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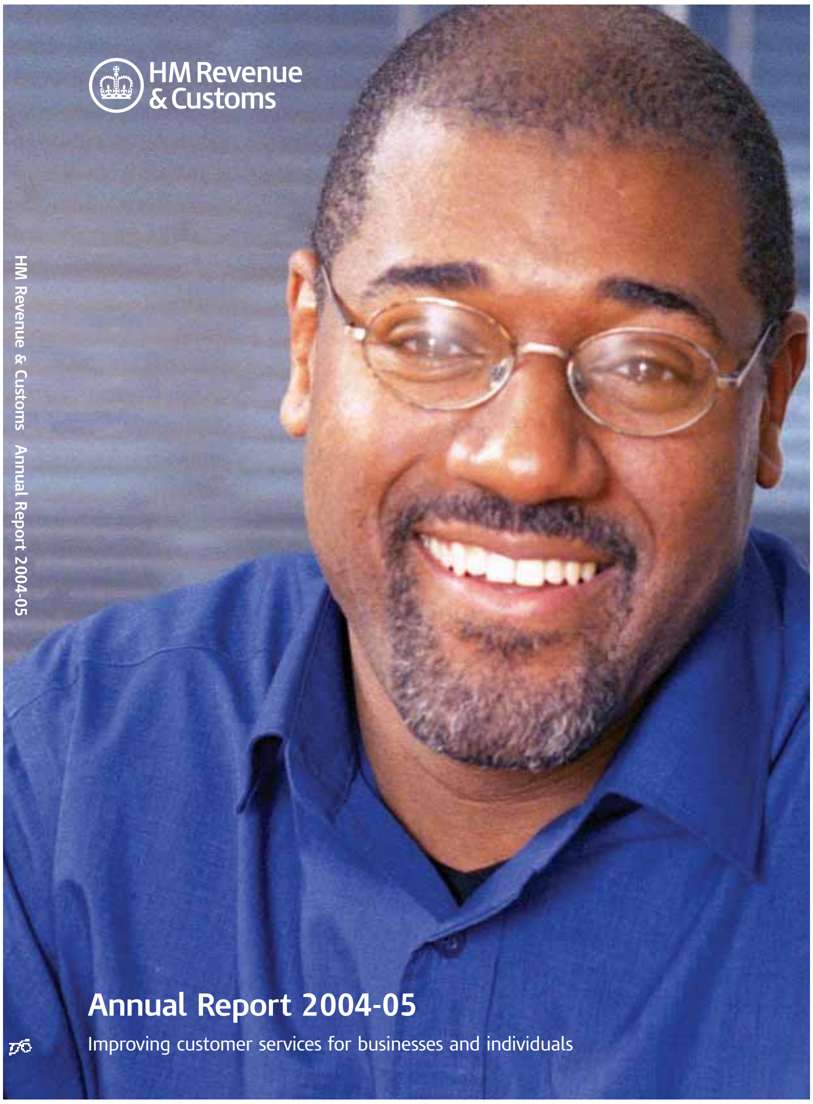
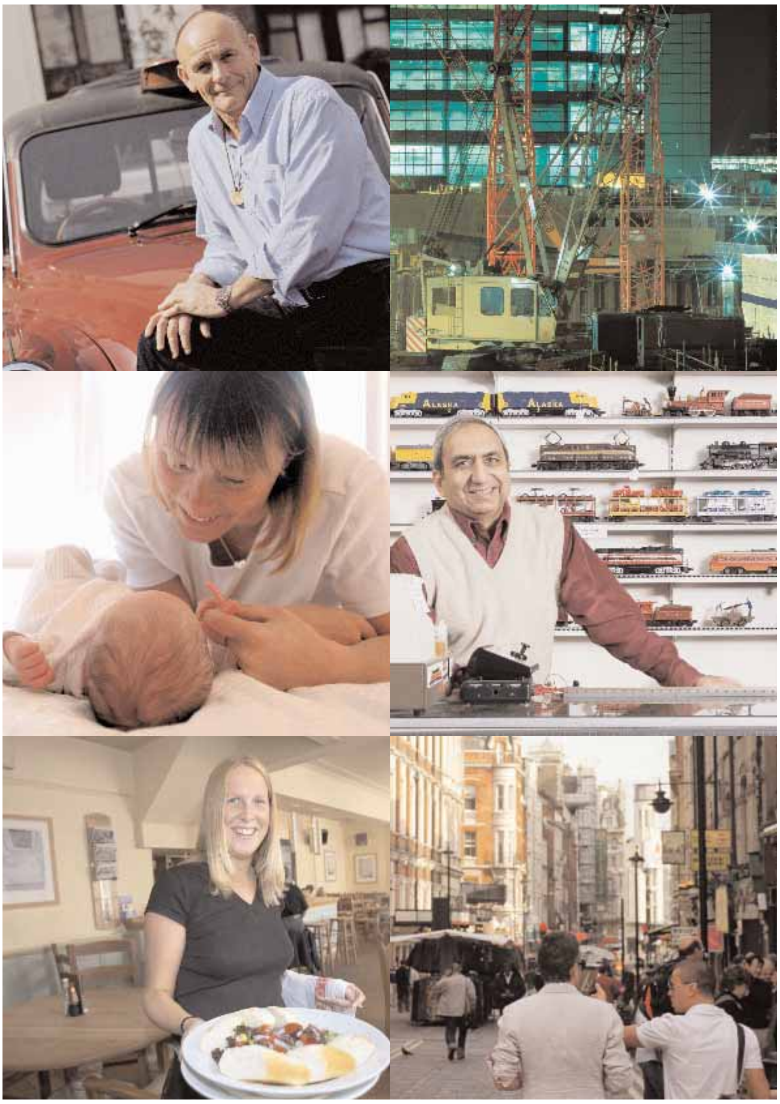
HM Revenue & Customs Annual Report 2004-05



HM Revenue
& Customs

Annual Report 2004-05

Improving customer services for businesses and individuals



Annual Report 2004-05 and Autumn Performance Report 2005 HM Revenue & Customs

Presented to Parliament by the Paymaster General by Command of Her Majesty

19 December 2005

Cm 6691 £21.10

Contents

Chairman's Foreword

It gives me great pleasure to introduce the first HM Revenue & Customs Annual Report. There is a good story to be told on achievement against our targets in 2004-05 and we have made great strides in our first six months of being HM Revenue & Customs (HMRC). This is a testament to the commitment of those working to make a success of the new Department.

During 2004-05 we began work to develop the legislation necessary to create HMRC. This culminated in the Commissioners for Revenue and Customs Act 2005 being passed on 7 April 2005, which brought about the creation of our new Department and a fully independent Revenue & Customs Prosecutions Office. The Serious Organised Crime Agency was established by the Serious Organised Crime and Police Act 2005. We are committed to continuing our close working relationship with both these organisations.

During the last 18 months we have experienced a period of unprecedented change. In integrating two historic departments, we are creating a modern, effective organisation that is responsible for over 20 different taxes and payments, protecting the UK's frontiers and facilitating trade across those frontiers. We are in the forefront of the fight against smuggling, terrorism, fraud and drugs. We enforce the national minimum wage and manage the student loans system. We are committed to delivering our objectives of closing the tax gaps, improving customer service, strengthening our frontiers and producing efficiency savings.

These are massive challenges. There were, rightly, concerns about whether staff would be distracted from business as usual and revenue collection would suffer. The results show we have collected more money than at any time in our history. This has been accompanied by laying solid foundations for the future. Clarity about the direction in which we are going makes it easier to work out the best way to get there. To this end we have put a lot of effort into getting the structure and processes of the new Department right as this will be key to our success.

We have started to improve customer service for individuals and businesses. For example, we have had exceptionally good feedback on the new short tax return, which we are sending to 1.5 million people this year. Over one million people have been taken out of Self Assessment altogether.

We have introduced a single point of contact for importers and exporters and have been listening to small and medium sized business suggestions on how to improve our service in ways that would make their lives easier. We will be taking a range of these suggestions forward shortly.

A high degree of transparency is important for the new Department and we are embarking on a process to try to make sure that HMRC is open and accessible and its role and remit are understood. We need to engage with stakeholders about the issues they face and we recognise that in some areas, such as Tax Credits, some people have been let down by poor administration. The challenge for the Department going forward is to learn the lessons from the past two years, to get the system working better for claimants and to ensure all people get the service they are entitled to.

In March 2005 the Government commissioned a review of the powers of HMRC officers. We are fully conscious that we must respect the confidentiality of the information businesses and the public give us, and to use the powers we are granted appropriately. That review is now under way with the appointment of a Consultative Committee (including tax experts, business representatives and a range of others, who reflect the range of our customers) and is likely to continue through 2006-07.

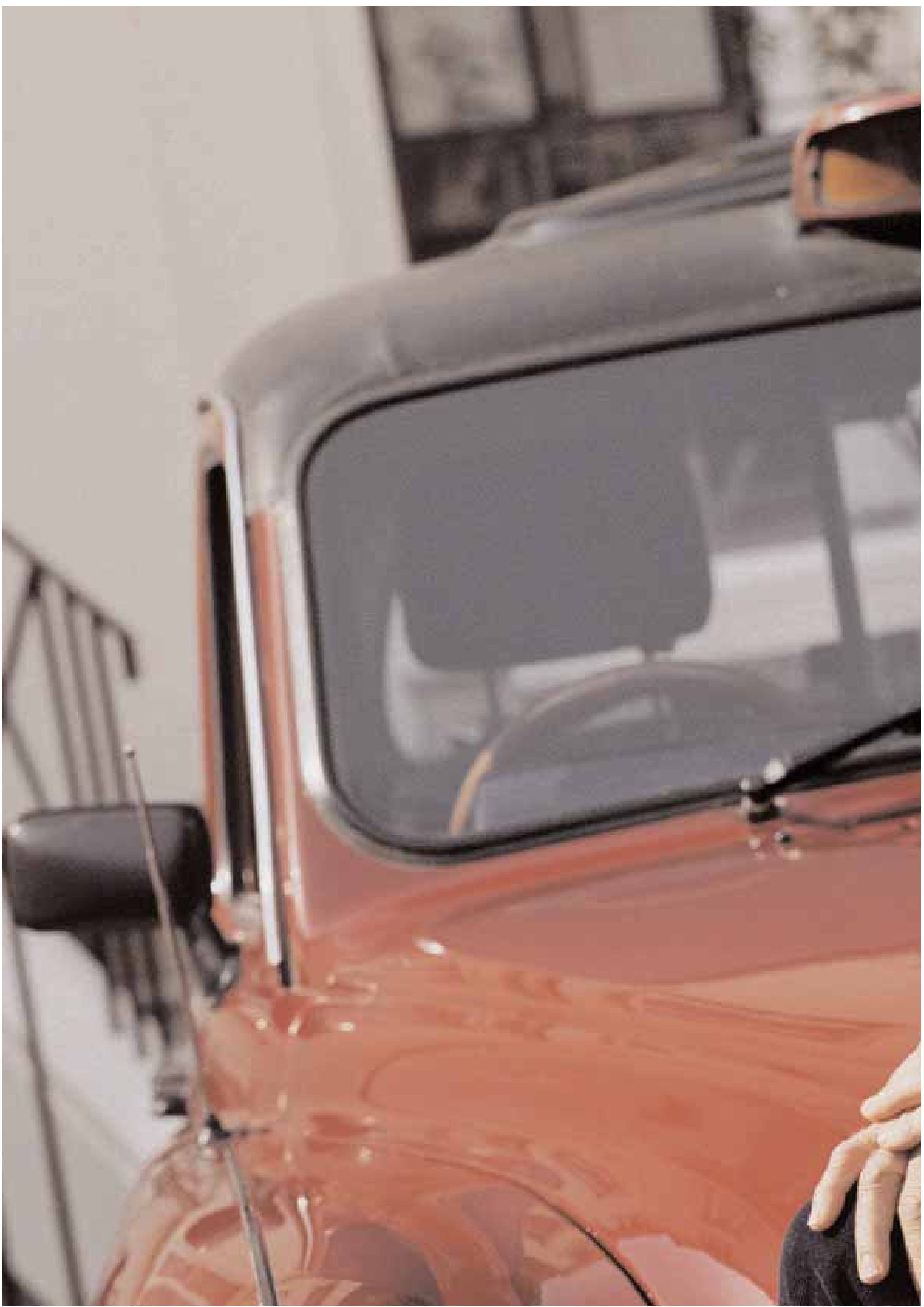
Since April 2004, HMRC (this includes both former departments) has appeared at six Committee of Public Accounts hearings, five Treasury Select Sub-Committee hearings and one Public Administration Select Committee hearing. I personally represented the Department at seven of these hearings.

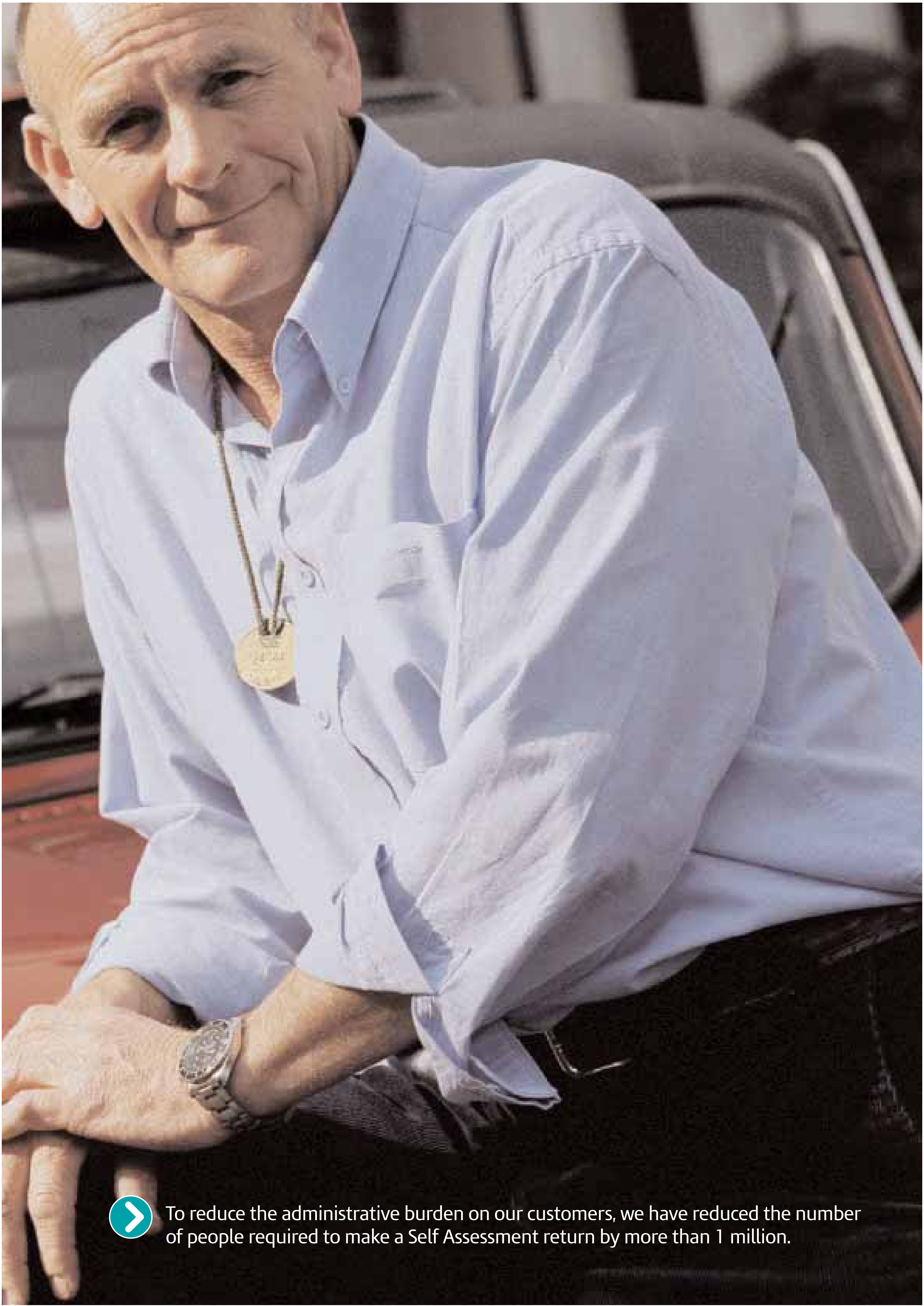
We have worked hard to implement changes to address concerns raised about the accountability, standards and management of our enforcement operations. We have invested heavily in training and new IT systems; we have introduced outside scrutiny by HM Inspectorate of Constabulary and the Independent Police Complaints Commission and we have established an independent prosecution office. We are committed to building trust and successful partnerships with other law enforcement agencies and to be thoroughly professional in the way in which we comply with the requirements of the criminal justice system.

We have continued our relationship with local communities through our involvement with The Prince's Trust, Business in the Community (BitC) and New Deal. I was delighted that we were placed in the Top 100 Socially Responsible Businesses when the results of the 2004 BitC Corporate Responsibility Index were published. We are the first government department to participate in the index, which is a tool businesses use to measure the extent to which their practices impact positively on the workplace, the community, the environment, customers and stakeholders.

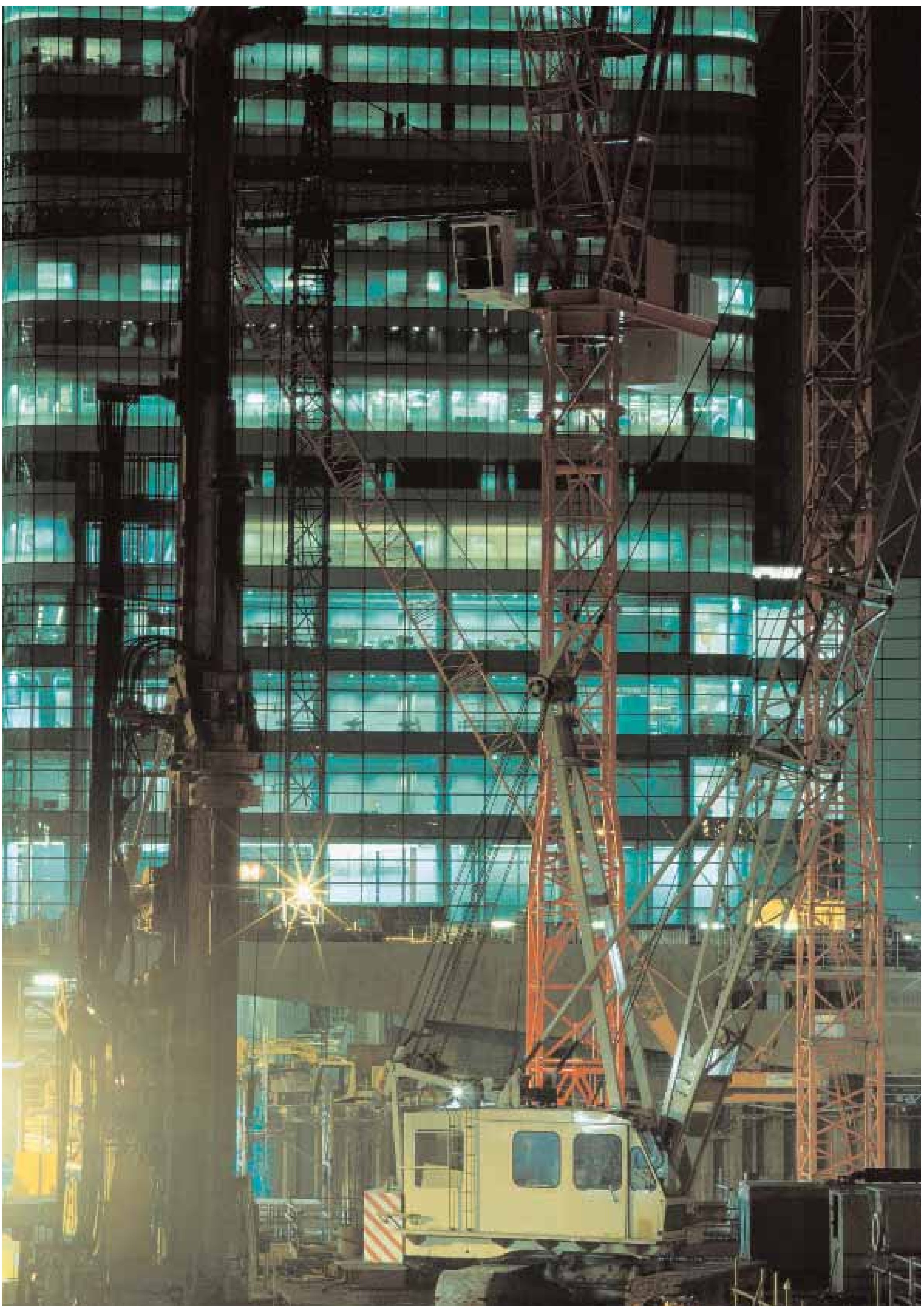
We have many successes to celebrate in the past year but, I am also aware that some difficult challenges lie ahead. We do not underestimate the scale of those challenges but we believe that we have the plans in place to ensure that the obstacles we face will not prevent us from reaching our short-term targets or our long-term goals. I know that my Board colleagues and the staff of HMRC will rise to each challenge to ensure that we move closer to being a world leader in tax administration.

David Varney





To reduce the administrative burden on our customers, we have reduced the number of people required to make a Self Assessment return by more than 1 million.



Section 1

Introduction

The HM Revenue & Customs (HMRC) Annual Report and Autumn Performance Report brings together in one document information about Inland Revenue and HM Customs and Excise activities in 2004-05. However, it is not simply a backward looking account of events in 2004-05 it also provides information on developments in HM Revenue & Customs since then and looks ahead to future events.

