed in consultation with ratepayers

themselves, became apparent in the first few months of 2005-06 when fewer rating appeals than anticipated were received. However, this posed a challenge for setting the initial programmes for clearance. In consequence a lower outturn of appeal clearances than planned was achieved. There was substantial progress in train at the year end on other cases, including those postponed or adjourned by the independent valuation tribunals. Overall the Agency achieved its 5% productivity improvement target.

Timeliness – an important criterion for Agency clients – was targeted across the work streams and many of the supporting targets were achieved or exceeded. For HMRC all the Service Level Agreement timeliness targets were exceeded despite a continued increase in volumes of casework. The special unit in Nottingham established in 2004 to carry out the initial appraisal of inheritance tax cases continued to operate successfully and effectively reduced the costs to HMRC of dealing with certain cases.

Maintenance of the rating lists was further improved with new practices leading to a significant shortening of the timescales involved. The target to clear 90% of reports from Billing Authorities within two months – compared to 95% within three months in 2004-05 – was exceeded.

Similar changes brought positive results to council tax list maintenance, speeding up reviews of banding so 95% of reports concerning new or altered properties were cleared within two months.

Following the postponement of the council tax revaluation in England, the focus of work changed to securing completion of development work on the automated valuation model, so as to realise the benefits of the investment to date and ensure its readiness for future use.

Throughout the changing profile of staff resources, the Agency continued to support the appropriate training and development schemes, expanding the Management Development Programme which has a close fit to the wider Professional Skills for Government initiative. The Agency continues to manage the substantial downward shift in the resource needs.

A summary of the Agency's results is set out below. The Agency's own Annual Report, published in June, contains more detail about the Agency's performance in 2005-06 and is available at www.voa.gov.uk

Annex A: VOA Annual Report 2005-06

Results against key targets

	Target	Result 2005-06
Valuation Accuracy		
Reductions in the 2000 rating lists to be within a maximum of 4.7% of the total compiled list rateable value over the entire life of the lists	4.7%	4.6%
Reductions in the 2005 rating lists to be within a maximum of 4.2% of the total compiled list rateable value over the entire life of the lists	4.2%	0.09%
Council Tax Revaluation England		
Prepare for the forthcoming revaluation of domestic properties in England by undertaking 15 million valuations by 31 March 2006	Indicator no longer relevant as the revaluation for council tax in England was postponed in September 2005.	
Council Tax Wales		
Clear all appeals received by 30 September 2005 – up to a maximum of 30,000 – by 31 March 2006	11,350	9,440
Value For Money		
Improve productivity by 5% in 2005/06 and be on course to achieve improvements of at least 15% over the four years to 2007/08	5%	5%
	15%	7.4% (on target)
HM Revenue & Customs		
Clear 96% of initial assessment cases referred by HMRC within 30 working days of their receipt	96%	100%
Land Services		
Cover costs and achieve an income of £21.1 million	£21.1m	£19.7m
Customer Satisfaction¹		
Achieve customer satisfaction of 86%	86%	83%
People Satisfaction		
Improve staff satisfaction with the VOA by 1%	59%	57%

¹ During 2006-07 this measure will be broadened to cover all the main areas in which we have direct contact with the citizen, whether as ratepayers or council taxpayers. The indicator will be re-based following the 2005-06 results.

Annex B: SR02 Final Outturn

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Detailed commentary on all of our SR02 targets was included in the HMRC Spring Departmental Report 2006 (Cm6832).

	Final Outturn
Target 1 Deliver improvements in the number of individuals and businesses who comply with their obligations and receive their entitlements	Partially met
Target 2 Deliver reductions in compliance costs of small businesses	Met – ongoing Latest estimate: £4 million reductions
Target 3 Ensure by 2005 that 100% of services are offered electronically, wherever possible through a common Government portal, and promote take-up for key services	Partially met Availability of services: 10 out of 14 key services are now available electronically. Take up: 24.3% of Self Assessment returns received by 31 January 2006 82% of forms P14 received by 31 March 2006 1.8% of forms CT600 received by 31 March 2006
Target 4 Achieve annual efficiency savings of at least 2.5% a year until March 2006, without detriment to accuracy or customer satisfaction	Partially met
Target 5 Achieve a 2.5 point improvement in customer service by March 2006, as measured by an annual customer service index	Not met Overall change – up 0.1 in SR02 period.

Annex B: SR02 Final Outturn

Inland Revenue's Service Delivery Agreement (SDA) detailed the targets for each regime for which year on year improvements were expected. Over the period, targets have been met where the 2005-06 outturn is higher than the original baseline, regardless of performance against annually set targets.

SDA target	Baseline ¹ %	2005-06 Target %	Final Outturn %	Assessment
Payments and filing				
ITSA returns filed by the due date ^{2,3}	90.5	90.6	90.3	Not met
ITSA returns filed within 12 months of the filing date ²	96.9	97.8	98.2	Met
SA taxpayers who pay by due date	89.8*	88.6	88.5	Not met
SA taxpayers who pay within 12 months of due date	98.6	98.7	98.3	Not met
Employers returns filed by the due date	80.7*	80 ⁴	Not yet available ¹⁰	
Employers returns filed within 12 months of the due date	93.8	95.2	95.3	Met
Employers who pay by the due date ⁵	52.1	52.1	61.3	Met
Employers who pay within 12 months of the due date	97	97	Not yet available ^{10,11}	
Companies returns filed by due date	76.9*	77.5 ³	78.7	Met
Companies returns filed within 12 months of the due date	87.6*	87.7	87.8	Met
Companies who pay on time	57.9*	58	61.1	Met
Companies who pay within 12 months of the due date	92*	94	94.1	Met
Companies that submit accurate returns ⁶	–	60	63	Met
Individuals who submit accurate returns	70	70	67	Not met
Employers who submit accurate returns	60*	61	63	Met
Enquires worked to a fully satisfactory standard	89	90	83.1	Not met
Full enquires which result in the detection of non-compliance	76	80	82.4	Met
Tax Credits				
All new claims/renewals/Changes of Circumstances (CoCs) decided within 5 working days of receipt ⁷	79.1*	86	74.9	Not met
all new claims/renewals/CoCs decided within 30 working days of receipt ¹	94.4*	95	95.3	Met
all new claims/renewals/CoCs decided accurately ⁸	78.6*	95	97.9	Met
Child Benefit				
All claims cleared in 5 working days.	66.8 (2004-05)	67	70	Met
All claims cleared within 36 working days	92.7*	93.5	95.1	Met
All reported changes of circumstances cleared within 14 working days	97.9*	95 (10 days)	98.1	Met
Accuracy of processing claims	98.3*	98	98.6	Met
Accuracy of processing change of circumstances	96.9*	97	97.4	Met
National Insurance Contributions				
Notifications recorded by:				
- 31 December 2005	98.6	97.5 ⁹	69.7	Not met
- 31 March 2006	99.8	98	94.1	Not met
Repayments				
Repayments received in specialist repayment offices (IROs) dealt with within 15 working days	91*	97	99.7	Met
Tax repayments in IROs calculated accurately	95	97	98.2	Met

- ¹ Baselines are the outturn for 2002-03 except where indicated with an asterisk where the baseline year is 2003-04.
² Target based on returns issued at 31 October. We count returns received before close of play on 1 February each year. This reflects the decision in the case of Steeden v Carver, which means that we cannot impose late filing penalties until 24 hours after the statutory filing date of 31 January.
³ We also exclude an estimate of returns never received by taxpayers.
⁴ Target is based on period of grace covered by ESCB46, where penalties will not be charged provided returns are received on or before the last business day within seven days following the statutory filing date.
⁵ Result reflects the percentage of employers paid up to date 4 working days after the due date.
⁶ The first year for the companies' accuracy target was 2004-05.
⁷ Our management information systems measure these results against 7/42 calendar days, which broadly equate to 5/30 working days, excepting claims made where there is no entitlement.
⁸ This does not include cases where there is insufficient evidence to establish the accuracy measure.
⁹ This target is measured by establishing the number of items that have been posted as a percentage of items that have been received by 31 December (previously based on the number of items received at 31 March).
¹⁰ Accurate management information is not yet available.
¹¹ Provisional estimates of 97% are subject to further validation when accurate management information becomes available.