We are embedding the drive for improved customer service and reduced compliance burdens strongly within the new organisation.

Our Responsibilities

HM Revenue & Customs is responsible for collecting the bulk of tax revenue as well as paying tax credits and child benefit, and strengthening the UK's frontiers. We manage

- Income, Corporation, Capital Gains, Inheritance, Insurance Premium, Stamp, Land and Petroleum Revenue taxes
- Value Added Tax (VAT)
- excise duties
- customs duties and frontier protection
- environmental taxes - climate change and aggregates levy and landfill tax
- National Insurance Contributions
- Tax Credits
- Child Benefit and the Child Trust Fund
- enforcement of the National Minimum Wage
- recovery of Student Loan repayments, and
- statutory payments.

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.

HM Revenue & Customs Departmental Board as at 30 September 2005

David Varney, Commissioner, Executive Chairman

David joined Shell in 1968 beginning a 28-year global career that spanned several continents. In 1990 he was appointed Head of Marketing, Branding and Product Development for Shell International Petroleum and in 1991 was appointed a Managing Director of Shell UK with responsibility for downstream activities. He was appointed a Director of Shell International Petroleum in 1996. In June 1996 David joined BG (formly British Gas) as Chief Executive designate of the proposed BG plc and was appointed Chief Executive the following year. He steered the group to a significant uplift in performance and oversaw the successful demerger of Lattice plc. In 2001, David was appointed Chairman of mm02 which provides mobile communications to over 20 million customers in the UK, Germany and Ireland. He is president of the Chartered Institute of Management.

Paul Gray CB, Commissioner and Deputy 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 1998 Paul joined what was then the Department of Social Security (DSS) as Head of Policy. Before taking up his current post, 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.

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. In 1994 he was appointed Director of the Financial Intermediaries and Claims Office moving in 1996 to lead the technical team on personal taxation. 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 his current appointment.

Helen Ghosh [1]

Helen joined the Department of the Environment (now the Office of the Deputy Prime Minister) where she worked on a wide range of housing, local government and urban regeneration programmes. More recently, she was Director of the Children's Group in the Department for Work and Pensions where she had responsibility for delivering the DWP aspects of the new tax credits project and arrangements for the transfer of the Child Benefit Centre. Helen was head of the Machinery of Government Secretariat in the Cabinet Office before her appointment to the Inland Revenue in 2003.

Steve Heminsley

Steve spent 28 years working in a range of jobs in the Department of (Health and) Social Security. 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.

Mike Eland, 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.

1 Helen Ghosh left in October to take up her new post as Permanent Secretary to Defra.

Steve Lamey, Commissioner

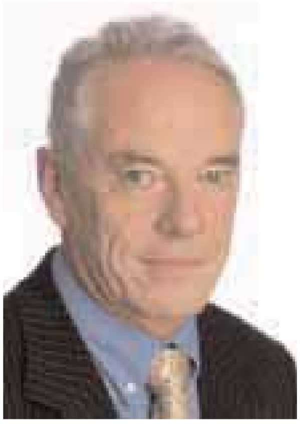
Steve graduated in Mining Engineering at University College Cardiff in 1978 before starting work with the BOC Group. He had a wide variety of roles there, working in project engineering and management roles before moving on to operational, commercial and senior management jobs. He became Director of 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 Chief Information Officer for both former departments in October 2004.

Mike Hanson MBE

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.

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.



David Hogg CB

Prior to joining HM Customs and Excise in October 2004, David was the Solicitor and Legal Adviser to 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 the Treasury Solicitor's Department from private practice as a direct entry Senior Legal Assistant in 1978. He became an Assistant Treasury Solicitor in 1985 serving in various positions in the Treasury Solicitor's Department and the Department of Energy. Subsequently he headed the Treasury Solicitor's Litigation Group. 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. He was made a the Companion of the Order of the Bath in 1997.

Andrew Hudson, Chief Executive, Valuation Office Agency

Andrew began his career in the Inland Revenue, but has spent most of his time at HM Treasury, where he held a number of positions, including Press Secretary to the Chancellor (1992-96). In 1999, he moved from central government and joined Essex County Council, first as Assistant Chief Executive and later, in 2002, as Deputy Chief Executive (Finance and Performance). Andrew joined the Valuation Office Agency in June 2004.

Non-Executive Board members

Barry Quirk CBE

Barry has been Chief Executive at the London Borough of Lewisham since 1994. He has worked in local government for 28 years, with experience in five London councils. In 2004, he was appointed as the national "efficiency champion" for local government. He is the President of SOLACE (the national association for local government chief executives) and Chairman of the multi-agency London Child Protection Committee, responsible for safeguarding children across London. Barry's professional background is in education, corporate policy and service delivery. He has a PhD in social and political geography.

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 Côte d'Ivoire - and latterly with ICI. He is also a Non-Executive Director and chairs the Audit Committees at both the Department for International Development and the Department for Environment, Food and Rural Affairs. In addition to his work in the public sector, Bill has business consulting activities and is Chairman of AHS Ltd, a university spin-out technology company in Manchester.

Kate Owen

Kate is Vice President, Executive Development, BP. She has worked in both the public and the private sector, mainly in the retail industry, before joining BP. She was directly involved in the change and transformation of BP throughout the 1990s as, successively, Head of its Culture Change Team and Head of Learning and Organisation Development. Kate is also actively involved with a number of outside bodies in both public and private sectors.

David Spencer

David's early career was in HR in the private sector, initially in the airline industry and later as Group HR Director at Smiths Industries. From this he moved to become the Managing Director of an international group of businesses in Smiths. He was a Trustee of the Whitehall and Industry Group from 1997-2000. David is also Chairman of the World Medical Fund, a UK charity operating in central Africa. David joined the Cabinet Office's Centre for Management and Policy Studies (CMPS) as its Director in April 2004 and became Chief Executive of The National School of Government from June 2005.

Nick Macpherson

Nick joined the Civil Service in 1985 after spells working as an economist at the CBI and Peat Marwick Consulting. From 2001- 2004 Nick was head of HM Treasury's Public Services Directorate where he managed the 2000-02 spending review processes. Previous Treasury posts included Director of Welfare Reform (1998-2001) and Principal Private Secretary to the Chancellor of the Exchequer (1993-97) 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. He took over as Permanent Secretary to the Treasury on 2 August 2005.

We ran a recruitment exercise for new non-executive Board members which attracted more than 180 applications and following interviews on 25 July 2005 we made three appointments.

John Spence MBE

Director of Policy Co-ordination and Risk, Lloyds TSB. John has played several important roles within Lloyds TSB, he is a Commissioner of the Church of England and Chairman of Blind in Business. John took up his appointment in September 2005.

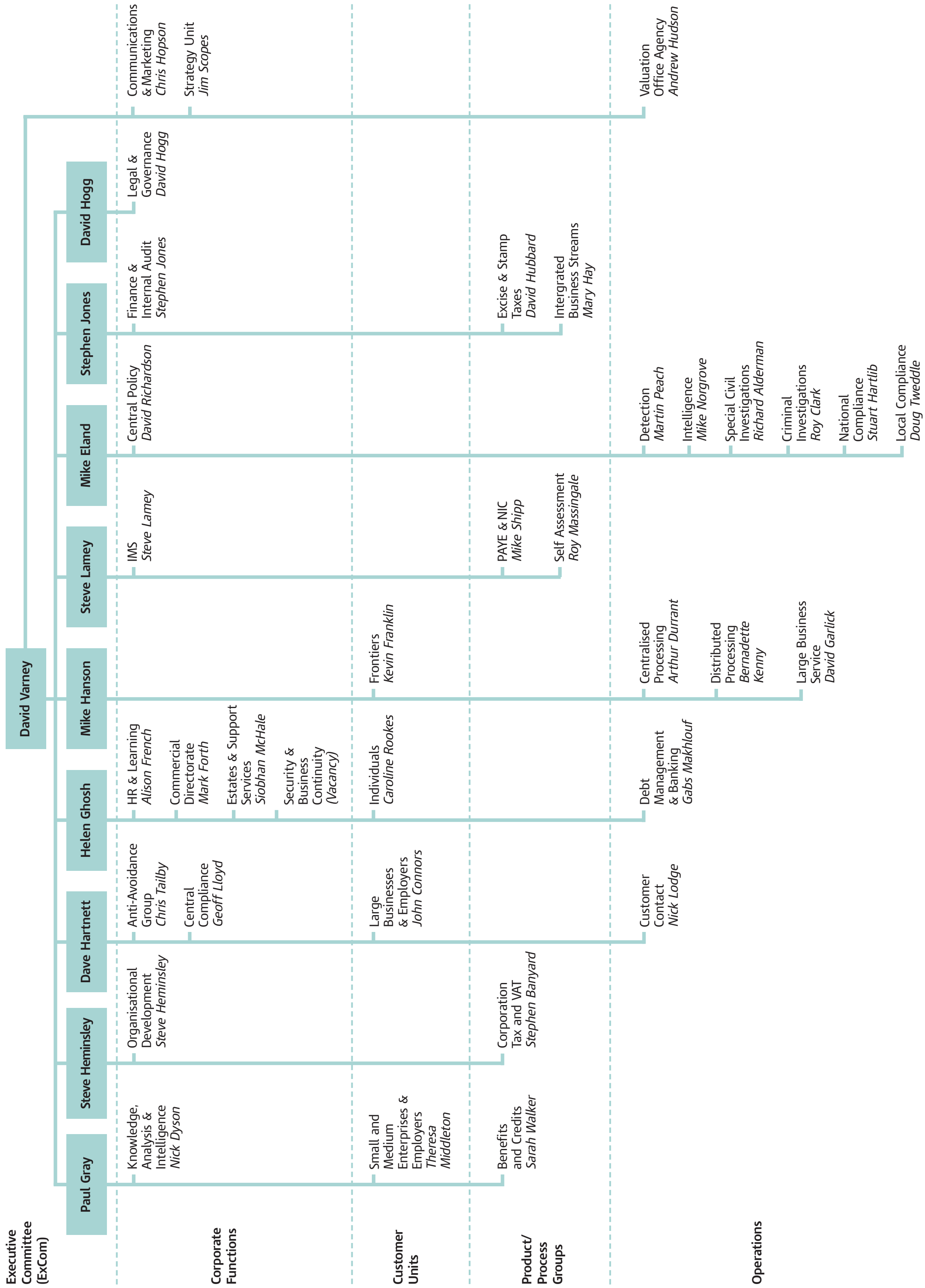
Mark Haysom

Chief Executive of the Learning and Skills Council, Europe's largest Non Departmental Public Body. Mark was previously Managing Director of National Newspapers at Trinity Mirror plc and took up his appointment in December 2005.

Penny Melville-Brown

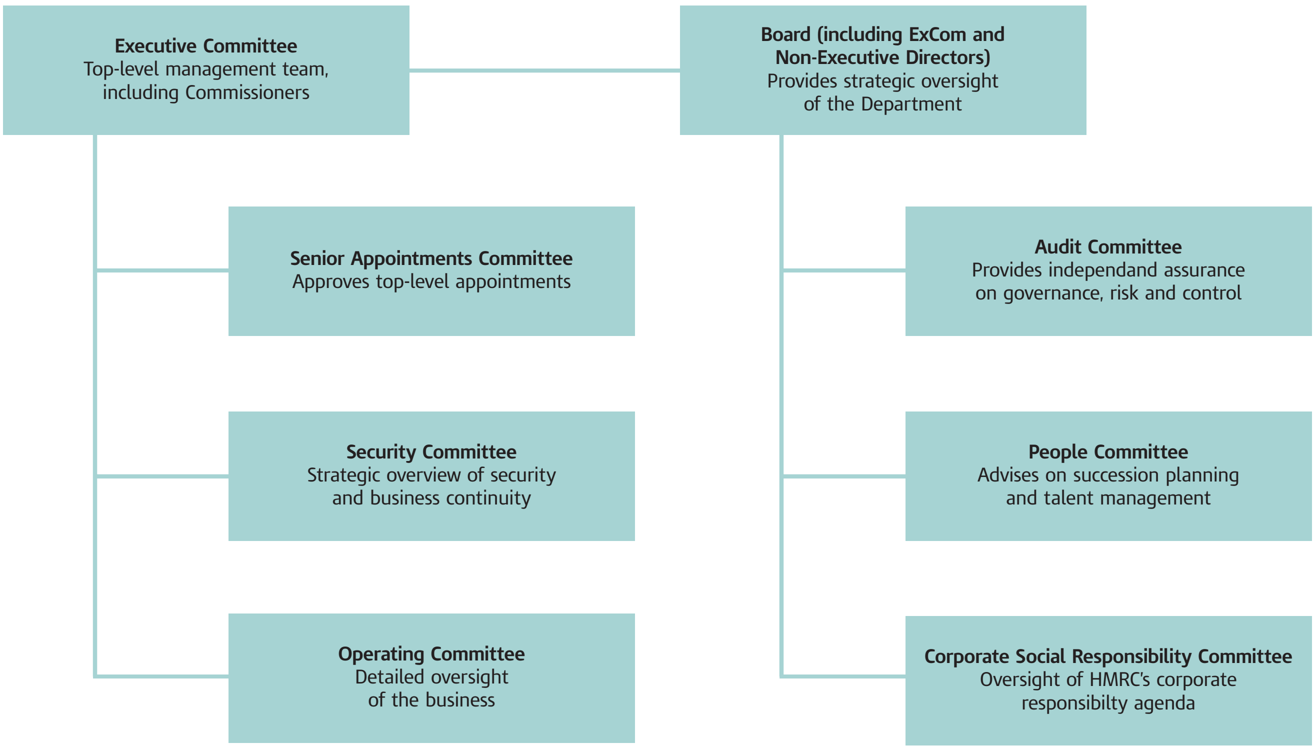
Director of Disability Dynamics Ltd. Penny led the development of a new diversity strategy for the Ministry of Defence, she was formerly a Commander in the Royal Navy and the first female naval barrister. Penny takes up her appointment in January 2006.

HM Revenue & Customs' organisation chart



HM Revenue & Customs' top-level governance structure

The diagram below illustrates the relationship between the Board, the Executive Committee, and other senior Committees.



Section 2

Creation of HM Revenue & Customs

On 17 March 2004 the Chancellor of the Exchequer announced the creation of a new department to bring together the functions of HM Customs and Excise and the Inland Revenue, and the transfer of some policy work to HM Treasury.

There are new tax exemptions to encourage more employers to help their employees with their childcare responsibilities.

Background

The three priorities for the new Department, as recommended by the O'Donnell Review [1] are to improve

- customer service and compliance costs, through coherent policy advice and service planning, customer education and advice, processes and systems, and compliance activity
- effectiveness, through alignment of strategies, a coherent approach to information, new approaches to compliance and flexible resource allocation. By helping to ensure that the right tax is paid by the right people, fairness would also be enhanced, and
- efficiency, through economies of scale and the impetus of transformational change, particularly in transactional processes.

Early Progress

Her Majesty the Queen approved the new Department's name - HM Revenue & Customs (HMRC) - in May 2004, and David Varney was appointed as Executive Chairman with Paul Gray as his deputy. The Commissioners for Revenue and Customs Act 2005 came into force on 7 April and HMRC became a legal entity on 18 April 2005.

Great effort was put into maintaining business as usual during the transitional period and ensuring that service to customers was not adversely affected. Some early gains were achieved by developing single organisations for the Finance, HR, IT and Estates services areas as well as taking steps to integrate a number of other business areas where synergy is expected, including debt management, contact centres and specialist compliance areas.

A Budget 2005 consultation paper 'Working towards a new relationship' [2] set out HMRC's vision for customer focus in relation to small businesses and the work that we were planning to make that a reality. It sought views from customers on priorities and areas of key concern to inform that future work, and a Small and Medium Enterprises & Employers Unit has been created as a customer unit to champion the needs of small and medium business within HMRC.

We are now prioritising our work to start to deliver that vision. This includes

- the better use of information so that businesses have to provide it only once
- early progress on tackling forms that businesses dislike most, such as abolishing the need for over 90% of new companies to complete Form 42
- less time spent dealing with inspections as a result of a new tool that allows off-site audit of payroll and an electronic messaging system that will enable business advisers and agents to correspond with HMRC online
- developing a range of flexible payment options that will enable a business to manage cash flow better, and
- creating a 'whole customer view', allowing both the customer and our staff to have the same overall view of a business' tax affairs.

External Scrutiny of HMRC Law Enforcement

In September 2004 the Government announced its intention to establish independent scrutiny arrangements for the law enforcement activities of HMRC. Accordingly, the Commissioners for Revenue and Customs Act 2005 includes provisions which

- extend the remit of HM Inspectorate of Constabulary (HMIC) to scrutinise HMRC's law enforcement procedures and practice, and
- extend the remit of the Independent Police Complaints Commission (IPCC) to allow investigation of serious complaints and allegations against HMRC staff.

These provisions make HMRC subject to the same standards of independent scrutiny, inspection and complaints investigation as are already established for the police.

HMIC started its first inspection in October 2005. Secondary legislation introduced in December 2005 provides the IPCC with the necessary legal powers, and its full remit will commence from 1 April 2006.

1 'Financing Britain's Future: Review of the Revenue Departments' can be viewed at www.hm-treasury.gov.uk

2 'Working towards a new relationship: a consultation on priorities for reducing the administrative burden of the tax system on small business' is available at www.hmrc.gov.uk

Cost of Integration

Government Accounting rules on expenditure on 'new services' meant that direct integration expenditure incurred ahead of Parliamentary approval of the creation of HMRC consisted largely of the cost of staff planning the formation of the new Department and working on the necessary changes to legislation. The exception to this was spend on the design of a brand identity for HMRC which was considered to be urgent and in the public interest. This enabled the development of a branded internet site as a single point of contact for online customer information and transactions, and an integrated intranet site as a single point of reference for staff of the two former departments. We would have incurred additional expenditure if we had launched these sites without a brand identity and had to re-work them later. The total direct integration cost was £1.9 million.

The former Inland Revenue and HM Customs and Excise were also able to effectively refocus expenditure that would have been incurred under their existing plans, to better support integrated aims. Costs under this heading included the cost of updating and integrating IT networks, and of co-ordinating communications with businesses, the general public and other stakeholders. This amounted to £10.3 million.

Further costs have been incurred in planning to achieve the long-term benefits of a single department. This work has been carried out as part of normal management activity but was triggered and heavily influenced by the need to integrate. In some areas (such as the design of the new organisation, the creation of a joint Large Business Service and aligning key HR policies and processes) this resulted in a significant degree of joint working on identifying best practice even before the formal launch of the new Department. In other areas, pilot schemes have informed plans for future organisational changes. The total of this expenditure was £5.6 million.

The Future

HMRC will evolve further as the various functions of the former HM Customs and Excise and the Inland Revenue are brought together. Much has been done already and the new structure is taking shape with 36 business units now in place. The structure of HMRC comprises four interrelated business streams: Operations, Product and Process Groups, Customer Units and Corporate Functions.

Operations focuses on delivering high quality, cost effective services. Their core activities are
- delivering customer contact, processing and operational compliance
- delivering enforcement capabilities, and
- debt management and banking.

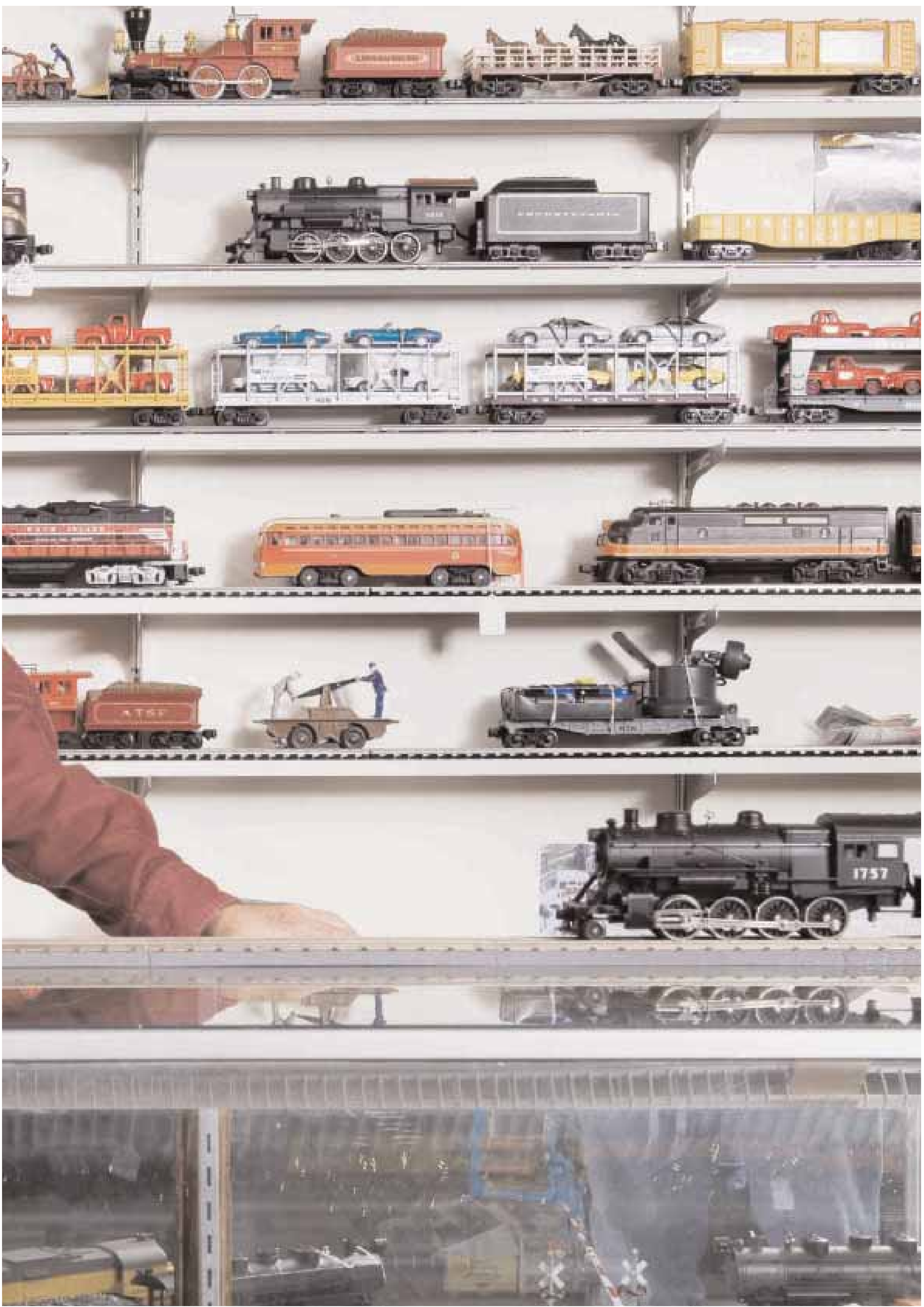
Product and Process Groups focus on products, defined as taxes, duties, credits and benefits, and the processes by which they are delivered. They are responsible for design, specification and advice, and will carry out technical policy work and liaison with HM Treasury and Ministers.

Customer Units focus on identifying and understanding the requirements and behaviours of our customers, and the risks associated with them to
- make it easier for customers to comply
- improve the customer experience
- improve compliance, and
- reduce the cost of compliance.

Corporate functions such as HR & Learning and Finance, will guide and support HMRC.

Overall responsibility for these business units lies with HMRC Executive Committee. Its members each have a portfolio that spans the organisational model and have responsibility for the management and performance of the relevant aspects of HMRC activities in their portfolio.

There are approximately 1.8 million businesses registered for VAT in the UK, spread across 55 trade sectors . . . and in 2004-05 VAT registered businesses paid approximately £73 billion.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Section 3

Progress against the Chancellor's Annual Remit[1]

The Chancellor will write to the Chairman of HMRC every year to set out the general direction and priorities for HM Revenue & Customs over the following 12 months, as recommended by the O'Donnell review. The Chairman will be 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 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.

To date, around £20 million in wage arrears has been identified for workers who had not been paid the minimum wage . . . and in 2004-05 we identified arrears for 11,261 workers.

1 The Chancellor's Annual Remit for 2005-06 was reproduced in full in the HMRC Spring Departmental Report 2005 (Cm6542) and is available at www.hmrc.gov.uk and The Stationery Office.

A full report on progress against our PSA targets is contained in Section 4 but progress against other specific areas of the remit is set out below.

Efficiency Programme

We have stretching targets to achieve efficiency savings of at least £507 million and reduce full-time equivalent (FTE) posts by 16,000 gross, 12,500 net of redeployments to front-line work by April 2008. FTE staff numbers will come down from 98,337 to around 85,800 at 1 April 2008.

We are also committed to relocating 1,950 posts out of London and the south east by 1 April 2008, with a further 2,300 posts by 1 April 2010. Further information about our efficiency programme can be found in the Efficiency Technical Note on our website.

To ensure the efficient management of large-scale delivery operations we employ staff on temporary contracts, and the measurement of the reduction of FTE posts includes staff employed on this basis. In the overall numbers the cyclical nature of tax credit work and some tax work can mask the effect of the underlying trend in permanent staffing reductions. Between 1 April 2004 and 30 September 2005 we have delivered a total net reduction of 3,246 full time equivalent posts. We are not reporting any financial savings this year, as the full financial benefits of this reduction in posts will not be realised until the next full financial year and will be reported at that stage, but these staff savings put us on track to meet our financial savings target. In addition we have made non-headcount savings, largely in procurement, of £12 million. We have also redeployed over 1,500 posts to front-line work. The combination of staff and financial savings means that HMRC must make sustainable reductions in staff numbers to meet its financial target and live within its baseline provision. We have made good progress and are on course to meet our efficiency targets.

We will continue with our current efficiency programme and seek to identify further opportunities to realise efficiency savings.

The relocation of posts from London and the south east is an integral part of our efficiency programme, and will contribute to efficiency gains by relocating a substantial number of public sector activities to other parts of the UK. As at 30 September 2005, we have moved 480 posts out of London and the south east to various locations.

Some 60,000 of our staff spend much of their time on advising customers, processing forms, inputting data and enforcing debt. We are focusing on undertaking these activities better, aspiring to be world class. Improvements made include

- managing the introduction of wide-ranging electronic services
- concentrating much of our PAYE processing into 10 large sites, and looking to rationalise the remainder to gain economies of scale
- identifying savings of up to 30% in processing Self Assessment forms using recognised process improvement techniques, and
- significantly improving our debt management - the amount of legally enforceable debt is continuing to fall and the National Audit Office has recognised good progress in this area.

We are improving our IT processes and, although getting IT to where we need it will take time, the building blocks are in place. We are committed to promoting our online services where we have seen good progress on take-up. For example, last year 17% (1.6 million) of Self Assessment returns were filed online; this year over 60% of employers filed their PAYE end of year returns online; and 95% of all electronic government transactions passing through the Government Gateway are destined for HMRC.

We also recognise the need to manage contact with our customers through the most appropriate channel (whether that be telephone, online or face to face) in a way that balances their needs against our cost of doing so. By clearly explaining to our customers what they need to do, and how, we will make it easier for them to get their tax and benefits right first time. This reduces frustration, time and costs.

In order to measure and monitor delivery and service quality alongside cost savings to demonstrate real efficiencies, we will refer primarily to our key targets as set out in our Public Service Agreement which can be found on our website. They provide a baseline against which we will maintain or improve standards while making staff and cost savings.

We also undertake qualitative assessments that cover both our PSA and wider activity, through quarterly performance reporting between directors and the Chairman. Assurance is sought that achievement of efficiencies is not to the detriment of operational activity or quality of customer service.

Comprehensive Spending Review

HMRC has begun preparatory work for the Comprehensive Spending Review, which the Government has announced for 2007. This includes

- scoping a broad programme of work to include several strategic reviews on the future of key parts of our business - these will tie in with HM Treasury sponsored long term studies on issues such as demographics - that will report in summer 2006
- commencing an assessment of our current spending to identify areas for further efficiency which will reflect some of the themes in the 'Strategy for Transformational Government' published by the Cabinet Office - again this will report in summer 2006, and
- setting up an effective governance regime with clear accountabilities and responsibilities for the delivery of the CSR programme of work including a dedicated CSR Programme Team - these arrangements will build on the lessons learned from previous spending reviews.

HMRC Powers

During the passage of the Commissioners for Revenue and Customs Bill, the Government announced a major review, involving wide consultation, of the powers, deterrents and safeguards that will underpin HMRC. Its broad scope includes "the requirement to provide information, interest and surcharge regimes for late payment, penalties for non-compliance and rights of appeal, and the modern regulations and practices that HMRC will need to be a high-performing 21st-century tax administration."

The review commenced on 24 March with the issue of a consultative document, 'HM Revenue and Customs and the taxpayer: Modernising powers, deterrents and safeguards'. Details of responses can be found on our website.

The review aims to design a coherent framework of law and practice for HMRC that will support the Government's objectives of a tax system that is fair and better adapted to the needs of customers. The theme from consultations for HMRC to support those who seek to be compliant but come down hard on those who seek to gain an advantage through non-compliance. To this end they are looking at ways of making powers proportionate to the risk of non-compliance.

A Consultative Committee has been established, whose remit is to provide options for Ministers which includes tax experts, business representatives and others, to reflect the views of the wider taxpayer community. Dave Hartnett chairs the committee, which has met regularly since early June and made significant progress. Minutes of its meetings are available on the HMRC website.

Reduction in administration costs for small business

There is always a delicate balance to be struck between keeping systems as straightforward as possible to reduce compliance costs for honest businesses and ensuring that sufficient safeguards are in place to catch those who abuse the system.

We are committed to developing stretching but realistic targets for reductions in administration costs imposed by the tax system on small businesses, including a baseline against which progress will be publicly measured. Work is currently being undertaken by KPMG on behalf of HMRC to measure the current burden of the tax system on business, in order to establish a baseline figure. This cost baseline, together with further details of the project and a target for reduction, will be published in 2006.

We have been working with Companies House to explore how best to simplify and join up the filing of the company tax return and delivery of accounts to Companies House, for the benefit of all companies. We expect the potential for administrative savings will be particularly welcome to smaller companies. A consultation 'Aligning Company Filing Dates' was published on 28 November 2005. It sets out our proposals and asks for views by 3 March 2006. The consultation document is available to view on our website.

The work of HMRC's Small and Medium Enterprises & Employers Unit (SME & EU) is focused on understanding the requirements and behaviours of small and medium-sized enterprises (SMEs) in the UK. The Unit's goal is to make it easier for SMEs and employers to meet their tax obligations, to improve the customer experience and at the same time improve compliance. During 2005, SME & EU undertook two pieces of research:

'Working Towards a New Relationship' [1] was launched at Budget 2005 and sought views on how we could reduce the administration burdens faced by business, what our priorities should be and how the creation of HMRC could drive a more streamlined service for our customers - results were analysed over the summer and will influence a broad programme of work across HMRC, and

'Review of Links with Medium-Sized Businesses' was announced at Pre-Budget Report 2004 and looked at ways of HMRC improving its links with and the service it offers to medium-sized businesses, in particular the effectiveness of the enquiry process and how compliance burdens might be reduced.

The findings from these two pieces of research have been published on our website.

Child Trust Fund

The Government announced the introduction of the Child Trust Fund (CTF) in the April 2003 Budget as part of its strategy for saving and asset ownership. It is a long-term savings and investment account set up with an initial contribution of £250 from the Government with children in lower income families receiving £500, and is for all children living in the UK born on or after 1 September 2002.

To facilitate the process we developed a new IT system that drew information from the Child Benefit system so that parents awarded Child Benefit would automatically be issued CTF vouchers for their eligible children, avoiding the need for them to make a separate claim. Parents are able to choose from a range of different accounts including stakeholder, non-stakeholder shares account and a cash savings account, and from a range of over 110 official CTF providers and distributors. However, if parents have not opened an account within 12 months a stakeholder account will be opened by HMRC on their child's behalf. Parents are able to change the type of account at any time.

We issued the first CTF vouchers in January 2005 and 2.1 million were issued by 30 November 2005, with over 1.1 million of these being deposited into accounts. Children from low income families are being given additional payments, and all eligible children will receive a further Government contribution to their accounts at age 7. The Government is also consulting on a further payment at secondary school age.

Special arrangements have been put in place to ensure that children in Local Authority care do not miss out on the CTF. The first of these accounts was opened in November 2005.

Looking ahead, from March 2006 we will be opening CTF accounts for children whose parents have not used the voucher within 12 months of its issue and writing to parents inviting them to take on management of the account.

Lorry Road-User Charge Programme (LRUC)

On 5 July 2005 the Government announced that plans for the distance based charging of lorries will be taken forward as part of wider work on national road pricing. The LRUC Programme within HMRC formally closed on 29 September 2005. In acknowledging its high level of satisfaction with what the programme had achieved, the Government asked HMRC to ensure that knowledge which will help with the development of national road pricing was passed on to the Department for Transport (DfT). A small team from LRUC has also moved to DfT as the Design Panel for the development of wider road pricing and another was set up to manage residual LRUC matters within HMRC.

1 Available on our website at www.hmrc.gov.uk

Construction Industry Scheme (CIS)

In October 2005 the Government announced that a further 12 months would be allowed for the introduction of the final elements of the new scheme which will replace cards and certificates with a verification service. Monthly returns will replace the vouchers used in the current scheme and a new employment status declaration will also be introduced.

Most of the design work and first phases of the IT development work for the new scheme are complete and a programme of publicity and education has been launched. Detailed guidance about the new scheme was published on our website.

Although the current scheme will continue unchanged until 6 April 2007 we will be using the additional 12 months to increase the level of advice and compliance activity within the industry, including the release of new online software. There will also be additional staff in our contact centres to deal with queries about employment status.

We are working closely with the industry to strengthen co-operation in the following areas

- a joint testing programme for the new verification system and monthly contractors' returns
- promoting the use of the new employment status declaration, and
- analysing areas of non-compliance in the industry.

The new scheme will reduce the burden of operating the current scheme on construction businesses, improve the industry's compliance with its tax obligations and help the industry to get the employment status of its workers right.

Revenue and Customs Prosecution Office

In April 2002, accountability for the prosecution function of HM Customs and Excise was transferred to the Attorney General, and in April 2003 Customs and Excise Prosecutions Office (CEPO) was given independent funding. In April 2005, CEPO became part of the new Revenue and Customs Prosecutions Office (RCPO), which is an independent prosecuting authority accountable to the Attorney General. RCPO was established by the Commissioners for Revenue and Customs Act 2005, and is led by David Green QC, its first Director.

RCPO prosecutes criminal cases investigated by HMRC and will prosecute a proportion of cases investigated by the Serious Organised Crime Agency. The relationship between RCPO and HMRC is set out in a Memorandum of Understanding and a series of formal agreements that underpin it. HMRC will continue to work constructively with RCPO in the preparation and conduct of prosecutions. The new arrangements put in place real differences in powers, accountability and transparency.

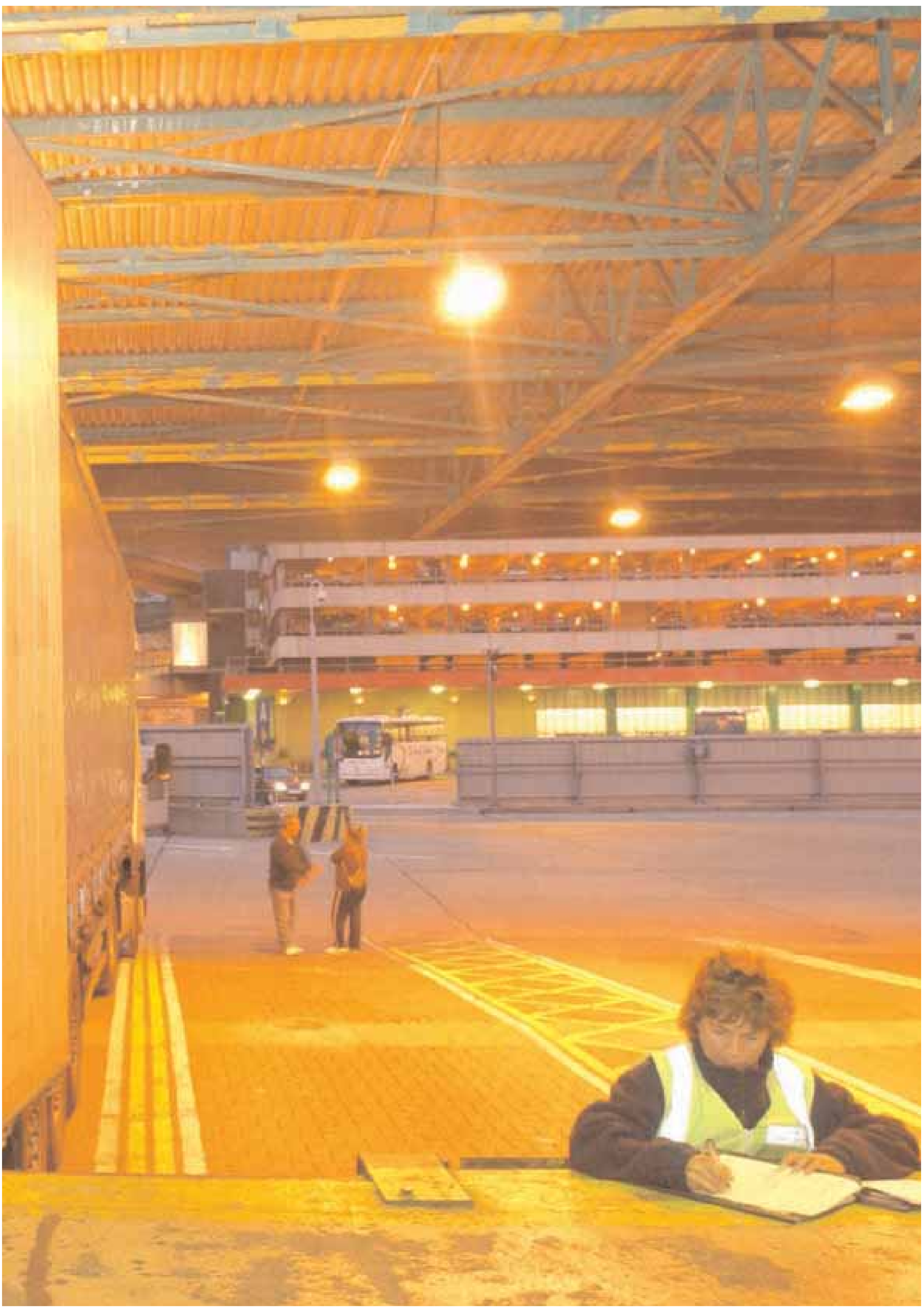
Details of cases prosecuted by CEPO during 2004-05 are published in Annex D.

Serious Organised Crime Agency (SOCA)

SOCA will bring together the National Crime Squad, National Criminal Investigation Service, the Immigration Service's work on organised immigration crime, and HMRC's investigation and intelligence work on serious drug trafficking and related criminal finances. 1,264 posts and related resources will transfer from HMRC with this work in April 2006. HMRC will retain its vital law enforcement role through tackling highly damaging fiscal crimes and will continue to have responsibility for protecting the UK's borders, including enforcing all prohibitions and restrictions at the frontier and working with other enforcement agencies in the fight against terrorism.

To prepare for SOCA, Criminal Investigation and Intelligence teams are re-aligning into new work streams to allow a smooth transition to take place from April next year. The foundations for a robust and close working partnership between HMRC and SOCA are now being developed. This new relationship will be built on common interests in tackling organised crime and the sharing of a range of assets, skills and experience.

During 2004-05 we seized 2 billion cigarettes – 200 million more than the previous year at airports, seaports, inland and en route to the UK.



Section 4

Review of 2004-05 and Autumn Performance Report for 2005-06

During the year steady progress was made towards establishing a single Department from two very successful revenue authorities whilst maintaining business as usual and improving their capability to collect the right taxes at the right time. Both former departments had stretching PSA targets and success against these is summarised in Section 4.1 and 4.2. The first part of the review of the year looks at the operational activities of both departments in the benefits and credits, direct and indirect taxes arenas and more widely in protecting our borders, before moving on to the corporate side of the Department's work, which underpins its culture and behaviours and provides essential support.

The first ever issue of summary valuations to 1.4 million ratepayers, and publication on the Valuation Office Agency website, has helped ratepayers understand their valuations.

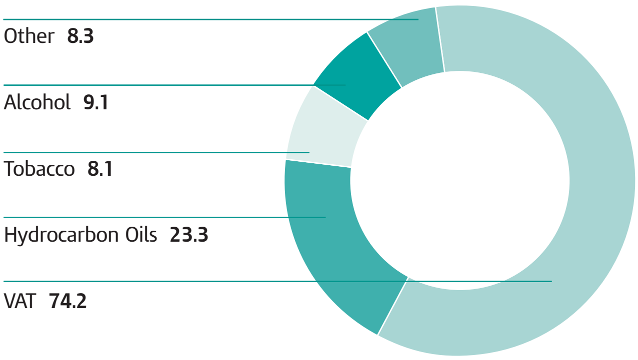
Revenue Collection[1]

HM Customs and Excise and the Inland Revenue collected taxes, duties and other revenue amounting to nearly £380 billion in 2004-05.

HM Customs and Excise raised total net accrued revenue of £123 billion, an increase of over £4 billion (3.8%) on 2003-04. VAT net revenue receipts increased by £3 billion (4.2%), driven by economic growth and the effects of the VAT compliance strategy. Net cash receipts were £121 billion

A total of just over £2 billion was remitted or written-off by HM Customs and Excise in 2004-05.

Indirect tax revenue accrued in 2004-05 (£bn)

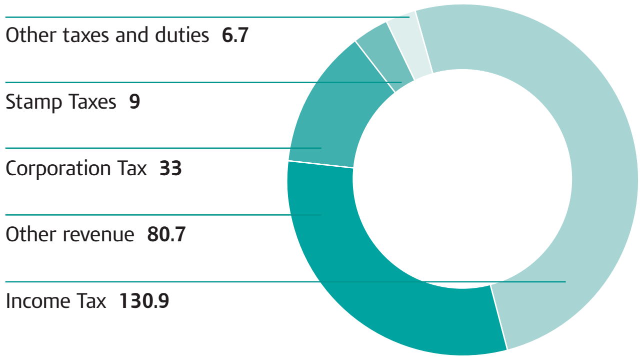


Inland Revenue raised total net accrued revenue of nearly £257 billion in 2004-05.

Net cash receipts for taxes, duties and other revenue were £252 billion, an increase of £21billion (9.1%) on 2003-04. Income tax receipts increased by £9 billion (8%), higher mainly as a result of growth in both employment and self-employed income; Corporation Tax increased by £5 billion (20%), as a result of growth in business profits and higher gas and oil prices and National Insurance Contributions increased by £5 billion (over 6%) mainly as a result of growth in employment incomes.