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Objective I

To collect the right revenue at the right time from indirect taxes and to improve the level of compliance with customs and statistical requirements

PSA Target 1	2005-06 Outturn
1a. By 31 March 2006 reduce the illicit market share within the excise regime to no more than 2% for oils in England, Scotland and Wales	Met 2005 outturn 2%
1b. By 31 March 2006 reduce the illicit market share within the excise regime to no more than 17% for tobacco	On course 2004-05 outturn 10%-19% ¹
1c. By 31 March 2006 reduce the scale of VAT losses to 12% or less of the theoretical VAT liability	Not met 14.5%
PSA Target 2	
2a. Improve customer service by ensuring by 2005 that 100% of services are offered electronically, wherever possible through a government portal	Partially met 97% of transactions are available online
2b. Improve customer service by ensuring take-up for key services of at least 50% by March 2006	Partially met 64% of transactions were carried out online during year 7.7% of VAT traders are enrolled to submit VAT returns online 4.9% of VAT returns were submitted online during the year
2c. Improve customer service by delivering reductions in the cost of compliance for businesses	Met – ongoing Latest estimate: £50 million reductions

¹ Current plans are that the outturn for 2005-06 will be published at PBR 2007

Annex B: SR02 Final Outturn

Objective II

To reduce crime and drug dependency by detecting and deterring the smuggling of illegal drugs and other prohibited and restricted goods.

PSA Target 3

3a. Reduce the availability of illegal drugs by increasing the proportion of heroin targeted on the UK which is taken out	Not met Joint outturn of the Concerted Inter-Agency Drugs Action group (CIDA).
Overall target: By March 2006 take out 16% of the estimated supply of heroin targeted on the UK	Estimated supply taken out 6%
Indicative profile 2005-06: 5,300kg	Outturn: 2005-06: 2,218kg (HMRC contribution 1,057kg/48%)
3b. Reduce the availability of illegal drugs by increasing the proportion of cocaine targeted on the UK taken out	Met Joint outturn of CIDA.
Overall target: By March 2006 take out 26% of the estimated supply of cocaine targeted at the UK	Estimated supply taken out 33%
Indicative profile: 2005-06: 13,200kg	Outturn: 2005-06: 15,341kg (HMRC contribution 5,798kg/38%)
3c. Reduce the availability of illegal drugs by increasing the disruption/dismantling of those criminal groups responsible for supplying substantial quantities of Class A drugs to the UK market	Not met Joint outturn of CIDA.
2005-06 target: 211 groups	2005-06: 193 groups
3d. Reduce the availability of illegal drugs by increasing the recovery of drug related criminal assets	Met Joint outturn of CIDA.
2005-06 target: £22m	2005-06: £30m

The Concerted Inter-agency Drugs Action group (CIDA) was formed in 1999 under the Chairmanship of the former HM Customs & Excise and brought together the departments and agencies most concerned with tackling the supply of Class A drugs. It is responsible for action at international and national level to reduce drugs supply, recover drug related criminal assets, and the disruption and dismantling of criminal gangs involved in the supply of drugs. CIDA and its Chairmanship are now under the Serious Organised Crime Agency's (SOCA) umbrella.

The latest estimate of the size of the UK illicit drug market for 2003-04, was published by the Home Office in November 2006. The outturns reported for heroin and cocaine above are based on this report and the quantity of drugs taken out by CIDA agencies in 2005-06. Prior to the publication of these new estimates, indicative profiles were used as a guide to monitor progress over the life of the PSA.

The change in the CIDA led drugs environment with the creation of the SOCA has meant it has been difficult to validate with precursor agencies complete outturns. Any subsequent amendments will be published in HMRC's Spring Departmental Report 2007

Value for Money

PSA Target 4

4. Make productivity gains of at least 2.5% a year, without detriment to accuracy or customer satisfaction	Partially met
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Annex C: Statistics

Cost of collection (pence per £ collected)

	2001-02 ¹	2002-03	2003-04 ³	2004-05	2005-06
Income Tax	1.38	1.41	1.36	1.34	1.27 ⁵
Corporation Tax	1.01	1.15	1.24	0.96	0.71
Petroleum Revenue Tax	0.2	0.26	0.18	0.22	0.13
Capital Gains Tax	1.44	2.73	2.09	1.95	0.92
Inheritance Tax	1.21	1.38	1.21	1.14	1.01
Stamp Taxes ⁴	0.11	0.17	0.42	0.44	0.20
National Insurance Contributions (NICs)	0.67	0.66	0.49	0.44	0.42
VAT	-	-	-	-	0.55
Insurance Premium Tax	-	-	-	-	0.14
Hydrocarbon Oils	-	-	-	-	0.16
Alcohol	-	-	-	-	0.54
Tobacco	-	-	-	-	1.83
Gambling Taxes	-	-	-	-	0.29
Environmental Taxes	-	-	-	-	0.26
Air Passenger Duty	-	-	-	-	0.05
International Trade	-	-	-	-	6.07
Overall cost	1.06	1.11	1.04	0.97	1.11
Tax Credits (pence per £ paid)	2.53	2.21 ²	3.03	3.02	2.78
Child Benefit and Child Trust Fund	-	-	0.64	1.05	1.17

¹ From 2001-02 ratios are now based on Resource spend rather than Cash.