Nearly £2 billion was remitted or written-off by the Inland Revenue in 2004-05.

Direct tax revenue accrued in 2004-05 (£bn)



Other Revenue includes National Insurance Contributions (£80.2 billion), Certificates of Tax Deposit (£0.3 billion) and Student Loan Recoveries (£0.2 billion)

Paying Entitlements

The Child Benefit Act 2005 comes into force in April 2006, as a key step towards delivering improved financial support for young people and an important contribution towards the Government's skills agenda, since many young people find it difficult to complete courses when their Child Benefit stops at the age of 19. The Act enables the first significant extensions in the scope of entitlement since the benefit was introduced 30 years ago. Child Benefit will become payable for young people on approved training schemes. The Act will also enable up to a year's further entitlement of Child Benefit to be paid for all young people who reach age 19 and need additional time to complete a course of further education or approved training.

Throughout 2004-05 HMRC, along with the Department for Work and Pensions, contacted customers who received their benefits by order book to arrange alternative methods of payment. By the end of the year almost 98% of customers were receiving payments directly into their bank or Post Office card accounts.

1 Department of Inland Revenue 2004-05 Accounts (HC446) and HM Customs and Excise 2004-05 Accounts (HC447) were published on 10 October 2005 and are available from www.hmrc.gov.uk and The Stationery Office. Any discrepancy in the figures is due to rounding.

Tax credits were introduced in 2003 as a fundamental reform of the welfare state. Their introduction has been a huge undertaking for HMRC but for the majority of people the system is working well

- 6 million families and 10 million children are benefiting from tax credits, and the vast majority of awards are paid correctly
- the take-up for Child Tax Credit was around 80% in its first year compared to 57% for Family Credit and 62% for Working Families' Tax Credit, and
- in the first year of renewing claims more than 90% of claimants who needed to respond did so.

Nevertheless, we recognise that for some people there can still be problems with the way the tax credits system is operating and we are committed to delivering improvements. On 26 May 2005 the Government announced a series of measures to improve the administration of the system that are designed to

- improve how we communicate with families about their tax credit award
- reduce the risk of errors adding to overpayments, and
- improve the procedures for recovering overpayments.

After initial difficulties with the tax credits computer system, we have now established its integrity and significantly improved performance. Our priority now is to ensure that we make progress towards a more flexible IT system in a measured and orderly way.

Building on the progress being made to the administration of the system, the Government announced in the Pre-Budget Report 2005 a package of further improvements to the tax credits system, which we will be introducing over the next 18 months or so. The measures will provide greater certainty for claimants, particularly those on lower incomes, whilst maintaining the flexibility to respond to falls in income and changes in circumstances. They also give claimants clear responsibility to report changes to us promptly, which will allow us to base tax credit payments on the best possible information.

Tax Credits - progress since the NAO report

The Comptroller and Auditor General's Standard Report on the Accounts of the Inland Revenue 2004-05 (HC446) [1] was published on 10 October 2005. Much of the report focused on tax credits. The main concern was the level of claimant error and fraud.

Work on measuring claimant fraud and error within Tax Credits is ongoing and final results for the 2003-04 exercise will be published in spring 2006.

In addition, the Pre-Budget Report 2005 announced measures to improve tax credits compliance

- a doubling of checks we carry out on new claims before payments are made, including doubling the number of pre-payment checks carried out in cases where we suspect there may be an undeclared partner living in the household, and
- new training and procedures for all call centre staff who handle calls from tax credits claimants so that they can recognise and intercept potential fraud in telephone contacts from the public.

To tackle the problem of claimant errors we will be making various changes to the way we communicate with them. For instance, a new award notice will be issued from April 2006 to provide claimants with a much clearer summary of their award, an explanation of how it has been calculated and what they will be paid. Also, from April 2006, the guidance notes that accompany claim forms will be replaced by a clearer and shorter version. We are also looking at different ways to remind claimants to report changes in circumstances and are seeking to improve our helpline service further.

Our IT system is now stable and performance has already improved. Changes made to the management information systems will help us identify problems with the IT system much earlier.

1 This report is available at www.nao.org.uk

Supporting the workforce

Employer Supported Childcare

Finance Act 2004 includes reforms to the treatment of employer-supported childcare. There are new tax exemptions to encourage more employers, including those who had never done so before, to help their employees with their childcare responsibilities. New regulations also align the treatment of National Insurance Contributions with these new tax exemptions.

National Minimum Wage

HMRC enforces the National Minimum Wage (NMW) on behalf of the Department of Trade and Industry, to ensure a fair deal for all workers. In October 2004, the Government introduced a new rate for 16 and 17 year olds (above school leaving age). At the same time a new system of 'fair piece rates' was introduced for those paid according to the number of pieces made or tasks performed, which typically applies to homeworkers. These changes have enhanced the impact of the minimum wage by raising the income of low-paid workers.

Our enabling programme aimed at improving voluntary compliance included developing new guidance with the Football Association for football clubs engaging semi-professional players. NMW compliance officers also attended Employer Talk events and gave presentations to a wide range of external bodies to help raise awareness of the NMW rates and rules.

We have enforced the NMW since 1 April 1999. To date around £20 million in wage arrears has been identified for workers who had not been paid the minimum wage prior to our investigations. The 16 compliance teams follow up all complaints about non-payment of minimum wage. In addition they investigate a number of employers who have been identified through risk programmes as more likely to be non-compliant.

This investigation work helps to improve
- the equal treatment for workers across all trade sectors in the UK
- the level playing field for business in the UK, and
- employers' understanding of their obligations under NMW law.

We completed 5,155 investigations in 2004-05, detecting a 35% incidence of non-compliance. We identified arrears for 11,261 workers, up from 9,428 in 2003-04. Statistical tables for NMW can be found in Annex F.

Student Loan Recovery

HMRC collects student loan repayments advanced under the Income Contingent Repayment Scheme on behalf of the Student Loan Company. Repayments are deducted from salary by employers where employees earn more than £15,000 in a year and Self Assessment customers are expected to make repayments when their income reaches the £15,000 earnings threshold. Repayments are being collected from just over one million borrowers. In 2003-04, student loan repayments of £105 million were collected and £214 million [1] is forecast to be collected for 2004-05. The final outturn will be known when the PAYE end of year processes have been completed.

Statutory Payments

These consist of
- Statutory Sick Pay (SSP)
- Statutory Maternity Pay (SMP)
- Statutory Adoption Pay (SAP)
- Statutory Paternity Pay (SPP).

To ensure that employers meet their statutory obligations and employees receive what they are entitled to we enforce the Statutory Payments (SP) legislation on behalf of
- the Department for Work & Pensions for SSP and SMP, and
- the Department of Trade and Industry for SAP and SPP

1 The current estimate of student loan repayments for 2004-05 was reduced in the Trust Statement due to a revision to the 2003-04 outturn after last year's Statement was published.

The Work and Families Bill, currently before Parliament, proposes improvements to the scheme including

- an increase to 39 weeks for which SAP and SMP can be paid
- daily payments of SMP which will be optional but should help employers align SMP with a woman's normal pay day
- an 'any day' start which means that whatever day a woman starts her maternity leave her SMP can start from the same day
- the removal of payment penalties for attending work during the payment period
- additional paternity leave, and
- the removal of age restrictions.

These improvements are expected to be phased in from April 2006 through to April 2007. HMRC is committed to a programme of publicity and will be updating the information we provide throughout that period including the provision of electronic internet calculators for SAP and SPP.

Collecting Direct and Indirect Taxes

Modernising PAYE Processes for Customers (MPPC)

The MPPC programme was established in 2003 to improve the PAYE internal business processes, IT infrastructure and customer service. During 2004-05 the programme concentrated on implementing recommendations in the 2001 Review of Payroll Services [1].
These were that

- large employers should file their Employer's Annual Returns online from 2004-05
- medium-sized employers should file their's online from 2005-06, and
- small employers who volunteer to file online should be paid a tax-free incentive payment.

The system 'opened for business' on 6 April 2005 and employers and agents were able to file their returns almost uninterrupted until the 26 May deadline. 935,000 returns were received online, compared to just 85,000 the previous year.

Processing of returns was delayed during implementation of a new computer system that brings together return information and passes it on to our other systems. During the summer, we processed all error-free online returns and then moved on to paper and magnetic media. We expect to be back on track early in 2006.

During 2006 and 2007, the next phase of MPPC will introduce changes to improve customer service and compliance by making processing quicker and creating a single PAYE record for employees with more than one source of PAYE income.

PAYE

In 2005 we began to correct errors identified by our Internal Audit Office in the PAYE system in relation to tax liabilities where people had more than one source of employment income. The problems were highlighted by the NAO [2] and many of the recommendations made by our Internal Audit Office have been implemented. Work on the health checks and risk assessment continues and has identified some areas where remedial action is needed and some where we are satisfied that processes are working effectively. A further Internal Audit review this year, into benefits in kind, has revealed similar problems to those identified in their earlier reviews. The review is not yet complete, but early findings have been provided and remedial action will be taken to address these.

Stamp Duty Land Tax

Stamp Duty Land Tax (SDLT) was introduced from 1 December 2003. Initially returns were processed manually and a 'light touch' was applied to considering whether we could accept partially completed returns.

From August 2004, we implemented a staged hand-over to the automated processing of SDLT returns. By the end of March 2005 all transactions were being processed through our Rapid Data Capture Centre. To supplement the hand-written returns from customers, we also offer the choices of a downloadable webform, CD-ROM and case management software versions of the returns. HMRC currently successfully processes around 130,000 transactions onto the SDLT core database each month.

1 Review of Payroll Services, Patrick Carter, November 2001, is available from www.hmrc.gov.uk

2 Comptroller and Auditor General's Standard Report on the Accounts of the Inland Revenue 2004-05 formed part of the Department of Inland Revenue 2004-05 Accounts (HC446) published on 10 October 2005 is available at www.hmrc.gov.uk and The Stationery Office.

Throughout the year, staff worked with customer groups to explain how the new processes work. High demand, particularly for the telephone enquiry line, led to initial concerns about the standard of support for customers. However, following consultation and representations a number of processes have now been streamlined to improve the customer experience. These initiatives - which have been welcomed by practitioners - have both improved the percentage of returns that can be accepted without seeking further clarification and reduced the need for us to contact property purchasers direct.

Environmental Taxes

The Government is committed to delivering sustainable growth and a better environment and to tackling the global challenge of climate change. It uses a range of incentives to encourage

- a reduction in the emissions of greenhouse gases
- the effective management of waste, and
- the protection of the UK's countryside and natural resources.

The climate change levy should deliver savings of over 3.5 million tonnes of carbon by 2010, well above the 2 million tonnes forecast at the time of its introduction. It is estimated that energy demand reduced by 1.2% in 2000 in the commercial and public sector, 13.8% in 2003 and will reach 14.6% in 2010.

Following the introduction of aggregates levy, sales of primary aggregate in Great Britain fell by 8% between 2001 and 2003 against a background of buoyant construction growth. The use of recycled aggregate is increasing (in England, up by 3.1 million tonnes between 2001 and 2003) as the levy was designed to encourage. During 2004-05 the levy relief scheme in Northern Ireland was extended in scope and duration. As a result, relief is now contingent on operators agreeing to make stringent environmental improvements to their operations.

The landfill tax has been effective in diverting waste from landfill which fell by almost 20% between 1997-98 and 2003-04. The tax rate on active waste is being increased annually to help put the UK on course to achieve its legally binding target of reducing the volume of biodegradable municipal waste sent to landfill to 75% of 1995 levels by 2010.

Gambling

Recent reforms of general betting duty, pool betting duty and bingo duty continue to be successful in encouraging growth in the UK gambling industries, raising £1.42 billion in 2004-05 compared with £1.37 billion the previous year and £1.29 billion in 2002-03. We continue to work with HM Treasury to examine issues such as the taxation of internet-based gambling and betting exchanges, and the revision of other duties in line with Government proposals for the modernisation of social regulation of gambling, now provided for in the Gambling Act 2005. We will continue to work with HM Treasury on aligning the gambling tax regimes with the Gambling Act, as set out in this year's Pre-Budget Report [1].

The administration of gambling duties has been improved by the deployment of teams of specialist officers who focus on improving compliance within the sector. This approach has enabled us to use fewer resources more efficiently, through targeted assurance action, and was endorsed by the National Audit Office in their report published in January 2005 [2].

The NAO report highlights the progress in assurance work made since March 2000, and the effect of the reform of General Betting Duty in bringing bookmakers back onshore, so protecting revenues, with a resultant decline in illegal bookmakers. In 2004-05, work began to realise the benefits of closer working between the direct and indirect tax parts of HMRC's predecessor departments and with the newly formed Gambling Commission.

1 The full report is available on the HM Treasury website www.hm-treasury.gov.uk
2 The NAO Report entitled 'HM Customs & Excise: Gambling Duties' is available from www.nao.org.uk

Improving Compliance

Direct taxes

There will always be people who do not comply with taxation legislation for various reasons ranging from ignorance, misunderstanding and error, through indifference and carelessness, to conscious and deliberate evasion or fraud. To address these reasons we aim to understand who our customers are and what influences their behaviour. It is then equally important to respond accordingly.

However, there are other ways in which we can better ensure compliance. These range from activities to inform, educate and support taxpayers, right through to consideration of referral for criminal proceedings in the most serious cases.

We have continued to develop our risk assessment processes and tools, to aid better and quicker identification of non-compliant customers. There is now in place an active partnership between risk analysts and compliance teams. We aim to deter non-compliance and provide appropriate advance warnings where we have identified issues that have the potential to affect the accuracy of tax returns.

The risk-based approach has therefore developed through light touch enabling and leverage contacts. In 2004-05, 120,000 small businesses were contacted alerting them to the risk of an enquiry, and providing them with relevant information and advice to ensure accuracy on the next return. 50,000 contractors and sub-contractors in the construction industry were also contacted regarding assurance issues that arise if employment status is not correctly declared.

Our enquiry programme results continue to show improvement. Targets for numbers of enquiries were met in all types of compliance assurance work. The drive to improve the quality of this work, reducing unnecessary customer costs, is evidenced in the improvement to the yield/cost ratios (see Annex F). By improving the quality of service to customers and reducing their costs we have met the Service Delivery Agreement targets which underpin the Public Service Agreements.

Large Business Service

2004-05 saw the Large Business Group (LBG) move from a regional to a sector-based organisation enabling staff to gain a greater commercial awareness and a better understanding of the requirements of businesses, working with them to encourage greater compliance and to continue to reduce their compliance costs.

The move towards sectorisation made it easier to identify issues that either are of national significance or impact upon other sectors. For example, there has been an increased focus on Insurance Premium Tax (IPT), currently yielding £2.6 billion a year. An IPT compliance strategy is now in place to test perceived risks and to review further resources.

The Large Business Office (LBO) introduced a programme of change to safeguard the flow of revenue whilst maintaining quality of service to our customers including

- improved identification, handling and resourcing of the biggest issues
- extending real time working through expansion of the 'New Compliance Process' and negotiation of framework agreements between LBO and customers, and
- continuing the reduction in the average time taken to conduct employer compliance reviews whilst increasing yield.

The Energy Group (EG) achieved all of its key targets. During the year they hosted a successful joint EG/industry conference with broad themes of change and innovation and continued to provide policy support on how payment of North Sea Corporation Tax might be speeded up - a change in the regulations governing instalment payment rules came into force on 13 April 2005.

In the latter half of the year LBG, LBO and EG became a fully integrated Large Business Service (LBS). We are embedding the drive for improved customer service and reduced compliance burdens strongly within the new organisation. One example of this is a programme of Board-level visits to some of our businesses to discuss compliance and service issues. This has been combined with the hosting of conferences with large businesses and their advisers. We aim to forge a partnership with large businesses to help them improve their compliance and key to this approach is the introduction of the Client Relationship Manager who will work across taxes and duties for each business and enable us to engage more formally with businesses about our assessment of their compliance. By 1 April 2006 our new roles and structure will have been implemented and by 1 April 2007 the maturing business model will have enabled us to transform our effectiveness and efficiency.

An important initiative in developing partnerships with businesses will be our involvement in shared workspace, an internet based initiative which allows us to work collaboratively with accountants and customers in a secure, structured electronic environment. At present we have one pilot underway with positive outcomes and a roll out to all Large Business Service entities has been approved.

VAT

We launched our VAT Compliance Strategy in 2003 with the aim of reducing VAT losses by making it simpler and less costly for businesses to comply with the requirements of the VAT system, cracking down hard on those who continue to abuse the system and improving the service that we offer.

There are approximately 1.8 million businesses registered for VAT in the UK, spread across 55 trade sectors. In 2004-05 VAT registered businesses paid approximately £73 billion net VAT. The number of businesses we deal with and the amount of revenue involved means that there will always be a shortfall between actual VAT receipts and the VAT that would be collected if all businesses paid the right amount of VAT at the right time.

Through our VAT Compliance Strategy we will reduce the scale of VAT losses to no more than 11% of the theoretical liability by 2007-08 by addressing the full range of business behaviours that lead to these losses, in such a way as to deliver sustained improvements. In particular the strategy focuses on

- lack of awareness and understanding of obligations that leads to error and low-level evasion and inadvertent failure to register for VAT
- deliberate evasion by registered businesses, ranging from small scale, opportunistic activity to large, more systematic evasion schemes (including deliberately failing to register for VAT)
- aggressive tax planning by businesses seeking to minimise their tax payments (or maximise repayments) through artificial avoidance schemes, and
- criminal attacks on the VAT system with the sole motivation to profit from the theft of VAT.

Following the introduction of the VAT Compliance Strategy (VCS) the percentage of the VAT gap decreased sharply from 16.8% in 2002-03 to 13.5% in 2003-04 and remained flat at 13.5% in 2004-05. We will continue to develop our VCS and reduce losses through the intelligent application of a broad range of integrated interventions, all aimed at delivering sustained improvements in business compliance. Key elements of the strategy will continue to be tackling Missing Trader Intra-Community Fraud and VAT avoidance.

Tobacco

The 'Tackling Tobacco Smuggling Strategy' [1] announced in March 2000 aims to reduce the illicit market share of smuggled cigarettes. Between 2000-01 and 2003-04 the illicit market was reduced from 21% to 16%, saving £5.8 billion in revenue that would otherwise have been evaded.

We are not yet able to publish an estimate for the 2004-05 illicit cigarette market because estimates rely on data from both the General Household (GHS) and Omnibus Surveys. The GHS only becomes available around 18 months after the survey period. In previous years provisional estimates have been published but analysis now shows these to have been unreliable and requiring substantial revision when the GHS data becomes available. As a result we no longer consider provisional estimates to be a reliable indicator of the illicit cigarette market.

However, in 2004-05, for the first time since the introduction of the strategy, more cigarettes were seized overseas (1,060 million) than in the UK (960 million). We also disrupted 68 gangs involved in tobacco smuggling. We continue to review and refresh the strategy in light of the changing nature of tobacco smuggling.

1 Available at www.hm-treasury.gov.uk

Alcohol

The latest available estimate indicates that illicit spirits accounted for 7% [1] of the legitimate UK market in 2003-04. 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.

In 2004 the Government announced its strategy to tackle spirits fraud as it was becoming clear that a co-ordinated approach, encompassing a number of measures, would be necessary in order to drive down the illicit market. The strategy, launched across HMRC in June 2005, is designed to reduce the profitability of fraud and increase the risks associated with engaging in illicit activity. The measures central to the strategy are

- the introduction of duty stamps for spirits (from 2006) along with changes to the regulatory framework that governs the holding and movement of duty suspended alcohol within the UK that fraudsters currently exploit
- enhancing operational activity to focus resources on high risk owners, warehouses, transporters and their supply chains, using the sanctions and powers available to the maximum effect, and
- working closely with the legitimate industry through memoranda of understanding so that all available information is used to minimise opportunities for fraud.

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.

Section 4.1 provides a summary of the key tenets of the strategy and details how we will continue to work towards achieving our PSA target to reduce the size of the illicit market by at least half by 2007-08.

Oils

2004-05 was the second full year of the UK Oils Strategy, which was announced in Budget 2002. It was introduced to tackle misuse of rebated fuels such as red diesel and kerosene throughout the UK, including Northern Ireland.

The main revenue loss continues to be from the misuse of rebated fuels, including laundering to remove chemical markers and dyes. Results of HMRC 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. This is evidenced by the reduction of the illicit market from 6% in 2001 to the latest estimate for 2004 of 4% [1].

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 third year of operation. Over 5,000 businesses have been authorised as registered dealers, each submitting monthly data on their supplies of rebated fuel. There has been a greater focus on compliance within the terms of the scheme and more activity is now being driven by improved risk assessment.

HMRC is continuing to work closely with the industry both in tackling fraud and in reducing burdens on business. We will maintain a collaborative approach through joint working with the industry in Great Britain and in Northern Ireland on security and intelligence issues.

1 'Measuring Indirect Tax Losses - 2005' is published alongside the 2005 Pre-Budget Report at www.hmrc.gov.uk

Money Laundering Regulations

HMRC supervises compliance with money laundering regulations, through a registration system, aimed at combating money laundering and stepping up the fight against organised crime and terrorism. Supervision extends to Money Service Businesses (MSBs) such as bureaux de change, money transmission or cheque cashing operators and High Value Dealers - businesses that accept more than €15,000 (approximately £10,000) in cash in a single transaction.

In support of the register, HMRC uses specialist officers to operate an education and assurance programme for regulated businesses to deter the flow of criminal money through the sector and improve the flow of intelligence about money laundering.

The legal framework supporting the UK's anti-money laundering strategy continues to develop. EU regulations will soon require money transmitters to record additional information about their transactions and a new Money Laundering Directive is being considered that will require all MSBs to satisfy criteria to show that they are 'fit and proper' before being admitted to the register.

Other Operational Activity

Fighting Terrorism

HMRC continues to work with the police and other law enforcement agencies in the fight against terrorism. We are participating in the Container Security Initiative and other programmes to protect the international supply chain. Recognising HMRC's key role at the frontier, the Government continues to fund the deployment of additional resources and technology at UK frontiers. New equipment designed to detect radiological materials is deployed at major ports, airports and the Channel Tunnel, and mobile screening has been introduced at other locations through a joint project with the Home Office.

International Trade

During 2004-05, 41,482 businesses new to international trade were contacted in addition to 48,331 businesses already engaged in import/export to advise them of the education and support options available and to ensure that they understand their obligations and the regimes open to them. Much of the education and support is offered is available through self-service options and we also held a total of 171 seminars and workshops. In addition 2,514 businesses received education on a one-to-one basis.

We revised our approach to gaining assurance on the operation of International Trade regimes in line with our risk and deployment strategy. As a result of efforts in 2004-05 over 95% of businesses were assessed as fundamentally compliant.

Throughout the year, HMRC maintained its influencing position within the EU we continued to promote UK interests in the development of the revised Customs Code. These developments aim to simplify customs legislation and reduce the number of customs procedures. An extensive consultation programme has been conducted with the European Commission, other Member States and the trade to confirm EU customs priorities, which include

- promoting better regulation and the modernisation of EU customs procedures by progressing current EU initiatives for delivering e-Customs
- revising the Customs Code and developing simplified rules of origin for customs declaration processing, and
- continuing to combat cross border drugs smuggling, organised crime and other activities that pose serious threats to public health and safety.

In mid-2004, the first draft of the Commission's Multi Annual Strategic Plan (MASP) was produced. This proposes modernisation of the law, operational convergence and computerisation of customs processes, in line with our Blueprint [1] recommendations. In 2004-05, the Blueprint Programme delivered a number of business improvements to assist the trade including

- waiver of customs duty of less than €10 on imported post and packages
- a new charging system for postal imports
- enhancements to the electronic export system
- a web channel for traders to make electronic community transit movements, and
- an electronic link to Brussels to transmit Binding Tariff Information rulings.

Counter-Proliferation

HMRC continues to support the Government's counter-proliferation objectives through export control enforcement activity. This year we

- detected 42 attempted exports of goods that could have assisted weapons of mass destruction (WMD) programmes for which the Government subsequently invoked the WMD end-use control [2]
- worked with UK agencies and overseas counterparts to disrupt the international supply of sensitive goods to countries of concern and to assist with bringing cases to trial
- contributed to DTI seminars and visited exporters and brokers
- contributed to the annual International Export Control Conference, attended by 46 countries at various stages of developing export controls
- supported the licensing and enforcement activity of the four international control regimes, including drafting a handbook for enforcement officers for distribution in the Nuclear Suppliers Group, and
- supported the multinational Proliferation Security Initiative by attending operational exercises and providing legal advice on international maritime law.

Specialist staff follow up all intelligence and credible allegations of export control breaches [3]. They investigate all cases where there is evidence of a deliberate breach involving sensitive destinations or particularly sensitive goods. Our primary objective is to seek prosecution in such cases, but there have also been a number where our action has been to disrupt the attempt.

In a broadening of our approach to prosecution, we now refer for prosecution those cases involving strict liability offences under section 68(1) (exports of prohibited and restricted goods) of the Customs and Excise Management Act 1979 where there are aggravating circumstances such as previous technical breaches, sensitive destinations, particularly sensitive goods or the misuse of open licences. A conviction has been secured in respect of the attempted export of body armour to Pakistan, resulting in a £2,500 fine. DTI publicity surrounding this conviction resulted in increased awareness and compliance.

Products of Animal Origin (POAO)

HMRC enforces anti-smuggling controls on illegal imports of POAO and plants and plant-based goods into England, Scotland and Wales from countries outside the EU. We now deploy over 100 detection staff and 10 specialist detector dogs - the first dogs deployed in this area within the EU.

High risk, illegal imports are targeted on those routes deemed by the Veterinary Laboratories Agency to pose the greatest threat of disease flow to the UK, supported by information from the Office International des Epizooties on global animal health diseases.

We received disease notifications from Defra (leading to a reclassification of risk and/or further import restrictions) in relation to outbreaks of avian influenza. In response we undertook a number of special measures to prevent illegal imports from affected countries. Seizure figures are published by Defra, along with seizures of illegal imports by other agencies, in their 'Annual Review of Controls on Imports of Animal Products' [4].

1 The Blueprint for International Trade is available on our website www.hmrc.gov.uk
2 A very wide range of industrial items and materials can assist WMD programmes and proliferators but, to limit the burdens on exporters, only critical items appear on Dual Use Control lists. The WMD end-use control enables the Government to act where there are concerns over the end-user. These cases do not result in a seizure and do not therefore appear in our seizure statistics.
3 Members of the public with information about the possible breaches can call Customs Confidential free on 0800 595000
4 Published in July 2005 and available at www.defra.gov.uk

As a result of extra staff and resources deployed on POAO, seizures increased to 25,286 in 2004-05 (a total weight of 216,889 kg) from 15,316 (total weight 174,206 kg) in 2003-04. We remain concerned at the high instances of detections on certain routes. Most seizures are from air passengers travelling to the UK for the first time - typically small family groups, business people and students, with foodstuffs as gifts, for a special occasion or for a 'taste of home'. All illegal imports are seized and disposed of by incineration by a contractor approved under UK and EU law. These travellers are then issued with a letter explaining why their goods were seized and warning them of the risk of prosecution in any further attempt to breach the prohibition. Prosecution is sought in serious cases involving repeat offenders, large scale imports, commercial scale smuggling or other aggravating circumstances. Seven people were convicted for offences under the POAO regulations in 2004-05.

We continue to work closely with Defra to raise public awareness about the animal and plant import prohibitions and restrictions. We supported Defra in a campaign to raise awareness amongst ethnic community groups. Specifically targeted messages and materials were used to explain the rules and implications, including bilingual leaflets and posters and a branded mobile unit that visited over 30 venues.

A new public information film received significant coverage on both national and regional TV stations, and was adapted for use by airlines as an in-flight video to encourage incoming travellers to surrender illegal goods in the Red Channel. UK travellers who research and book trips abroad on the internet were targeted by innovative and 'eye-catching' images that encourage users to click through to the Defra website. We have also introduced a publicity campaign both here and overseas.

A survey conducted in September 2004 showed that awareness of the rules on personal food imports has increased since we assumed responsibility for action at the border - rising to 50% from 40% two years ago.

Intellectual Property Rights

A new EC Regulation came into force on 1 July 2004, extending the scope of intellectual property rights to include plant variety rights, designations of origin and geographical indications of origin, and abolishing all application fees across the whole of the EU. This has proved an incentive for businesses who were put off by the cost of registering their intellectual property rights. There has been a steady increase in applications rising from 251 to 340 during 2004-05.

The increase in the number of items seized includes large consignments of DVDs and cover sleeves, batteries and computer memory sticks. Additionally, large quantities of pharmaceuticals continue to be intercepted.

HMRC is fully committed to the development of the National Intellectual Property Crime Strategy [1] led by the Patent Office. The strategy was launched in August 2004, and is designed to deliver a co-ordinated response by UK enforcement agencies to the increasing availability of counterfeit goods and to improve intelligence. We are represented on the Working Groups that co-ordinate the strategy and we contributed to the first Annual Enforcement Report [1] published by the Patent Office in March 2005.

HMRC has made counterfeiting a top priority for the UK Presidency of the EU. We worked with the European Commission and other EU Member States to produce an EU Action Plan to combat the increasing threat from counterfeited goods. This Action Plan received unanimous endorsement from the Customs Policy Heads of all 25 Member States in November 2005.

1 Available at www.patent.gov.uk

Cultural Objects

In the first full year of enforcement responsibilities under the Dealing in Cultural Objects (Offences) Act 2003, we made 8 seizures of antiquities that were suspected of being 'tainted' (that is, illegally excavated or removed from a site of historical, architectural or archaeological interest). Over 100 artefacts from the 5000 year-old Jiroft site in Iran's southern province of Kerman were intercepted at Heathrow airport and subsequently returned to the government of Iran. A large number of Afghan artefacts, ranging in date from the 3rd millennium BC to the 16th century AD have also been seized and are due to be returned to the government of Afghanistan.

A summary of all seizures is available in Annex E.

Support Activity

Efficiency Programme

We are committed to delivering our SR02 and SR04 targets within the agreed spending limits, while making the necessary progress towards our commitment to realise £507 million savings by 2007-08, including a net reduction of 12,500 full time equivalent posts. Achievement to date against this aim is reported in Section 3 - Progress against the Chancellor's Annual Remit.

HR Integration

The creation of HMRC has provided an opportunity to review the HR policies for the new Department. Learning from the experiences and best practice of both former departments has led to the development of new policies and processes that will support and strengthen HMRC values and culture by driving up performance as well as increasing management capability and individual responsibility.

Clear, consistent guidance will be provided to staff that accurately reflects the new policies and supports the new HMRC culture. By using this new guidance over 80% of our staff are expected to 'self-serve' HR advice, procedures and policies. This will help us achieve our strategic organisational and structural aims and meet targets to reduce 'back office' resources. Work is progressing on defining new terms and conditions for HMRC and detailed negotiations with the Trade Unions are ongoing. A pay offer covering the 2005, 2006 and 2007 settlements has been made to the unions, who have consulted their members.

The efficiency gains that we are committed to present a significant challenge for ensuring our workforce is correctly skilled, located and resourced. In order to meet this challenge a number of steps have been taken to put us in the best position for the future, including

- reductions in recruitment
- the introduction of systems to maximise redeployment
- the use of fixed term appointments, and
- targeted exit schemes.

The active management of our workforce will ensure that we remain on target to achieve our efficiency gains. HMRC is participating in Cabinet Office plans which bring together departments under an agreed protocol to share details of redeployment opportunities across the Civil Service.

Senior Leadership

HMRC has created an integrated senior management for the new Department. Directors are working on developing and building their management structure with corporate oversight provided by a Senior Appointments Board.

Improving management capability is critical to the future success of HMRC. A Management Framework has been introduced to set out clearly and concisely what is expected of managers and supporting guidance is being rewritten. Work is in hand to provide a range of tools and development products to support managers in their key role.

Diversity

During 2004-05, we developed a new diversity and equality policy to ensure that diversity remains central to the way that we deliver our key business objectives. Diversity is also a key feature of the work on corporate and social responsibility and our outward facing activities.

Challenging targets are being set for the next three years for the representation of Black/Minority Ethnic (BME) people, women and disabled employees at senior levels. To support this a comprehensive action plan is under development that will identify activities needed at every level of our organisation to improve the diversity of our people.

Our relationship with the voluntary sector is vital in achieving our diversity aims. Working with various community projects through New Deal, Business in the Community (BitC) and the Prince's Trust, for example, has raised our profile in some hard to reach communities and helped to explain our services and functions better.

An NAO report on diversity [1] emphasised the benefits of HMRC's work with small and medium sized enterprises in Sikh and Chinese communities in Bristol. Employees worked with local community groups to help ethnic minority businesses improve voluntary compliance and gain access to a range of services and support.

Our success in diversity was also recognised by the award of a BitC 'Big Tick' in 2004 which has subsequently been reaffirmed in 2005. We also received a gold standard award for Race for Opportunity. HMRC statistics on diversity are published in Annex B.

Learning

HMRC is committed to learning and personal development, and recognises the need to deliver the necessary skills, particularly for those who find themselves in new roles. This has resulted in the creation of a 'business critical' list of products. We provide different ways of meeting learning needs including classroom delivery, coaching, buddying, self-instruction, job shadowing - help cards. We are also making greater use of e-learning, moving away from traditional paper and classroom based learning although these will still have a role, sometimes as part of a blended learning solution. The standard of e-learning is being improved to make it more interactive, better structured, more responsive and better focused.

We are designing a learning function to meet our evolving business needs and to help us achieve our business objectives and PSA targets. The learning function within HMRC will be smaller than the combined resources of the former departments but roles will be more flexible allowing staff to be more adaptable in working to deliver our priority needs.

Both former departments had achieved recognition for Investors in People, which is being transferred to HMRC with corporate recognition retained until March 2008.

Industrial Relations

A new agreement has been reached with the unions covering a range of issues relating to changes in staffing, including new consultation arrangements. A joint central group meets regularly to discuss plans for change at a strategic level.

Health and Safety

A Departmental Health and Safety (H&S) Committee is chaired at Board level. A systematic approach is taken to H&S management consistent with published best practice. Compliance with H&S duties is audited, good practice identified and continuous improvement targeted.

1 'Delivering Public Services to a Diverse Society' - Report by the Comptroller and Auditor General 10 December 2004. Published by the Stationery Office.

Procurement and commercial activities

Within HMRC we have established a Commercial Directorate responsible for driving the most effective and efficient use of public money by

- developing a commercial strategy and policy, and monitoring compliance
- arranging and managing all contracts for goods and services (except IT and Estates)
- ensuring we follow Government and EU procurement policy and legislation
- exploring the Government market place to maximise value for money
- implementing the procurement functions of Enterprise Resource Planning (ERP) by April 2006
- exploiting collaborative opportunities with the Office of Government Commerce (OGC) and other government departments (OGDs) to maximise purchasing power, and
- achieving target procurement savings and efficiencies.

HMRC is one of the leading departments in achieving procurement savings and we have recently reported to the Office of Government Commerce (OGC) combined Departmental value for money savings of £208 million for 2004-05 (for exIR, exHMCE and VOA).

These savings have been generated from direct negotiations with suppliers, joint procurements and collaborative deals with OGDs and agencies, reducing transactional costs and improved contract and asset management including

- £10.5 million savings on a pan-Government deal with Microsoft for software licences
- £8 million on IT hardware and software
- £2.7 million savings from our print framework contract, and
- around £1 million annual transport and travel savings achieved by changing car lease arrangements and opening up our hotel contract to 25 OGDs.

The Commercial Directorate is currently undergoing a business transformation programme which aims to

- streamline its organisational structure to support the delivery of the new end-to-end procurement function under ERP (by April 2006)
- deliver further efficiencies and ERP target savings of £188 million by 2010
- contribute to Lyons relocations (45 posts moving out of the south east), and
- build on our procurement professionalism and provide career opportunities for staff.

This will result in the creation of a single commercial unit in Manchester by April 2007, through rationalisation of our seven existing locations with a consequential reduction from 215 to around 140 staff.

IT strategy developments

As a result of integration, HMRC now has in excess of 100,000 users of IT and 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. Currently, the combined annual spend on IT related activities is over £1 billion.

Over the last ten years, IT infrastructure has primarily responded to drivers for new services (such as Tax Credits) or new channels of service delivery (for example the first wave of online service provision). Our IT strategy for the new Department is changing our focus from delivering new business, to transforming the way services are delivered to customers, while driving down cost. We are focusing on delivering solutions that meet departmental needs and opportunities, rather than technology alone. The challenge is to deliver an IT business direction that will enable us to achieve this.

In May 2005 we agreed a Strategic Framework for IT developments which sets out our vision for IT over the next three years. It 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. It also looks at how IT can enhance the customer experience, support business and reduce the compliance burden. It explains how IT can also help HMRC deliver efficiency savings.

The IT Strategic Framework sets explicit objectives to enable more efficient and effective business processes by focusing on four main areas

- the operation of optimised daily services
- the development and implementation of next generation solutions
- effective listening and working with both business and external partners, and
- developing a high performing team of valued professionals.

In order to meet these objectives we are

- establishing a vital link between IT development and our internal business areas, enabling their needs and strategy to be identified
- establishing an 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.

We are improving processes and systems for our finance, procurement and HR functions through investment in IT systems, based on proven commercial software. During 2006 we will deliver a new accounting framework for all taxes and duties. Our first implementation of the framework will be applied to a variety of penalties and other minor charges and will allow us to release around 200 staff from back office to front line work during 2006-07.

Despite the complexity of accounting for tax and duty, the framework has been developed with minimal customisation which will make the system easier and cheaper to maintain and update. During 2006 we will also introduce new systems to support our resource accounting, procurement and HR systems and transform our whole approach to letting and managing contracts. This work is expected to enable reductions in our expenditure on goods and services (outside our main PFI contracts) by around 6% per year.

Security

HMRC is committed to providing a secure environment for our people, information and other assets as an important enabler in delivering its operational business performance. Key security aspects are the continuing international terrorist threat and preserving taxpayer confidentiality.

The thrust of our effort has been towards building a new security organisation while maintaining security assurance levels during the business transition. This included establishing a new top-level Security Committee reporting to the Chairman and chaired by the Director General of Corporate Services.

We are also supporting the organisational challenges in the establishment of SOCA and RCPO. Our security strategy is aimed at enabling business delivery through appropriate and proportionate security counter-measures.

Business Continuity

2004-05 saw business continuity staff across HMRC working to challenging targets for completing the development and testing of business continuity plans in every office. In addition, new training and guidance materials on testing plans were produced and delivered across the country.

We dealt successfully with a number of incidents through the year by implementing local business continuity plans and emergency procedures. All the incidents were contained locally and the overarching Departmental business continuity arrangements were not invoked.

Valuation Office Agency

2004-05 was a successful year for the Valuation Office Agency (VOA) with the completion of the Non Domestic Rating (NDR) Revaluation in England and Wales and the Council Tax (CT) Revaluation in Wales. The Agency was also heavily occupied with preparatory work for the CT Revaluation in England for 2007.

The new 2005 NDR List was produced on time whilst embedding the philosophies of 'Right First Time' and keeping the ratepayer informed. A big step forward in transparency took place in October 2004, with the first ever issue of summary valuations to 1.4 million ratepayers, publication of the summary valuations on the VOA website and additional support through the well received website 'mybusinessrates.gov.uk'. Early indications (including the low numbers of appeals received so far) are that these schemes have proved helpful to ratepayers, in understanding their valuations, and to us in establishing the accuracy of the rating list. This new approach was recognised by the Institute of Revenues Rating and Valuation in their performance award to the VOA for Valuation Team of the Year in October 2005.

The Council Tax (Wales) list was also produced on time with 1.3 million council taxpayers receiving prior notification of their new bandings in autumn 2004. The consultation and transparency of these bandings provided a sound foundation for the list becoming effective on 1 April 2005. The level of appeals and enquiries received to the end of September has been much lower than expected.

The digitisation of data held on over 21 million domestic properties was completed as part of the CT Revaluation in England, surpassing a key target by almost 700,000. The testing of an automated valuation model (AVM) to support consistent and transparent valuations and enable a quicker, more accurate delivery of CT revaluation in England was successful and the decision to implement the technology announced in September 2004. The preparatory work for CT revaluation carried out in the first part of 2005-06 will assist in providing modelling data to the Inquiry team under Sir Michael Lyons. Following the postponement of the revaluation on 20 September 2005, the Government has announced that some work will continue on the AVM, to capitalise on the investment made so far.

Income from valuation work for HMRC and other government departments and public bodies again exceeded target, and increased emphasis was directed towards improving business systems and customer care.

The Agency maintained a period of significant staff expansion throughout 2004-05 primarily as a result of preparations for the CT Revaluation in England. Staff were supported with the appropriate training and personal development schemes including a new Management Development Programme. These initiatives played their part in the improvement in VOA's satisfaction target, which rose from 53% to 58%. Following postponement of the scheme the Agency is now managing a consequential substantial downward shift in the resource needs.

Overall five of VOA's eight key targets were fully met with a very narrow miss on the Productivity Improvement Indicator (2.4%, target 2.5%) and a part achievement on the Valuation Accuracy target. The third target not met was for customer satisfaction, which was measured solely by surveys of CT customers, and where the Agency is working to establish an indicator reflecting performance across the whole of its business.

A summary of the Agency's results is in Annex C. The Agency's own Annual Report [1], published in August, contains more detail about the Agency's performance in 2004-05.

1 The VOA Annual Report is available at www.voa.gov.uk

Section 4.1: Progress against HM Revenue & Customs SR04 Public Service Agreements (PSAs)

2005-06 is the first year of reporting against our SR04 PSA objectives for the years 2005-06 to 2007-08. The targets were included out in the Chancellor's Remit [1] and this section sets out the latest position.

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.

Within this objective there are 4 targets:

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

The VAT Compliance Strategy

The VAT Compliance Strategy (VCS) was launched on 1 April 2003 and initiated a new strategic approach to reduce VAT losses from fraud, avoidance, and other forms of non-compliance. It was introduced to reverse the trend of an increasing VAT gap by encouraging compliance in business. This was a major change in approach by focusing on long-term improvements in compliance.

During 2004-05 efforts were concentrated on
- sustaining and improving compliance by helping business to avoid unintentional error
- strengthening debt management activity to improve the rate of debt collection
- improving the way that seriously non-compliant businesses are tackled and developing a tactical framework to stop losses, recover losses and prevent losses recurring in the future
- increasing the perception and probability of non-compliant and fraudulent businesses being detected by targeting the highest risk businesses and sectors
- continuing the pressure on tax avoidance, including finding out about avoidance earlier and closing gaps in the law
- strengthening the attack on Missing Trader Intra-Community fraud activity including greater use of anti-fraud measures introduced in 2003, and
- using legislative change and litigation to defend the VAT base and maintain receipts.