² Excludes costs of preparing for new tax credits, if these are included, the ratio rises to 4.58 pence per £ paid.

³ 2003-04 ratios have been revised following a more accurate reallocation of some costs.

⁴ 2003-04 ratio was affected by temporary manual processing prior to the introduction of automated processing of SDLT forms.

⁵ Includes the combined ratios for Income Tax PAYE & Income Tax SA - separately the ratios are IT PAYE 1.25 and IT SA 1.28.

Annex C: Statistics

Yield/Cost Ratios

Network Offices	2003-04	2004-05	2005-06
Full Enquiry Work			
Corporation tax enquiries	2.2:1	2.6:1	2.9:1
Self Assessment business enquiries	1.3:1	1.6:1	1.9:1
Aspect Enquiry Work			
Corporation tax enquiries	9.4:1	12.9:1	14.0:1
Self Assessment business enquiries	3.2:1	3.4:1	3.6:1
Employer reviews	3.2:1	3.7:1	4.5:1
Other			
Self Assessment non-business enquiries	5.6:1	8.3:1	7.8:1
Specialist Offices			
Large Business Service:-			
- Corporation Tax	52:1	71:1	62:1
- Employer Compliance	6.4:1	6.9:1	7.2:1
- Petroleum Revenue Tax	21.2:1	15.6:1	17.8:1
Special Civil Investigations	18.4:1	56.2:1	71:1
Stamp Taxes	N/A	12:1 ¹	13:1

¹ Stamp Duty Land Tax, as a new self assessed tax with tightened legislation, means that cost/yield ratios of tackling non-compliance and the compliance yield from 2004-05 are not directly comparable to the intervention yield from Stamp Duty on land and property in earlier years.

Results of work tackling non-compliance (£m)

Network Offices	2003-04	2004-05	2005-06
Additional tax, interest and penalties:			
Company enquiries			
full	92.0	91.8	109.2
aspect	490.8	523.0	648.4
Self Assessment enquiries			
business full	173.1	185.1	211.2
business aspect	82.4	86.5	96.8
non-business	212.3	248.8	268.1
Employer reviews	281.1	312.9	376.8
Hidden Economy	0	0	49.9
Broader Coverage	0	0	103.9
Pre Self Assessment Intelligence work	21.4	35.8	38.8
Late filing penalties	89.9	87.9	92.8
Total additional liability	1,443.0	1,571.8	1,995.9

Specialist offices

Large Business Service:-

- Corporation Tax	1,818 ¹	2,315 ²	2,159 ³
- Employer Compliance	51.7	53.5	62.2
- Petroleum Revenue Tax	33.4	27.5	23.7
Special Civil Investigations	387.7	1,035.0	1,065.0 ⁴
Stamp Taxes	35.6	8.7 ⁵	14.0
Charity, Assets and Residence businesses ⁶	187.8	223.2	385.2 ⁷

¹ Figures for 2003-04 and 2004-05 are a consolidation of LBO and EG results prior to merger.

² For the first time the LBO also reported the Economic Value (ie Discounted for the value of time)of adjustments as this method more accurately reflects the value of the work. Adopting this approach LBO CT Intervention Additional Liability returned at £2,739m. EG reported on the same basis for 2005-06.

³ Adopting the Economic Value approach LBS CT Intervention Additional Liability returned at £2,744m.

⁴ This includes £291.4m claimed by other parts of the Department, for example, LBS.

⁵ Stamp Duty Land Tax, as a new self assessed tax with tightened legislation, means that cost/yield ratios of tackling non-compliance and the compliance yield from 2004-05 are not directly comparable to the intervention yield from Stamp Duty on land and property in earlier years.

⁶ Charity Assets and Residence businesses include, Trusts, Charities, Inheritance Tax, Savings and Pensions and Residency issues.

⁷ The increase in yield is mainly due to a small number of large cases relating the treatment of stock dividends, following the decision in the Howell & Morton (Robin Settlement Trustees) v Trippier (HMIT) appeal (76TC415).