As a result of the strategy VAT losses in 2004-05 were held to approximately 13.5% of the theoretical liability.

Missing Trader Intra-Community (MTIC) VAT Fraud

MTIC VAT fraud is a systematic attack on the VAT system by organised criminals and is our top VAT fraud priority. The UK is not alone in facing this type of fraud, with many other European countries facing a similar threat. Since September 2000, we have implemented a nationally co-ordinated MTIC Strategy to tackle the fraud, now a key part of our overall VCS. The strategy aims to minimise VAT losses by preventing the frauds occurring or recurring, intervening at an early stage, prosecuting where appropriate and maximising the recovery of debts.

The success of the strategy has seen a reduction of around 30% in the fraud from the peak levels of 2001-02. However fraud estimates for 2004-05 show losses of between £1.12 billion and £1.90 billion, marginally up from 2003-04. The Pre-Budget Report confirmed that a rise in losses from MTIC fraud is one of the contributors to an increase in the VAT gap projections for 2005-06.

The organised criminals behind the fraud are resourceful, well funded and have the flexibility to quickly overcome measures imposed to combat their activities. In particular, MTIC fraudsters have moved away from intra-community despatches and are now rotating goods through third countries to frustrate our efforts to establish transaction chains that would enable us to track the fraud and consider the use of measures against it. In addition, several of our legislative tools are facing legal challenges in the European Court of Justice, with decisions expected during 2005-06.

1 The Chancellor's Remit was reproduced in full in the HMRC Spring Departmental Report 2005 available at www.hmrc.gov.uk

The Pre-Budget Report confirmed the Government's commitment to tackling MTIC fraud and announced that we are strengthening our strategy. In particular we will continue to attack MTIC fraud and those involved in it vigorously through

- the implementation of new tactics aimed at 'pinch points' in the MTIC process and key players behind/involved in the fraud
- sharpened interventions at the external frontier
- the application of joint and several liability in suspect supply chains
- improved administrative and intelligence co-operation between EU Member States and other destination countries, and
- re-focusing our approach to criminal investigation, and prosecution of those behind and involved in the fraud.

We are also exploring legislative changes that may be necessary to combat recent changes in the nature of the fraud.

VAT Avoidance

Anti-avoidance work is a key element of the VCS. During 2004-05 we concentrated our efforts on

- finding out about avoidance earlier
- closing gaps in the law, and
- challenging users of avoidance schemes through litigation.

As a result VAT avoidance staff raised assessments and protected revenue of £449 million during the year.

VAT Disclosure Rules were introduced in August 2004 requiring certain businesses to disclose the use of specific avoidance schemes or arrangements that exhibit hallmarks of avoidance. Results are encouraging: to April 2005 we received 758 disclosures that can be used to target resources at the highest risk areas. At the same time, new eligibility rules for VAT grouping were introduced to stop abusive arrangements to prevent a jointly owned entity being able to join a VAT group in order to avoid the VAT charge on outsourced services.

HMRC's approach to tackling partial exemption abuse has also produced impressive results this year and has made a significant contribution to closing the VAT gap. New legislation, introduced in January 2004, ensures that businesses are unable to benefit indefinitely from using unfair VAT partial exemption methods. It is proving highly effective in delivering revenue benefits of £50 million a year. Since its introduction, over £40 million in VAT adjustments have been secured with substantial further benefits through the deterrent effect.

Five new specialists, recruited in October 2004 to help tackle unfair partial exemption, secured £20 million VAT during the period between their appointment and the end of March 2005.

Project management of schemes, which ensure that resources are deployed to risk, and that tax is protected in good time, has enhanced our response to avoidance activity across the board. This approach has been particularly successful in VAT where during the year much more focus has been given to project-working issues rather than simply tackling cases on a geographical basis.

Tackling Failure to Register

Our approach to dealing with businesses that fail to register for VAT when they should is made up of three main strands

- raising awareness
- encouraging businesses to move voluntarily to the formal economy, and
- tackling the deliberately non-compliant.

There are eleven regionally located Shadow Economy Teams (SETs) who focus on the VAT side of the informal economy and whose work is supplemented by the Joint Shadow Economy Teams (JoSETs), which take a corporate approach to tackling abuse of tax and benefit rules by individuals and businesses. The actions of these businesses can put compliant businesses at a competitive disadvantage and it is important that action is taken to maintain a level playing field for all. The teams apply their shared expertise and multi-agency intelligence to identify and register them, then maintain their registration or close down their operation.

During 2004-05, the SETs and JoSETs secured 3,310 VAT registrations and identified additional revenue of £26.4 million in indirect taxes. In addition they opened 337 enquiries and identified 229 unregistered businesses (known as 'ghosts') affecting other taxes, which secured additional revenue for direct taxes totalling £2.7 million.

During 2005-06, we will be working with the Small Business Council, business representatives and intermediaries on a number of initiatives designed to overcome the perceived 'fear factor' associated with approaching regulatory bodies. We are also further developing our national co-ordination of Failure to Register work to enhance the risk-based approach.

Labour Providers

Building on earlier work, a nationally co-ordinated strategy to tackle VAT fraud and non-compliance in the labour provider sector was launched on 1 April 2005. The strategy involves
- early identification of suspect traders
- a consistent targeting and visiting regime
- development and deployment of a range of interventions to identify and reduce fraud, and to improve compliance, and
- working closely with other HMRC and external stakeholders, including the police, Immigration Service and Gangmasters Licensing Authority.

There are now a number of integrated direct and indirect teams developing multi-tax approaches to maximise their impact on the sector and they are currently on track to achieve this year's target of indentifying £16 million additional VAT.

Targeting General VAT Non-Compliance

Assurance
Our risk management system targets those businesses identified as presenting the greatest revenue risk. We then use a range of interventions to stop or reduce losses identified and improve future compliance. Assurance activity is one of these interventions.

During 2004-05, just over 119,000 VAT registered businesses were visited and around £679 million of additional VAT was identified. In addition, 49,000 verifications of repayment claims were made to check their validity prior to payment. This prevented invalid repayment of over £269 million.

To improve the way we tackle losses in general non-compliance, in 2005-06 we have
- implemented a 'Risk Blueprint' to concentrate our assurance visiting effort on those businesses identified by our Central Risk Analysis system as being of high or exceptional risk, the highest risk trade sectors, VAT repayment claims and nationally approved risk projects
- launched a tactical framework to address and robustly tackle serious non-compliance
- implemented a Report of Suspect Trading system to identify fraud, enhance intelligence, and drive earlier and better intervention to stop the fraud and advise and recover any losses, and
- increased the use of the full range of tools and sanctions at our disposal.

Indicators suggest that these changes are improving compliance and we will be carrying them forward in 2006-07.

Risk Management
Our strategic approach to risk across the VAT business continues to improve, matching the appropriate intervention to the risk and prioritising activities according to the impact on overall tax receipts. We are focusing on the development of an integrated approach to risk management, building on the findings of a joint Small and Medium Enterprise (SME) risk pilot that enabled the testing and evaluation of a holistic approach to risk targeting and case selection across both direct and indirect taxes.

During 2004-05, efforts were concentrated on
- building a National Business Picture that enables us to identify trends and anomalies across different groups of businesses
- creating a National Risk Register that has been used to direct activity and resources to help tackle the VAT gap
- launching a number of national campaigns to address risk in the highest risk trade sectors
- maximising opportunities for cross-functional risk activity, and
- introducing a governance procedure so that activity that has a focus away from the highest priorities is properly considered and managed.

We are producing a first cut of a national risk overview looking at key features and threats for each of the tax streams, regimes and credit and benefit processes across HMRC.

We have 9 national risk campaigns and 3 national risk pilots up and running and at various stages of activity. Early results in the Local Authority Campaign in particular are promising, with £22 million additional tax so far recovered and at least a further £20 million expected by the end of March 2006.

We will be designing a central risk analysis system for businesses concerned with Employer Compliance. Although some of our national risk campaigns and pilots are already addressing risks across all relevant tax regimes, we will be looking for opportunities to launch an increasing number of projects that take a holistic look at risks across both direct and indirect tax.

VAT Compliance Management

The VAT Compliance Management (CM) programme provides VAT registered businesses with education and support when they need it and how they want it. We use a variety of means to help them understand and comply with their obligations, ranging from telephone calls to seminars, presentations and Open Days.

Until March 2005 the majority of CM interventions were aimed at newly registered businesses or others having little or no contact with us for a considerable time. We continue to provide education and support with the aim of sustaining and improving voluntary compliance and customer experience. In addition, we have initiated a more risk-based approach to compliance management activities using better links between risk and assurance to target our education activities. CM teams have contributed to national risk campaigns and developed compliance management projects to tackle specific risks. We have also established new ways of contacting businesses and developed the range of interventions we deploy.

Integration has allowed us to work more closely with direct tax colleagues, developing a more joined-up approach to business education and support.

In 2004-05, 94% (225,000) of new VAT businesses were contacted within twelve months of registering, helping to encourage good habits and behaviour from the outset, and break down barriers or preconceptions that a business might have about dealing with us. As part of an ongoing initiative, businesses were also contacted that had been registered for over 12 months but had not been contacted since their registration, again offering help and support to help them comply with their VAT obligations. An additional benefit of these contacts is the opportunity to update our systems to enable a more accurate assessment of the risk of future non-compliance and need for further contact.

Although compliance management is a new and evolving area, research and analysis show that the approach works, reduces the VAT gap and is having a positive effect on longer-term compliance. The scope of compliance management work will now be extended to tackle risk priorities.

Business Advice Open Days are a national programme of events providing a 'one-stop shop' for advice and support to SMEs. Contributors include government agencies such as DWP, Health and Safety Executive, as well as local business support organisations such as Business Link. They combine a programme of basic education seminars with an open exhibition running throughout the day. In 2004-05, we ran a programme of thirteen Business Advice Open Days that attracted almost 10,000 visitors.

'Satellite events' and short taster seminars were introduced as part of our response to the Government's commitment at Budget 2003 to support and encourage enterprise in disadvantaged areas. They are delivered in conjunction with a few key partners in support of the Open Day programme. During 2004-05, over 40 of these small community-based events were run to provide education and support to sections of society that have been poorly represented at Open Days in the past. This activity is being developed during 2005-06 to build upon the initial success. An integrated education and support service is being piloted, covering both direct and indirect taxes, in parts of London and Scotland.

Debt Management

Debt management has continued to contribute significantly to the VCS outcomes. We increased our debt management staff numbers in 2003 to improve the rate of debt collection and so reduce losses from bad debts. In 2004-05 an additional £299 million was collected through strengthened debt management activity, exceeding our target of £185 million.

Real progress has been made throughout 2004-05, with significant improvements in collection rates and reductions in the level of debt on hand and available for recovery, from £1,001 million in March 2004 to £913 million in March 2005.

The overall level of VAT debt on hand has increased since the start of the current year, largely because of over £1 billion from tax avoidance cases reported since April 2005. These cases are being actively managed by our debt management business. However, we cannot take action to recover this debt where there is ongoing litigation.

National Advice Service (NAS)

The NAS provides general advice and guidance (on former HM Customs and Excise matters) by telephone and correspondence, receiving over 2 million calls and 89,699 letters and emails. During 2004-05, the London NAS site was relocated to a second site in Cardiff, as part of the Lyons commitments. The speed of telephone response performance was maintained at previous levels and 71% were answered within 20 seconds. New quality measures were also introduced.

National Registration Service (NRS)

As the gateway to the VAT register, the NRS performs an important role as an early risk filter. In recent years, the VAT system has been subject to systematic criminal attacks, with many requiring a VAT registration number to be obtained fraudulently. All VAT registration applications are risk assessed and security checked to detect potential frauds. During the year 4,573 suspected MTIC cases were selected for investigation of which 1,866 were refused and 1,689 registered with conditions. In addition for the same period 951 Labour Provider applications were refused.

In 2005-06 as part of our renewed effort to tackle the rise in MTIC fraud there will be a further enhancement of controls at registration. Although our goal will be to minimise the impact on legitimate businesses, there will inevitably be an increase in processing times for incomplete applications.

Work is under way to revise the paper application form to make it easier to understand and complete. We aim to make the new form available from 1 April 2006.

2.1: By 2007-08 reduce the illicit market share for cigarettes to no more than 13%

Tackling Tobacco Smuggling Strategy

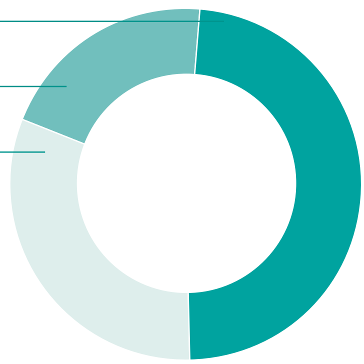
Tobacco smuggling not only undermines the Government's ambitious health objectives but also involves serious and widespread criminality. When the Government published the 'Tackling Tobacco Smuggling Strategy' [1] in March 2000 we were set challenging targets to slow, stabilise and reverse the trend of increasing tobacco smuggling so that by 2005-06 the illicit market share of smuggled cigarettes would not represent more than 17% of the market. Our target has been extended to reduce the illicit market share further to 13% by 2007-08.

In the first four years of the strategy, we succeeded in halting the rapid growth in tobacco smuggling before reducing the level of cigarette smuggling to 16% illicit market share, exceeding our target of 20%. Because we no longer consider provisional estimates (excluding General Household Survey data) to be a reliable indicator of the illicit cigarette market we have not yet published an estimate for 2004-05. However, we continue to review and refresh our strategic approach in order to respond to the changing nature of cigarette smuggling.

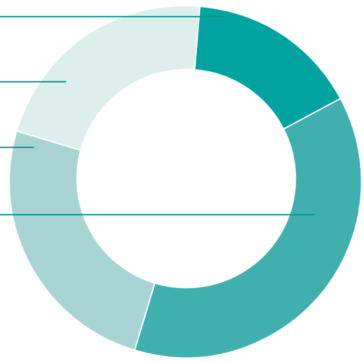
During 2004-05, we
- seized 2 billion cigarettes - 200 million more than the previous year - of these 960 million were seized in the UK at airports, seaports and inland with the remainder en route to the UK making a total of more than 11 billion cigarettes seized since the introduction of the strategy
- broke up 68 gangs involved in large scale smuggling and supply of illicit tobacco, and
- confiscated £2 million worth of assets of those involved in smuggling or the supply of contraband bringing the total to more than £17 million in five years.

In the fifth year of the strategy, we have seen the trend toward large seizures of counterfeit cigarettes continue, as a consequence of our work with the tobacco manufacturers to restrict the availability of genuine products to smugglers. These counterfeit cigarettes are mainly produced in the Far East and Eastern Europe and the improvement in the quality of their packaging makes it more difficult to differentiate between genuine and counterfeit products, on appearance alone.

Cigarette seizures



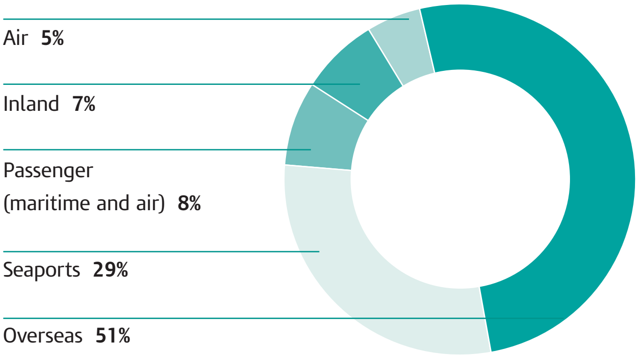
Cigarette seizures by brand



1 Available at www.hm-treasury.gov.uk

Commercial smuggling, predominantly as maritime freight in containers and Roll On-Roll Off traffic, remains our highest smuggling risk and accounts for the vast majority of supplies to the illicit market. With the assistance of overseas officers, we have for the first time seized more smuggled cigarettes en route to the UK than in the UK itself.

Cigarette seizures by mode



During 2005-06, we will continue to apply pressure on all aspects of the illicit market, from the sourcing of illicit products overseas - genuine or counterfeit - to their eventual sale and consumption in the UK.

We are seeking improved Memoranda of Understanding with UK tobacco manufacturers to restrict the further availability of genuine tobacco products further and to tackle the problem of counterfeit material. We are also reviewing our operational activities to ensure we have the maximum impact against the growing threats from counterfeit cigarettes and smuggled hand rolling tobacco.

2.2: By 2007-08 reduce the illicit market share for spirits by at least half

Alcohol [1]

The UK Alcohol Strategy: Spirits was launched across HMRC in June 2005. Our recent success has reduced the tax gap for spirits from 9% in 2001-02 to 7% in 2003-04, with the result that a far greater proportion of the alcohol fraudsters who continue to attack the revenue are likely to be serious, organised criminals. It will therefore be a major challenge for HMRC to meet this PSA target in 2007-08.

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 in 2006), enhanced operational activity and working closely with the industry. We have made significant progress on all these.

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.

Duty stamps will be implemented in early 2006. The contract for printing and distributing freestanding duty stamps has been awarded and the operational processes are already in place. 30,000 businesses in both the UK and overseas have already received pamphlets on duty stamps, and we have held seminars across the country for businesses most likely to be affected by their introduction.

1 The methodology used to measure performance is set out in 'HM Revenue & Customs: Public Service Agreement 2005-06 to 2007-08: technical note'.

Enhanced operational activity will enable

- the creation of a central alcohol fraud intelligence unit to bring together all information and intelligence to focus interventions on the areas of greatest risk
- the appointment of new specialist accountants with the skills to forensically examine the records of the highest-risk traders, to discredit fraudulent businesses and expose the frauds that underpin them
- additional detection officers to enhance frontier controls and increase our capacity to detect the sale of unstamped spirits inland
- the equipping of excise assurance officers with enhanced skills to apply audit based techniques to their assurance work and test trader credibility, and
- additional investigators to prosecute duty stamp offences and break up the criminal gangs behind spirits fraud.

Our ability to identify the highest risk traders, and to link together all elements of operational activity in pursuit of those traders, is crucial. Our Alcohol Central Co-Ordination Team (ACCT) brings together all available risk information and intelligence, ensuring it is thoroughly matched and analysed against well defined risk criteria, and enables operational activity to be co-ordinated and focused on the areas of greatest risk.

Working closely with the industry – Memoranda of Understanding (MOU) with the spirits industry were implemented in September 2005. MOUs with the warehousing and importers associations are near finalisation and due to be implemented in early 2006. Once these have been agreed those companies not affiliated with an association will be approached to sign bilateral MOUs with HMRC.

2.3: By 2007-08 hold the illicit market share for oils in England, Scotland and Wales at no more than 2%.

Oils

2004-05 was the second full year of the Oils Strategy, which was introduced to tackle misuse of rebated fuels such as red diesel and kerosene. All of the fundamental aspects of the strategy are now in place. In April 2003 the Registered Dealers in Controlled Oils (RDCO) scheme was introduced which provides more effective control of the supply chain and limits access by criminals to high-risk fuels. Over 5,000 oils distributors are now registered as RDCOs.

Another aspect of our strategy is to maintain a high profile presence on the UK road network in order to deter and prevent the use of illegal fuel. We have continued to increase the number of vehicles challenged and tested for misuse in the UK mainland and Northern Ireland. In 2004-05 we challenged 110,000 vehicles – an increase of 23% on the 85,000 challenged in 2003-04 and the 30,000 vehicles challenged in 2002-03.

In 2004-05 we increased to over 2,200 (58% of all detections) the number of commercial detections of illicit fuel use by commercial businesses, with particular focus on the road transport sector. We have also tackled the criminal organisations behind the large scale supply of illicit fuel, breaking up 9 gangs and dismantling 26 laundering plants (where markers which identify a fuel's tax status are washed out).

Latest estimates show the illicit diesel market share in Great Britain to be 4% in 2004, 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% by 2007-08 but recognise the challenge. We will continue to examine ways of fraud-proofing high-risk sectors of the oil market further.

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

The target consolidates 'Spend to Save' compliance packages introduced in the 2003 and 2004 budget along with a number of other initiatives and structural and process improvements.

Spend to Save 2003

Since April 2003 we have been taking forward the additional compliance work funded by the Government in Budget 2003. In return for additional ring-fenced funding of £66 million we have given additional yield commitments of £1.6 billion over the three years 2003-04 to 2005-06.

This work has been targeted at a range of known compliance risks.

Offshore Fraud
We have a team in place to recover tax evaded by individuals who have used offshore trusts to conceal untaxed profits. This team works closely with colleagues dedicated to pursuing unpaid Inheritance Tax arising from these trusts.

The second year of this work showed very encouraging results and, although the yield recovered was below target, significant inroads have been made into the shortfall in the first half of 2005-06. We are confident that we will meet our 3-year yield target.

Corporate Avoidance
Large Business Service continues to improve our effectiveness in tackling some of the largest avoidance cases. Whilst the flow of yield on complex and often litigious cases remains difficult to predict, 2004-05 was a successful year and results so far in 2005-06 indicate that we have already exceeded the 3-year target.

National Insurance Contributions (NICs) Avoidance
Our National Avoidance Unit continues to lead in this area and is working with a dedicated team set up to progress cases where various assets have been used in an attempt to avoid the payment of NICs. Work has progressed significantly over the last few months with the Presiding Special Commissioner invoking the lead case regulations for two asset types. These regulations effectively binds all users covered by a direction to accept the decision of the lead case. Substantive hearings on these are due in early 2006. An alternative strategy has been adopted to resolve some of the remaining cases.