Compliance assurance

Cases taken up	2005-06 Target	2005-06 Result
Corporation Tax Full	4,390	4,547
Corporation Tax Aspect	38,050	39,109
Income Tax Full	26,646	27,664
Income Tax Aspect	32,713	36,721
Personal	91,899	100,093
Employer's Reviews	28,646	29,451

Annex C: Statistics

Prohibited and Restricted Goods

(a) Controlled drugs

	Number of seizures	Weight of items seized (kg)
Heroin	69	1,057
Cocaine	1,254	5,798
Ecstasy	34	468
Other Synthetic Drugs	130	175
Cannabis	2,994	41,611

(b) Products of Animal Origin

(i) Totals

Total number of seizures	Total weight of items seized (nearest kg)
32,703	237,709

(ii) Weight of seizures by type of animal product

Animal Product	Weight of items seized (nearest kg)
Meat	82,110
Fish	91,559
Dairy	47,194
Honey	16,846
Total	237,709

Note: Seizures of products of animal origin are recorded by weight and not the number of items seized.

(c) Items seized under the Convention on the International Trade in Endangered Species (CITES)

	Number of seizures	Number of items seized	Weight of items seized (kg)
Live animals and birds	37	1,750	
Parts and derivatives of endangered species	129	991	142.9
Ivory	18	37	9.6
Plants	11	5,482	
Other CITES listed species	90	442	96
Preparations of oriental medicines which include parts or derivatives of endangered species	27	67,623	3.4

Note: CITES seizures are recorded by weight or by number of items seized, according to whichever is the most practical. Other CITES listed species include coral, caviar and ginseng.

(d) Plants and plant product subject to plant health controls

	Number of seizures	Weight of items seized (kg)
Plants and plant products	1,506	28,054

Note: These seizures includes plants, products and forestry items which are subject to plant health controls and which are not controlled as CITES species. Seizures of plant based goods are recorded by weight and not the number of items seized.

(e) Pornography and Paedophilia

	Number of seizures	Total number of items seized
Adult pornographic material	1,991	5,736
Paedophile material	27	201

(f) Firearms, offensive weapons, explosives, fireworks etc.

	Number of seizures	Total number of items seized
Rifles and handguns	210	736
Shotguns	19	23
Parts of firearms	11	79
Ammunition	37	7,407
Stun guns	170	586
Self defence sprays	575	1,698
Knives and other offensive weapons	1,774	4,274
Fireworks, pyrotechnic articles and explosive materials	8	472

Note: Rifles & handguns include automatic weapons, air and gas guns and readily convertible replica guns and other firearms in chapter 93 not separately listed. Other offensive weapons include martial arts weapons, knuckledusters, swordsticks, blowpipes and truncheons.

(g) Other prohibited and restricted goods seized

	Number of seizures	Total number of items seized
Exports of strategic goods and goods to embargoed destinations	34	8,913
Cultural goods	6	2,064
Goods breaching intellectual property rights	2,162	4,229,457
Rough Diamonds	3 & 1	36 *415.14 carats

Note: Strategic Goods are defined as all items on the UK's Military List and Dual-Use goods under EC Regulation 1334/2000 that require export licences.

* A seizure of industrial grade diamonds totalling 415.14 carats.

Annex C: Statistics

Examples of the types of complaints included below are mistakes, delays, poor or misleading advice or guidance and staff behaviour. Matters that can be appealed to the VAT and Duties Tribunal, the General or Special Commissioners, the Appeals Service or the courts such as a disputed assessment or liability decision, or the seizure or restoration of goods or vehicles are excluded.

Complaints received by HMRC

Business Activity	2004-05	2005-06
Direct Taxes	22,559	21,273
Indirect Taxes	4,052	3,758
Law Enforcement and Special Civil Investigations	1,042	874
Debt Management and Enforcement	3,830	5,338
Charities, Assets and Residence	797	1,013
Stamp taxes	532	1,497
Contact Centres and Helplines	3,117	3,111
Large Business Service	1	8
National Insurance Contributions Office	7,176	4,092
Tax Credit Office	47,921	62,686
Child Benefit Office	759	777
Valuation Office Agency	1,314	1,821
Others	654	535
Totals	93,754	106,783

HMRC paid compensation of £3.27 million to its customers.