Outstanding Returns and Revenue Debt
A number of separate initiatives have been running in this area:

Daily penalties are designed to improve the rate of filing of Self Assessment (SA) tax returns and the payment of the associated tax by ensuring an effective penalty regime is in place that not only encourages compliance but also supports the collection of tax from those not complying. Additional yield recovered in 2004-05 was £110 million.

Specialist recovery and enforcement were introduced to prioritise and improve the collection of PAYE, NICs, Corporation Tax and SA debts that are 12 months old. To take this forward we deployed 75 specialists to collect the unpaid tax, and secure current and future compliance. In 2004-05 we achieved an additional yield of £143 million.

Fast track company rescue is intended to identify companies experiencing trading difficulties. By intervening early we aim to avoid insolvency but where this is not possible, earlier action is taken to reduce the scope for escalating debts and write-offs. During the pilot study we concluded that the original assumptions around the number of cases available were flawed and the target was scaled down from 5,000 to 3,000 cases per annum. This reduction scale has led to a shortfall in expected yield but, in 2004-05 we achieved an additional £35 million.

Our Protracted Realisations Unit was established to help make up some of the shortfall in the fast track company rescue initiative. It is designed to collect outstanding debts by actively pursuing the clearance of charges held over properties owned by bankrupt individuals. In the first year this initiative yielded an additional £1.6 million.

Improving contact data will improve the tracing of missing taxpayers using an IT system that automatically clears all cases where an alternative address is held. By introducing an enhanced IT browser system we have been able to trace more taxpayers more quickly to improve the rate of filing of returns and ultimately payment of liabilities. In 2004-05 we achieved an additional yield of £32.6 million.

Spend to Save 2004

In March 2004 the Government announced a further 3-year investment totalling £115 million in return for yield commitments of £2 billion over the three years 2004-05 to 2006-07.

Better Data
In summer 2004 we started work on a project to deliver the infrastructure that will bring together, and support, a comprehensive range of data from internal and external sources. This will enable us to transform the way in which we assess and target risk, thereby improving the Corporation Tax yield and helping to reduce the tax gap. This project is part of a programme that is building an HMRC-wide Information Centre to support decision-making and deliver better performance through a wide range of usable and accessible information.

The creation of HMRC has given us an opportunity to use this project to support the design of new integrated business units around effective risk assessment. We have instigated a pilot to test all aspects of the risk assessment processes that will be supported by the new system which will be completed by March 2006.

Part of the project is the delivery of a facility for employers to file their annual returns of transactions in employment - related securities, including employee share schemes, via the internet. This part of the project will go live in April 2007 and we are confident that the yield target will be met.

The Large Business Service (LBS) bid covered a number of linked initiatives, better use of data to inform risk assessments, creation of a single financial office and the employment of more experts. During 2004-05 LBS exceeded its target and for 2005-06 we are on course to deliver the yield target of £414 million.

Leveraging and Enabling
We aim to improve compliance using a range of non-enquiry interventions including letters, telephone calls and contact from our Business Support or Compliance Management teams, all designed to increase the coverage rate and visibility of our compliance activities. We also educate and encourage improved compliance where we have identified tax risks within specific groups or sectors, leaving enquiry interventions for serious non-compliance.

For 2004-05 we developed a number of projects looking at business expenses claims, employment status within the construction industry, tips and troncs [1], the share fishing industry and minor queries on SA returns. The yield target achieved in 2004-05 was £22 million and we remain confident that we will deliver the 3-year yield target.

Expatriates and Taxpayers with Complex Affairs
We have increased the size of our Expatriate and Complex Personal Return (CPR) Teams to tackle tax at risk among customers with complex tax affairs. The nature of the work makes the accurate forecasting of yield uncertain, but we are on course to meet the 2005-06 targets.

Hidden Economy
Our hotline strategy has been to develop a two-phased national publicity campaign. In phase one we provided advice and support - informing people of their obligations and the help that is available, tying in with the redeveloped Starting up in Business pack, and encouraging them to telephone the helpline for the Newly Self Employed. This campaign consisted of national newspaper and local radio advertising and was completed in August 2005, successfully increasing the number of new registrations.

In phase two we introduced a confidential hotline for people to report individuals who are not paying their tax. The telephone and operational staff to deal with these cases are in place and a publicity campaign started in the press in November 2005. This will be followed by radio and television advertising in early 2006. Early indications are that the target number of calls required will be achieved, but we are not yet able to assess the quality of the information or likely yield.

1 A tronc is a special pay arrangement used to distribute tips, gratuities and service charges.

Under regulations introduced by the Proceeds of Crime Act 2002, financial institutions and, since March 2004, agents and accountants are required to report suspicions of tax evasion to the National Criminal Intelligence Service who then pass copies of the reports to us. We have set up a financial investigation unit to receive and disseminate these reports. The volume of cases received looks likely to meet the target, but, recent court decisions on accountants' and lawyers' disclosures (which would form the mainstay of intelligence, as well as being at the higher end of the market in terms of income) may impact on the value of yield.

For some time staff have been deployed in regional specialist teams to tackle non-compliance by labour providers (gangmasters) in relation to their own and their workers' direct tax liabilities. From April 2004 the teams were enlarged and expanded to provide a national network committed to reducing the levels of non-compliance across the sector. To assist in the recovery of identified liabilities the team structure includes dedicated recovery specialists.

The teams work closely with other government departments under the umbrella of Operation Gangmaster, building on local intelligence and information to enable frontline investigators to tackle direct irregularities. Since July 2005 these teams have worked alongside colleagues tackling VAT non-compliance in the same sector.

In view of the nature and extent of labour provider risk, adopting a conventional compliance approach was unlikely to deliver the required outcomes so we use a combination of conventional enquiries/reviews and early interventions to maximise our impact and achieve our targets. Since April 2004 we have secured £14 million.

Other Initiatives

To meet the SR04 target, the Spend to Save packages outlined above will be supplemented by a number of initiatives including improving our approach to litigation in international casework and extending our work on offshore tax evasion. We are also looking at productivity and process improvements and at the effects of specific legislative changes.

4: By 2007-08, increase the percentage of individuals who file their SA returns on time to at least 93%.

The percentage of taxpayers who file their Self Assessment (SA) returns by the 31 January deadline has been steady in the last 4 years at just over 90%. An NAO report on filing of SA returns [1] recognised that achieving the new filing target of 93% by 2008 will be a challenge for HMRC - primarily because performance relies heavily on customer behaviour but also because of the removal of over a million taxpayers from the requirement to file SA returns. Because these taxpayers have relatively simple tax affairs and a better record of filing on time we expect to see a reduction in the percentage of the remaining customers who file on time of approximately 0.8%.

Activity to encourage individuals to file their SA returns on time includes

- extensive media campaigns involving TV, radio, billboards, railway/tube and newspaper advertising to remind taxpayers to file - and pay - on time
- advertising campaigns designed to promote online filing
- increased press advertising in January, specifically aimed at the construction industry and other self-employed taxpayers
- a national 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
- raising awareness among agents with 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.

1 Filing of Income Tax Self Assessment Returns (HC74) is available at www.nao.org.uk

We have also commissioned research into the behaviour of SA taxpayers to improve our understanding of those groups of the SA population with a propensity for late filing and the causes of it. This research has enabled us to identify and target those groups most likely to file late including taxpayers who are new to SA and those in the construction industry.

Using this research we are running a targeted marketing campaign with literature tailored to each group, offering help and advice on completing and filing returns. The annual SA marketing campaign has been extended to include ambient advertising as well as the traditional TV and press coverage.

We have also continued to refine our telephone reminder campaign using the customer behaviour research. This year we will attempt to contact over 300,000 people who have not yet filed their returns to offer help and advice.

We are continuing to look for further ways to encourage and assist customers to file their returns on time.

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

5: Respond accurately and completely to requests for advice.

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

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

It is too early in the year to assess progress towards these, although activities are already underway that will deliver the necessary improvements. This will include

- more accurate and effective use of information we receive from taxpayers and claimants
- forms and tax returns that are easier to understand, simpler to complete and therefore help to reduce errors
- clear and helpful information, education and advice for those who contact us and those affected for the first time by a part of the tax system
- an improved customer service to tax agents who act for taxpayers
- direct contact activities to drive take-up of online services, with an initial focus on agents
- better structured and clearer information on our website for those who want to use our online forms and services and in our leaflets and notices, and
- measurement of the administrative burden of HMRC legislation and the development of targets to reduce this.

Work already under way includes improvements to the way we give advice and education to new businesses and those new to parts of the tax system, for example when a business takes on its first employee or registers for VAT. By providing help to those who have little or no previous experience, at the time it is most needed, we aim to make it easier for new and growing businesses to understand what is required and get things right from the start.

We are improving our use of data and increasing the frequency of internal reports so that we get more up to date information on how we are performing.

We are also enhancing the use we make of information from contacts with businesses and individuals. Initiatives already introduced to help meet our targets include

- the requirement for employers to pay tax credits via the payroll, phasing out from November 2005
- continuing improvements to the Employers CD-ROM and guidance packs based on customer surveys and other feedback
- reissuing the VAT CD-ROM with improvements in November 2005
- the introduction of the short tax return for around 1.5 million taxpayers, and
- the removal of taxpayers with simple affairs from the automatic requirement to file returns every year.

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.

We are focusing on five key activity areas within this objective, four of these in direct support of other agencies' strategies and targets.

Drugs

We make an important contribution to the Government's cross-cutting PSA – Action Against Illegal Drugs. The Home Office has overall responsibility for the UK's drugs strategy under this PSA, with a number of departments leading, supporting and contributing. We contribute to the PSA's aim of reducing the harm caused by illegal drugs, by making an impact on the supply of Class A drugs to the UK.

We are a member of the Concerted Inter-agency Drugs Action group (CIDA) which co-ordinates the work of different agencies involved in reducing the supply of drugs to the UK. Prior to the creation of HMRC, HM Customs and Excise chaired CIDA and reported results against the PSA on behalf of all the CIDA agencies. HMRC will continue this reporting until 31 March 2006. The chairmanship of CIDA has now transferred to the Serious Organised Crime Agency (SOCA) which will become fully operational by 1 April 2006. It will incorporate HMRC's investigation and intelligence work on serious drug trafficking and related criminal finances.

The creation of SOCA and the over-arching drug strategy means there is a new focus for our role of tackling drugs at the frontier. We are developing our own drugs strategy to reflect our new relationship with SOCA, and to support our frontier PSA and the Government's cross-cutting drugs PSA.

The focus on drugs is shifting from traditional output measures of seizures and weight towards the outcome of reducing the harm caused by illegal drugs. CIDA will report on the outcomes of law enforcement activity such as drug price, purity and public perceptions of drugs nuisance. This approach is currently being developed by the CIDA agencies.

Counter-terrorism

We are working with the Home Office to install detection equipment at UK points of entry to prevent radiological materials which could be used by terrorists, from entering the country. The programme is on course to complete implementation by 31 March 2007.

The Home Office has lead responsibility for implementation and we are delivering recruitment, training and operating procedures. Our key objective is to appoint and train 650 staff for this work by 31 March 2007 and we are on target to achieve this.

Our operational target is to intercept a minimum of 95% of vehicles that trigger an alarm. Current performance and anticipated outturn is 98%. We aim to intercept 100% of vehicles but this is not always possible. Most alarms are caused by naturally occurring radioactive materials and we do not intercept those which do not give any cause for concern.

Prohibitions and Restrictions

We are making further refinements to specific measures and targets for progress reporting in this area. These will demonstrate the contribution of our frontier enforcement role to wider controls overseen by other departments such as the Home Office (for firearms) and Defra (for animal health and CITES).

International Trade

We are developing specific measures and targets to assess the balance of HMRC activity between strengthening frontier protection and helping trade, including an assessment of the perception held by businesses of this balance and, through the Frontiers Change Programme, implementing projects to support and improve this balance.

Border Management

In response to the 'One Step Ahead' White Paper of March 2004 [1] HMRC, Special Branch and the UK Immigration Service have developed a Border Management Programme (BMP) to enable us to work together more effectively to secure the UK's borders. The BMP aims to identify areas where more effective joint working will strengthen border security whilst minimising the impact on legitimate traffic.

Progress is being made across a range of activities under the BMP.

Single primary interventions test how certain key functional operational activities, currently carried out independently by the three agencies, can be done in a more joined up way. The desired outcome is to find ways to work more effectively together at the front line in tackling threats, maximising the use of resources and specialist skills, while minimising the impact of joint activity on legitimate traffic.

Various methods of joint working between the agencies are being trialled across the UK. Areas of best practice identified through the trials will form key aspects in the development of an agreed national closer working strategy to be rolled out in April 2006.

Risk analysis is used within each agency which has been set up to tackle different threats to the border. To enable us to carry out our roles we have each developed and adopted a different way to describe the risk and different methodologies to assess it. The outcome of that analysis is then used in different ways to inform an operational response.

To develop a better understanding of the nature and scope of the overall risk to the UK frontier, a common methodology for assessing risk is required. The Border Agency Risk Assessment Tool is being developed for this purpose. Also in preparation is an overall strategic threat assessment of the UK frontier.

Data capture and sharing will be used to support our operational goal to target our searches more effectively and, so reduce our impact on legitimate traffic. To do this effectively for all border traffic the agencies, jointly and individually, need to be able to profile and target selections better. To do this we need to be able to share with each other bulk data on border traffic.

This will require changes to primary legislation and clauses have been included in the Immigration, Asylum and Nationality Bill which is currently before Parliament.

Alignment of objectives will drive closer working in the three agencies and will require the alignment of our respective planning mechanisms. This has begun with the agreement by the agencies of this high-level statement of intent:

'HMRC are committed to working closely with the UK Immigration Service and Special Branch. We shall, whilst in pursuit of delivering HMRC aims and objectives and in accordance with agreed, specific, formal arrangements under the Border Management Programme, assist in the delivery of the objectives of UK Immigration Service and Special Branch to improve overall border security.'

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

Section 4.2: Outturn against SR02 Public Service Agreements (PSA) in 2004-05 and 2005-06 year to date assessment

The tables below provide a summary of the SR02 targets for which the former HM Customs and Excise had responsibility. A more detailed explanation of those targets carried forward to SR04 is produced in Section 4.1. Commentary on those targets for which 2005-06 is the final year follow the tables.

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.

Target 1	2004-05 Outturn	2005-06 Assessment
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.	4%	Not yet assessed.
By 31 March 2006 reduce the illicit market share within the excise regime to no more than 17% for tobacco.	Not yet available. We no longer consider provisional estimates (excluding GHS data) to be a reliable indicator of the illicit cigarette market.	Not yet assessed.
Deliver an additional £2 billion VAT receipts by March 2006 by reducing the scale of VAT losses to no more than 12% of the VAT theoretical tax liability.	13.5%	Not yet assessed.

Target 2	2004-05 outturn	2005-06 Assessment
Improve customer service by ensuring by 2005 that 100% of services are offered electronically, wherever possible through a government portal.	97% of transactions are now available online.	At this time, it would not be good value for money to deliver online services for the remaining 3% of transactions.
Improve customer service by ensuring take-up for key services of at least 50% by March 2006.	Overall 64% of transactions were carried out electronically during 2004-05 although take-up of VAT online has been lower than planned.	4% of VAT returns are now received online.
Improve customer service by delivering reductions in the cost of compliance for businesses.	Compliance costs have significantly reduced in 2004-05.	Not yet assessed.

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

Target 3

Reduce the availability of illegal drugs by increasing the proportion of heroin targeted on the UK which is taken out. 2004-05 Target - 4,600 kg 2005-06 Target - 5,300 kg	3,066 kg. This is the joint outturn of all Concerted Inter-Agency Drugs Action (CIDA) agencies. 1,613 kg of heroin was seized as HMRC's contribution to the overall CIDA target.	Subject to validation.
Reduce the availability of illegal drugs by increasing the proportion of cocaine targeted on the UK which is taken out. 2004-05 Target 12,600 kg 2005-06 Target 13,200 kg	10,626 kg. This is the joint outturn of all CIDA agencies. 8,606 kg of cocaine was seized as HMRC's contribution to the overall CIDA target.	Subject to validation.

Comment: These targets are based on 2001-02 estimates and on the basis of the size of the UK drugs market remaining constant. The targets represent a guide to enable assessment of progress in the interim. Work on producing new estimates including a new methodology, to assist in assessing progress against the proportion targets is continuing.

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. 2004-05 Target - 201 groups 2005-06 Target - 211 groups	Exceeded 299 trafficking groups disrupted or dismantled. This is the joint outturn of all CIDA agencies. 206 groups were disrupted or dismantled as HMRC's contribution to the overall CIDA target.	Subject to validation.
Reduce the availability of illegal drugs by increasing the recovery of drug related criminal assets. 2004-05 Target - £21 million 2005-06 Target - £22 million	Exceeded £33.3 million of drug related criminal assets recovered. This is the joint outturn of all CIDA agencies. £17 million of drug related criminal assets were recovered by HMRC contributing to the overall CIDA target	Likely to be exceeded. CIDA multi-agency target £22 million. Achievement to September 2005 is £13.2 million HMRC's contribution £3.4 million

Value for Money
Target 4

Make productivity gains of at least 2.5% a year, without detriment to accuracy or customer satisfaction.	Exceeded. Efficiency gains of 2.8% (approximately £30 million) were achieved.	On course.

In the financial year 2004-05 the former HM Customs and Excise made disbursements from its annual resource allocation totalling £679,881 to recompense non-departmental individuals for information that supported delivery of its PSA targets.

2: Improve customer service by

- *ensuring by 2005 that 100% of services are offered electronically, wherever possible through a common government portal, and take up for key services of at least 50% by March 2006, and*
- *delivering reductions in the costs of compliance for businesses.*

Availability of Online Services

97% of transactions were available online by March 2005. This was measured as a percentage of transaction volumes and reflects the services used most by our customers. 97% represents approximately 40 million transactions that could be carried out online. The remaining 3% relates to more than a dozen different taxes or duties, each with a small customer base, and at this time it would not be good value for money to deliver online services for these transactions.

We implemented several major projects during 2004-05 to bring more of our customer services online and to improve our business support and advisory activities.

Take-up of Online Services

Overall, 64% of transactions carried out during 2004-05 were completed online. This represents around 25 million transactions, with the two largest components being International Trade and VAT.

We have made a number of improvements to the VAT Online service, for example

- businesses or their agents can apply for VAT registration online
- businesses can notify changes to their details
- agents and businesses can submit online VAT returns, and
- direct debit can be used as a payment method when using the online return.

Between April and the end of November 2005, we received 230,000 VAT returns online, compared to 12,100 in the same period in 2004. This means that 4% of VAT returns are now being received online, up from 1% during 2004-05, and work is under way to increase the level further.

Compliance costs

Progress has continued in reducing the costs of compliance for business. Building on the work stabilising compliance costs in 2003-04, they were significantly reduced in 2004-05.

This has been measured by applying Regulatory Impact Assessment methodology (which is overseen by the Cabinet Office) to assess the impact on compliance costs of changes made to the tax and duty system during the PSA period. These assessments are backed up by Post-Implementation Reviews (PIRs) to ensure their validity. Two PIR outcomes were announced in this year's Pre-Budget Report and published on our website on 6 December 2005. At the same time we published our report on the methodology we use for reviewing the compliance cost assessments in published RIAs and the first case study used to test it. Further PIRs are still under way and their outcomes will be published in due course.

The reduction has been achieved through work such as the continued take-up of the flat rate VAT scheme for small businesses which, taken together with other schemes such as cash accounting and annual accounting, offer a range of options to make the VAT requirements on most small businesses more straightforward. However, we aim to strike a balance with the need to maintain sufficient safeguards to catch those who attempt to abuse the system.

Moving forward, the establishment of HMRC offers new opportunities to reduce compliance costs and a major project is under way to set a baseline of the administrative burden on business and set reduction targets. This is in line with our commitment outlined in Section 3 on progress against our annual remit.

Objective II: Reduce crime and drug dependency by detecting and deterring the smuggling of illegal drugs and other prohibited and restricted goods.

3: Reduce the availability of illegal drugs by increasing

- *the proportion of heroin and cocaine targeted on the UK which is taken out*
- *the disruption/dismantling of those criminal groups responsible for supplying substantial quantities of class A drugs to the UK market, and*
- *the recovery of drug-related criminal assets.*

We have lead responsibility for tackling the trafficking of drugs to the UK. We use a variety of tools to do this, including detection, intelligence and investigation functions in the UK. Intelligence is also gathered, through our network of Overseas Liaison Officers, on the criminals who traffic illegal drugs to the UK. Through powers under the Proceeds of Crime Act 2002 (POCA) we seize criminal cash and assets related to drug smuggling.

HMRC is a partner in the Concerted Inter-agency Drugs Action group (CIDA) and we contribute to its aim to reduce the availability of class A drugs. In 2004-05 we took out 10,992kg of class A drugs, and disrupted and dismantled 206 organised crime groups engaged in drugs trafficking, contributing to CIDA's overall total of 16,622kg of class A drugs taken out and the disruption and dismantling of 299 crime groups.

Partnership with other agencies is key to meeting our commitments under the UK Drugs Strategy. HMRC will continue to work closely with CIDA and develop new relationships with our counterparts in the new Serious Organised Crime Agency. We will continue to tackle trafficking of illegal drugs that cross the UK frontier.

A number of successful operations were conducted in the UK in conjunction with CIDA partners. In December 2004, over half a tonne of cocaine was seized at Spitalfields market in east London, concealed in a consignment of coconuts. This operation led to six arrests in the UK and the seizure of further significant amounts of cocaine both in the UK and overseas.