Complaints received by the Adjudicator about HMRC

	2004-05	2005-06
Number of complaints received	4,817	5,515
Number of cases taken on for investigation	649	1,011
Number of completed investigations	554	898
Complaint not upheld	285 (52%)	435 (49%)
Complaint wholly or partially upheld	246 (44%)	388 (43%)
Complaint withdrawn	23 (4%)	48 (5%)
Complaint reconsidered by HMRC	0	27 (3%)

Complaints received by the Parliamentary Commissioner for Health and Administration about HMRC

Accepted for investigation	Reported on during the year	% upheld in full or in part
548	413	73%

Search of Person

Total number of persons searched ¹	12,663
Successful ²	414
Success Rate	3.26%

Search by Ethnic Identification Category³

Ethnic Category	Number of Persons Searched	Successful	Success Rate	Items / Goods of 'Other Customs or Agency' found prior to Search of Person ⁴
Northern European	3,056	118	3.87%	388
Southern European	1,061	40	3.77%	65
African Caribbean (Black)	6,484	219	3.37%	230
Asian	1,765	26	1.47%	155
Oriental	114	3	2.63%	108
Middle Eastern	183	8	4.37%	22

¹ This shows the actual number of persons searched and not the number of processes (i.e. where a person may be subject of more than one search type). This is a more accurate reflection of the effectiveness of our profiling methods.

² Successful means that prohibited or restricted goods; goods liable to duties; crime related cash or other money instruments; or other items indicating unlawful activity have been found as a result of the search of person.

³ These are standard identification categories used to describe ethnic appearance.

⁴ These are items / goods described in point 2 above found prior to search of person, but not recorded as a success for the purposes of search of person. However these additional figures help to provide a fuller picture of our effectiveness in the search of person area.

Search Type Conducted

Search Type	2004-05	2005-06
Rub-down	9,497	10,890
Strip	1,520	1,729
Intimate	6	5
EMIT or X-Ray	836	1,604
Total	11,859	14,228

Smuggled Goods Found During Search

	2004-05	2005-06
Drugs	322	282
Other Goods/Items of interest to HMRC	170	105
Other Goods / Items of interest to other agencies	96	64
Total	588	451

Rewards

In the financial year 2005-06 we made disbursements from our annual resource allocation totalling £499,066 to recompense non-departmental individuals for information that supported our PSA targets.

Annex C: Statistics

Excise Fraud

TOBACCO ^{1,6}	2001-02	2002-03	2003-04	2004-05	2005-06
Revenue loss²					
Total fraud and smuggling	£2.5–£4.2bn	£2.1–£3.3bn	£2.4–£3.9bn	£1.9–£3.5bn	Not available
Fraud and smuggling – Hand Rolling Tobacco (HRT)	£0.5–£0.9bn	£0.6–£0.9bn	£0.5–£0.9bn	£0.7–£1.0bn	Not available
Fraud and smuggling – cigarettes	£2–£3.3bn	£1.5–£2.4bn	£1.9–£3bn	£1.2–£2.5bn	Not available
Cigarette illicit market share	16%-24%	12%-18%	14%-21%	10%-19%	Not available
Total legal cross border shopping of which: ^{2,3,4}					
HRT	£1.2bn	£1.4–£1.5bn	£1.4bn	£1.1–£1.3bn	Not available
Cigarettes	£0.2bn	£0.2–£0.3bn	£0.2bn	£0.1–£0.2bn	Not available
Cigarettes					
Total consumed of which:	72.0–79.5bn	70.0–75.0bn	71.0–77.0bn	64.0–71.5bn	Not available
UK duty paid	54.5bn	54.5bn	54.0bn	52.5bn	Not available
Legally shopped ³	6.0bn	7.0bn	6.5bn	5.5bn	Not available
Cigarettes successfully smuggled	11.5–19.0bn	8.5–13.5bn	10.0–16.5bn	6.5–13.5bn	Not available
Total seized of which ⁵	2.6bn	1.9bn	1.8bn	2.0bn	2.0bn
Overseas seizures	919m	641m	728m	1,008m	832m
Air seizures	284m	263m	207m	243m	343m
Inland seizures	227m	186m	201m	130m	177m
Maritime seizures	1,128m	787m	621m	588m	691m
Cross channel passenger seizures	38m	21m	22m	22m	18m
Number of cross Channel seizures	10,685	5,506	5,632	5,217	4,377

¹ All estimates of fraud and smuggling and cross border shopping have been revised as a result of improved methodology and data. See measurement of revenue loss in 'Measuring Indirect Tax Losses - 2006' for more details.

² Figures include duty and VAT.

³ Includes EU duty paid and duty free.

⁴ Cross-border shopping estimates include provisional data for 2005-06 and may be subject to revision when final data becomes available.

⁵ For 2002-03 individual seizures of over 500,000 (76% of all seizures in the UK).

⁶ Figures have been independently rounded to an appropriate degree of accuracy. As a result components may not appear to sum to totals.

Proportion of total cigarette seizures by brand

	2001-02	2002-03	2003-04	2004-05 ⁴	2005-06
Counterfeit	– ¹	41%	54%	48%	51%
Genuine UK Brands	– ¹	31%	28%	31%	18%
Of which:					
Benson & Hedges	19%	– ²	– ²	– ²	10%
Dorchester	– ²	– ²	16%	16%	13%
Regal	22%	10%	– ²	– ²	– ²
Sovereign	12%	40%	58%	25%	26%
Superking	25%	24%	9%	22%	19%
Other UK	22%	26%	16%	37%	11%
Other (including non-UK brands) ³	– ¹	28%	18%	20%	31%

¹ Not measured in 2001-02.

² Included in Other UK.

³ Includes those seizures not identified as counterfeit or genuine, or those consisting of mixed brands not separately identified.

⁴ Seizures in excess of 250,000 sticks analysed since 2004-05, previous years' seizures over 500,000 analysed.

	2001-02	2002-03	2003-04	2004-05	2005-06
HRT illicit market share	48%-64%	48%-62%	45%-60%	53%-64%	Not available
HRT seized	385 tonnes	258 tonnes	185 tonnes	166 tonnes	160 tonnes
Other outputs/results					
Tobacco gangs disrupted	60	87	69	68	21
Number people sentenced	431	331	429	204	208
Average sentence	17 months	17 months	14 months	23 months	18 months
Benefits determined by court	£44.98m	£146.41m	£181.25m	£24.2m	£21.4m
Confiscation orders	£3.63m	£2.3m	£9.45m	£5.2m	£6.1m
Vehicles seized	11,064	8,616	6,848	6,093	6,256
Scanner detections¹					
Cigarettes	325m	399.5m	394m	295m	295m
HRT	12.6 tonnes	30.8 tonnes	18.2 tonnes	18.6 tonnes	10.9 tonnes
Cannabis	9.3 tonnes	14.9 tonnes	10 tonnes	22.3 tonnes	7.2 tonnes
Heroin	46kg	413.5kg	408kg	163.5 kg	0
Cocaine	Not available	579kg	122kg	28 kg	15 kg
Ecstasy/amphetamines	160kg	0kg	1170kg	371 kg	709 kg
Clandestines	470	1,193	494	361	210

¹ Scanner stats are estimates based on straight-line projection of April to February figures. (March 2006 figures not available.)

OILS¹	2001	2002	2003	2004	2005
Revenue loss – GB²					
Total diesel (non UK duty paid) ⁴	£1,000m	£1,000m	£1,000m	£950m	£700m
Illicit diesel (fraud and smuggling)	£700m	£650m	£700m	£600m	£350m
Cross border shopped diesel	£350m	£350m	£350m	£350m	£350m
Total petrol ³ (non UK duty paid)	£400m	£250m	– ⁵	–	–
Revenue loss – NI^{2,3}					
Total	£290m	£285m	£305m	£245m	£280m
Total diesel (non UK duty paid)	£215m	£210m	£220m	£180m	£200m
Total petrol (non UK duty paid)	£75m	£75m	£85m	£65m	£80m
Market share – GB					
Diesel (illicit)	6%	5%	5%	4%	2%
Petrol (non UK duty paid) ³	2%	2%	–	–	–
Market share – NI³					
Diesel (non UK duty paid)	58%	55%	52%	42%	43%
Petrol (non UK duty paid)	20%	20%	23%	18%	21%

¹ All estimates of non duty paid consumption have been revised as a result of improved methodology and data. See 'Measuring Indirect Tax Losses – 2006' for more detail.

² Estimate includes duty and VAT. As VAT is assumed lost on all non UK duty paid consumption this assumption will overstate the actual revenue loss.

³ Non UK duty paid including both legitimately cross border shopped and illicit consumption.

⁴ Figures have been independently rounded to an appropriate degree of accuracy. As a result components may not appear to sum to totals.

⁵ - Indicates a negligible figure.

Annex C: Statistics

OILS (Continued)	2001-02	2002-03	2003-04	2004-05	2005-06
Total oils seized	3.95m litres	4.03m litres	2.48m litres	2.50m litres	1.51m litres
Volume seized – GB	2.2m litres	2.44m litres	0.96m litres	0.72m litres	0.43m litres
Volume seized – NI	1.75m litres	1.59m litres	1.52m litres	1.78m litres	1.08m litres
Laundering plants					
Total disrupted	38	46	31	26	37
GB	30	25	18	8	21
NI	8	21	13	18	16
Mixing plants					
Total disrupted	2	7	4	Not available ¹	Not available ¹
GB	2	4	1	Not available ¹	Not available ¹
NI	nil	3	3	Not available ¹	Not available ¹
Gangs disrupted					
Total	19	14	13	9	4
GB	12	13	11	4	2
NI	7	1	2	5	2
Challenges					
Total	16,313	29,302	84,700	108,773	119,733
Commercial	Not available	Not available	60,022	80,137	80,564
Non commercial	Not available	Not available	24,678	28,636	39,169
Detections					
Total	3,340	3,960	3,753	3,760	3,747
Commercial	Not available	1,801	2,043	2,228	2,002
Non commercial	Not available	2,159	1,710	1,532	1,745
Assessments					
Fraud detected and identified	£8.3m	£13.2m	£11.5m	£7.0m	£3.1m
Prosecution figures GB					
Number of convictions	9	8	17	12	14
Average sentence	16 months	14 months	14 months	15 months	28 months
Confiscation orders	£660,000	£374,000	£167,387	£125,350	£272,311
Prosecution figures NI					
Number of convictions	15	3	4	nil	4
Average sentence	16 months	8 months	7 months	nil	2 months
Confiscation orders	nil	£250,000	nil	nil	nil
Vehicles seized in NI	684	1,576	901	812	956

¹ Mixing plants are included in the laundering plant figure as it has not been possible to separately identify the mixing plants.

ALCOHOL¹	2001-02	2002-03	2003-04	2004-05	2005-06
Revenue not collected^{2,3}					
Total spirits fraud/smuggling	£0-£650m	£0-£550m	£0-£600m	£0-£300m	Not available
Spirits cross border shopping	£150m	£150m	£150m	£150m	£100m
Beer cross border shopping	£50m	£50m	£50m	£50m	<£50m
Wine cross border shopping	£200m	£150m	£150m	£150m	£150m
Illicit market share					
Spirits	0-17%	0-15%	0-16%	0-8%	Not available
Gangs disrupted	5	2	24	4	2
Seizures					
Spirits (litres)	2,149,667	922,423	407,858	303,252	237,904
Beer (litres)	2,613,992	2,952,528	2,773,385	2,179,932	2,522,253
Wine (litres)	612,052	653,657	1,134,567	629,034	292,945
Criminal Prosecutions					
Spirits – number of people prosecuted	Not available	9	24	7	6
Number of convictions	Not available	7	21	0	0
Mixed cases ⁴ – number of people prosecuted	Not available	99	62	1	5
Number of convictions	Not available	91	34	0	4

¹ All spirits fraud estimates have been revised as a result of improved methodology and data. See 'Measuring Indirect Tax Losses -2006', available on our website, for more details. No fraud/smuggling estimate is available for beer and wine.

² Estimates are independently rounded to the nearest £50m.

³ The cross border shopping estimates are for EU duty paid goods only. The 2005-06 estimates are provisional.

⁴ Mixed cases include mixed alcohol or alcohol with other excise goods.

the study. The first author (SM) was the primary investigator and was responsible for the design, data collection, data analysis and writing of the manuscript. The other authors were involved in the design, data collection and data analysis.

Methods

Study design

The study was a descriptive, cross-sectional study. The data were collected from 1000 randomly selected participants.

Study population

The study population consisted of 1000 randomly selected participants from the general population of the city of Tehran, Iran.

Sampling

The participants were selected using a simple random sampling method. The sampling was done using a computer-generated random number table.

Data collection

The data were collected using a self-administered questionnaire. The questionnaire was distributed to the participants and they were asked to fill it out.

Questionnaire

The questionnaire consisted of 100 items. The items were designed to measure the prevalence of the disease and the risk factors associated with it.

Statistical analysis

The data were analysed using the SPSS software package. The statistical tests used were the chi-square test and the Fisher's exact test.

Results

The prevalence of the disease was 10%. The risk factors associated with the disease were age, sex, education, and occupation.

Discussion

The results of the study show that the prevalence of the disease is 10%. This is higher than the prevalence reported in other studies.

Conclusion

The study shows that the prevalence of the disease is 10%. The risk factors associated with the disease are age, sex, education, and occupation.

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