Afghanistan is the key producer of the heroin targeted on the UK, and HMRC is working in partnership to help improve the capabilities of Afghan law-enforcers to tackle the issue at source. A programme of training and mentoring to the Counter-Narcotics Police of Afghanistan (CNPA) is under way in Kabul and at other key locations across the country. We provide training in operational law enforcement techniques as well as delivering practical assistance such as the deployment of mobile drug detection teams and a drug detector dog programme.

As part of our commitment to tackling supply to the UK at all levels HMRC continues to work with Jamaican law enforcement authorities on Operation Airbridge, tackling drugs swallowers from the Caribbean. During 2004-05 we began to work in partnership with the Metropolitan Police on the Middle Market Drugs Project which, since its launch, has resulted in the seizure of 330 kg of class A drugs and the disruption and dismantling of 19 criminal groups.

Drugs Cash

We used seizure and forfeiture powers under the Proceeds of Crime Act 2002 to enable the seizure of £17 million of criminal assets related to drugs. This contributed to a total CIDA figure of £33.3 million.

Value for Money

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

The 2004-05 target of £26.8 million savings was exceeded by making staff year savings of £12 million and procurement savings of over £18 million.

The staff savings were realised through implementing our e-business programme (including e-VAT registration), reducing transactions costs, streamlining processes, increasing resource mobility and flexibility, and making greater use of intelligence and information systems to deploy resources to high risk areas. Procurement savings were achieved through negotiation of better contracts and improved contract management.

The target had been revised under SR04 to reflect efficiency rather than productivity gains and the focus is on the business plans and associated initiatives as a means of delivering them. 2004-05 was the first year of the implementation of Sir Peter Gershon's review of public sector efficiency [1]. Departmental efficiencies for future years will be taken forward through our agreed Gershon targets.

For some elements of our efficiency savings, for example procurement savings, it is unlikely that there will be an adverse impact on accuracy or customer satisfaction. For other elements it is much harder to establish a direct link with accuracy levels and customer satisfaction as both are affected by many factors. To track the impact we have clear measurements of accuracy and quality across a very wide range of our activities. We also have a measure of customer satisfaction via our Business Needs surveys and in the future via the Customer Service Performance Indicator surveys. Achievement of the efficiency savings target will be considered in the light of progress on these other measures.

1 Releasing Resources for the Frontline: Independent Review of Public Sector Efficiency is available at www.hm-treasury.gov.uk

The tables below provide a summary of the Spending Review 2002 (SR02) targets for which the former Inland Revenue had responsibility. A more detailed explanation of those targets carried forward to Spending Review 2004 (SR04) is produced in Section 4.1. Commentary on those targets for which 2005-06 is the final year follow the tables.

Target 1: Deliver improvements in the number of individuals and businesses who comply with their obligations and receive their entitlements.

	2004-05 Outturn	2005-06 Assessment
Compliance		
Payment and Filing	Partially met.	Not yet assessed.
% Employers who submit accurate returns	Met. A small decrease in the proportion of non-compliance.	Not yet assessed.
% Individuals who submit accurate returns	Met. No increase in the proportion of non-compliance.	Not yet assessed.
% Company returns filed by the due date	Met.	On course.
% of full enquiries which result in the detection of non-compliance	Met.	On course.
% of enquiries worked to a fully satisfactory standard	Not met.	Not yet assessed.
Tax Credits	Met. Significant improvements made against 2003-04 results.	Unlikely to meet 2 out of 3 targets.
Child Benefit	Exceeded.	On course.
National Insurance Contributions	Exceeded.	December element will not be met. March element on course.
Repayments	Exceeded.	Ahead.

Target 2: Deliver reductions in compliance costs of small businesses	Met.	On course.
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	Availability - partially met. Take up - On course.	Availability - slippage. Take-up - met.
Target 4: Achieve annual efficiency savings of at least 2.5% a year until March 2006, without detriment to accuracy or customer satisfaction	Met.	Customer satisfaction not yet assessed.
Target 5: Achieve a 2.5 point improvement in customer service by March 2006, as measured by an annual customer service index	Slippage.	Customer satisfaction not yet assessed.

1: Deliver improvements in the number of individuals and businesses who comply with their obligations and receive their entitlements.

Achievement against the Service Delivery Agreement (SDA) targets supporting this Public Service Agreement (PSA)

Compliance	**2004-05 Target %**	**2004-05 Result %**
ITSA returns filed by the due date [1,2]	90.60	90.60
ITSA returns filed within 12 months of filing date [2]	97.50	97.80
SA taxpayers who pay by due date	89.50	88.60
SA taxpayers who pay within 12 months of due date	98.70	98.70
Employers returns filed by the due date [3]	80	Not available
Employers returns filed within 12 months of the due date	95.20	97.80
Employers who pay by the due date [4]	52.10	53.30
Employers who pay within 12 months of the due date [3]	96.80	97.90
Companies returns filed by due date [3]	77	77.10
Companies returns filed within 12 months of the due date	89	87.70
Companies who pay on time	58	60
Companies who pay within 12 months of the due date	93	93.40
Companies that submit accurate returns [5]	No target	-
Individuals who submit accurate returns	70	70
Employers who submit accurate returns	60	61
Enquiries worked to a fully satisfactory standard	89.50	84.50
Full enquiries which result in the detection of non-compliance	78	80.80
Tax Credits		
All new claims/renewals/Changes of Circumstances (CoCs) decided within 5 working days of receipt [6]	55	86.70
All new claims/renewals/CoCs decided within 30 working days of receipt [6]	95	95.90
All new claims/renewals/CoCs decided accurately	90	96.50 [7]
Child Benefit		
All claims cleared in 5 working days	62	66.80
All claims cleared within 36 working days	93	94.40
All reported CoCs cleared within 14 working days (within 10 working days for 2005-06)	95	98.60
Accuracy of processing claims	98	98.30
Accuracy of processing changes of circumstances	96.50	97.10
National Insurance		
Notifications recorded by:		
- 31 December 2004 [8]	97	99.63
- 31 March 2005	98	99.70
Repayments		
Repayments received in specialist repayment offices (IROs) dealt with within 15 working days	97	99.50
Tax repayments in IROs calculated accurately	97	98.10

1 Target based on returns issued at 31 October. We count returns received before close of play on 1 February 2005. This reflects the decision in the case of Steeden-v-Carter, which means that we cannot impose late filing penalties until 24 hours after the statutory filing date of 31 January.
2 We also exclude an estimate of returns never received by taxpayers.
3 Target 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.
4 Result reflects the percentage of employers paid up to date four working days after the due date.
5 During 2004-05 we have developed baseline data to enable us to set a target for company accuracy in 2005-06.
6 Our management information systems measure these results against 7/42 calendar days, which broadly equates to 5/30 working days, excepting claims made where there is no entitlement.
7 This figure represents the final outturn for 2004-05 and replaces the indicative figure of 97.1% as reported in the Spring Departmental Report 2005 (Cm 6542). We selected a total of 3,169 cases for accuracy checking. Of these cases, we excluded 587 records because we had insufficient information to fully complete the exercise. We do not expect the level of accuracy in these cases to be any different from the 2,582 cases that we were able to check fully.
8 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.

Payment and filing

We received over 8.9 million SA returns by the due date of 31 January 2005 - the highest number ever - and met our filing target of 90.6%. Some 1.6 million returns were filed electronically (up 47.6% on 2003-04). However, the percentage of SA payments made by the due date narrowly fell below target, despite the fact that more payments were received on time. We have taken steps to improve payment performance for 2005-06, including making clearer payment messages in our publicity campaigns (for example, using advertising and direct mail and telephone initiatives).

Compliance enquiries

The improvement in performance for full enquiries that result in the detection of non-compliance illustrates success in two vital areas

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

The overall result for enquiries worked to a fully satisfactory standard is disappointing but is set in the context of better quality results from direct taxes compliance interventions and a substantial package of improvement measures being rolled out over two years. In addition the results from the most recent cases show a significant improvement in performance when compared to the older cases.

Child Benefits

We manage the payment of Child Benefit, handling an increasing number of complex claims and dealing with around 4.6 million changes of circumstances annually. We met all our delivery targets in 2004-05.

2: Deliver reductions in compliance costs of small businesses

For the purposes of this target small businesses are taken to be those with fewer than 50 employees.

We measure progress against the target by estimating the costs and savings of all substantial changes to the tax system that affect small business, based on

- Regulatory Impact Assessments (RIAs) of each legislative change, prepared according to Cabinet Office guidelines, and
- Operational Impact Assessments (OIAs) for each substantial operational change.

The cumulative effect of these estimates is then calculated to determine progress against this target. There is always a delicate balance to be struck between keeping systems as straightforward as possible to reduce compliance costs for honest businesses, and ensuring that sufficient safeguards are in place to catch those who abuse the system.

Since 1 April 2003, 40 RIAs and one OIA relevant to the SR02 period have been published. These show a compliance cost saving of £40.55 million (recurrent savings of £39.7 million and non-recurrent savings of £5.85million) for small business.

The establishment of HMRC offers new opportunities to reduce compliance costs and a major project is under way to set a baseline of the administrative burdens on business and set reduction targets. This is in line with our commitment outlined in Section 3 on progress against the annual remit.

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.

Our aim is to make a range of transactional tax services and communication facilities available to customers online. We are developing user-friendly solutions that allow customers to enjoy secure online access. Customers have the opportunity to do business with us independently and on their own initiative, without unnecessary intervention from us.
We will also provide online services to our staff so that they are able to see the same information, in the same format, as customers.

Availability and take-up of services

10 of our 14 key services are now available electronically, allowing us to meet our target for take-up, as shown in the tables below. Although Corporation Tax online filing remains behind trajectory, the overall target is on course to be met given the significant take-up achieved for Self Assessment and PAYE, and the comparatively larger volumes involved in those two business areas. The services we have made available online include those that are used most by our customers (large volume transactions such as Self Assessment) which offers the greatest potential for departmental efficiencies.

Services	**Key Activities**			
	SA	**Employers**	**CT**	**Tax Credits**
Filing returns/making claims	available now	available now	available now	available now
Transactions - view & amend customer-specific data	available now	planned	planned	available now
Communications regarding own specific circumstances	available now	planned	planned	not a PSA commitment
Make payments	available now	available now	available now	not a PSA commitment

Filing in	**2003-04**		**2004-05**		**2005-06**	
	PSA Trajectory	**Outturn**	**PSA Trajectory**	**Outturn**	**PSA Target**	**Progress to 30 November 2005**
Self Assessment Online	9.7% (0.90m[1])	11.7%[1] (1.10m)	16.9% (1.62m[2])	17.0%[2] (1.63m)	25% (2.20m[3])	950,000
Employer P14s Online	12.6% (7.00m[4])	11.6%[4] (6.44m)	15.3% (8.50m[4])	18.4%[4] (10.20m)	45% (25.00m[4])	44m
CT 600s Online	0.4% (3,000[5])	0.1%[5] (1,100)	6.0% (48,000[5])	0.7%[5] (6,235)	12% (100,000[5])	12,300

1 Based on 9.34 million returns for 2002-03 that were filed during 2003-04.
2 Based on 9.60 million returns for 2003-04 that were filed during 2004-05.
3 Based on an estimated 8.80 million returns for 2004-05 being filed during 2005-06.
4 Based on 55.50 million employer P14 returns being received each year.
5 Based on 800,000 CT600s being received each year.

Self Assessment

Online filing of Self Assessment returns continues to grow. So far in 2005-06 we have received 950,000 returns online, compared to 797,000 at the same time last year.

As part of an initiative to reduce the administrative burden on customers, we have successfully reduced the number of people required to make an annual Self Assessment tax return by more than 1 million. This will make it more challenging to achieve 25% online filing.

Self Assessment Online is proving to be a success with customers, with 92% of individuals who had filed their return online finding it easy to complete. Our annual customer survey found that 95% of taxpayers who had filed online would use the service again.

PAYE Online for Employers

This service allows employers, accountants, payroll bureaux and other intermediaries to send and receive a wide range of PAYE forms and returns via the internet or our Electronic Data Interchange service.

Although online filing of Employer's Annual Returns for 2004-05 was mandatory for only 11,000 employers, some 900,000 employer returns were actually filed online, more than 10 times as many as the previous year. Since April 2005, we have received around 44 million P14s (end of year summaries) online, and agents tell us that they prefer, and will continue to use the new service.

Corporation Tax (CT) Online

This service enables companies or their agents to review their CT payments and liabilities, and file CT returns (CT600) online. Filing of these returns, while accelerating, is behind the planned trajectory. The majority of CT600s are produced by accountants, using software packages which are only now becoming available in e-enabled versions. Remedial steps are in place to improve the quality of the online filing proportion, and to encourage further investment from the software vendors.

4: Achieve annual efficiency savings of at least 2.5% per year until March 2006, without detriment to accuracy or customer satisfaction.

These SR02 efficiency savings are expressed in terms of savings in administration costs. In monetary terms, this requires savings of £68.5 million in 2003-04, £137 million in 2004-05 and £205.4 million in 2005-06.

Savings fall under three generic types
- delivering new work from within existing funding allocations
- doing the same amount of work as planned for less money than planned, and
- absorbing a volume growth in work without requiring additional funding.

The target of 2.5% has been met by delivering savings of over £137 million in 2004-05. This was achieved by delivering new (additional) work within existing funding, including substantial elements of work such as Child Trust Fund, Modernising Stamp Duty and Pension Simplification. We have also absorbed additional costs in connection with the ASPIRE transition and generated savings in a number of areas. Examples include processing activity within Local Services and the National Insurance Contributions Office, corporate support, travel and subsistence payments and purchasing. Costs associated with our three-year pay deal have been managed within existing resources.

Accuracy and customer satisfaction

For some elements of the efficiency savings, for example the productivity improvements made through travel and subsistence and procurement savings, there will be no adverse impact on accuracy or customer satisfaction. To track the impact there are clear measurements of accuracy and quality across a very wide range of activities. There is also a measure of customer satisfaction in the Customer Service Performance Indicator (PSA 5).

5: Achieve a 2.5 point improvement in customer service by March 2006, as measured by an annual customer service index.

The aim is to improve service to the point where customers can

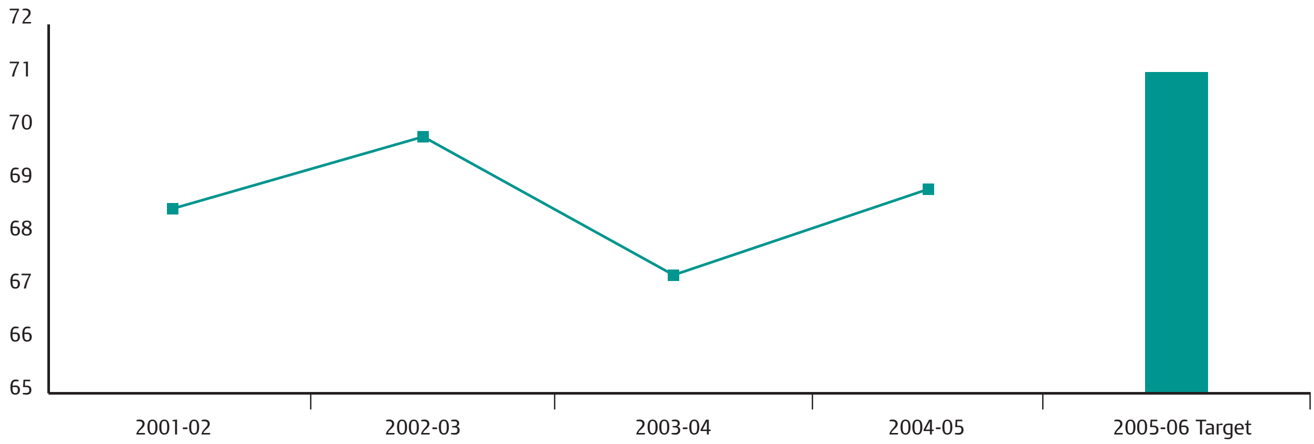
- meet their obligations and claim their entitlements accurately and on time by using simple, easy to follow processes, forms and guidance
- keep their costs to a minimum, by succeeding first time, with the minimum of additional help or assistance from us, and
- where appropriate, further reduce costs by using online services to obtain answers to their questions, to calculate taxes due or identify their entitlements, change specific data and transact business with us.

The customer service performance indicator is based on an annual survey of our main customer groups. It reflects their perception of the ease of dealing effectively with the processes, forms and guidance which are core to their group, and the accessibility, speed, clarity and usefulness of help provided to them in writing, over the phone, face to face or by internet. The indicator is based on an aggregate of results from nine different customer groups and measures trends over time.

The benchmark score, which was set in 2001-02, was 68.6 (out of 100). After an increase of 1.2 points in 2002-03, the 2003-04 result was a fall of 2.5 points, attributable mainly to issues around contact following initial difficulties with the launch of Tax Credits.

The 2004-05 survey produced an indicator of 68.9, working towards the 2006 target of 71.1. Much of the ground lost in 2003 has been recovered and a further improvement is expected in the final survey before March 2006.

The chart below shows an overall increase of 1.6 points on last year's indicator, attributable mainly to a recovery in contact results, although there was also a small improvement in the overall process result. Delivery of the 71.1 target will be challenging in this remaining year of SR02.



Annex A: Complaints

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.

1. Complaints received by the Inland Revenue

Context
Inland Revenue dealt with virtually every adult in the UK in some capacity including 5.9 million families who benefit from tax credits.

Business Activity	2003-04	2004-05
Local Services	24,959	22,560
National Services	41,450	62,527
Valuation Office Agency	1,685	1,314
Others	606	813
Total	**68,700**	**87,214**

Inland Revenue paid compensation of £2.61 million to its customers.

1.1 Complaints received by the Adjudicator about the Inland Revenue

	2003-04	2004-05
Investigation cases [1]		
Number of cases taken on for investigation	387	564
Number of completed investigations	366	462
Complaint not upheld	224 (61%)	221 (48%)
Complaint partially upheld	79 (22%)	122 (26%)
Complaint substantially/wholly upheld	47 (13%)	102 (22%)
Complaint withdrawn	16 (4%)	17 (4%)
Assistance cases [2]		
Number received	3,376	4,412

1.2 Complaints received by the Parliamentary Commissioner for Administration about the Inland Revenue

The PCA took on 348 new complaints about the Inland Revenue and settled 122 during the year.

1 Investigation cases – cases that are within the Adjudicator's remit and have already been considered under the Department's internal complaints procedures.

2 Assistance cases – cases where the complainant has gone directly to the Adjudicator and the Department has not had the opportunity to resolve the complaint. The Adjudicator will normally forward such complaints to the respective Department to respond directly to the complainant.

2. Complaints received by HM Customs and Excise

Context
During 2004-05 there were over 1.7 million VAT registered traders and more than 93 million travellers passed through border controls.

	2003-04	2004-05
Business Services & Taxes Activities		
VAT Assurance	1,791	1,814
VAT Registration	746	546
Excise	96	70
International Trade	368	403
Other Taxes	12	12
Other	26	51
Law Enforcement Activities		
Detection	2,033	1,527
Investigation and Intelligence	142	112
Cross Cutting Functions		
National Advice Service	1,154	879
Debt Management	757	628
Electronic Transfers and Banking	353	498
Total	**7,478**	**6,540**

HM Customs and Excise paid £1.48 million in compensation payments to its customers.

2.1 Complaints received by the Adjudicator about HM Customs and Excise

	2003-04	2004-05
Investigation cases [1]		
Number of cases taken on for investigation	98	85
Number of completed investigations	89	92
Complaint not upheld	55 (62%)	64 (70%)
Complaint partially upheld	24 (27%)	21 (23%)
Complaint substantially/wholly upheld	7 (8%)	1 (1%)
Complaint withdrawn	3 (3%)	6 (6%)
Assistance cases [2]		
Number received	397	320

2.2 Complaints received by the Parliamentary Commissioner for Administration about HM Customs and Excise

The PCA took on 30 new complaints about HM Customs and Excise and settled 18 during the year.

1 Investigation cases – cases that are within the Adjudicator's remit and have already been considered under the Department's internal complaints procedures.
2 Assistance cases – cases where the complainant has gone directly to the Adjudicator and the Department has not had the opportunity to resolve the complaint. The Adjudicator will normally forward such complaints to the respective Department to respond directly to the complainant.

Annex B: HMRC Diversity

HMRC has a seven-grade structure reflecting the traditional Civil Service arrangements (i.e. Administrative Assistant to Grade 6). In addition, a separate Training Grade (Band T) covers staff in the Fast Stream and training and development programmes leading to Grade 7 and above.

Staff in post at 1 April 2005

1. Gender

						Headcount of all staff	
HMRC grade titles	**HMCE Pay Bands**	**IR Pay Bands**	**Female**	**Male**	**Total**	**Female** %	**Male** %
SCS			87	314	401	21.7	78.3
Grade 6	12	B1	306	919	1,225	25.0	75.0
Grade 7	11	B2	771	1,653	2,424	31.8	68.2
Fast Stream	-	-	120	79	199	60.3	39.7
Senior Officer (SO)	9, 10	C1	1,482	3,051	4,533	32.7	67.3
Higher Officer (HO)	7, 8	C2	5,226	7,680	12,906	40.5	59.5
Officer (O)	5, 6	D	14,436	12,278	26,714	54.0	46.0
Assistant Officer (AO)	3, 4	E1	26,936	12,780	39,716	67.8	32.2
Admin Assistant (AA)	2	E2	10,870	5,682	16,552	65.7	34.3
Total			**60,234**	**44,436**	**104,670**	**57.5**	**42.5**

2. Ethnic Origin

					Percentage of known origin		Percentage of all staff		
	White	**Ethnic Minority**	**Not Known**	**Total**	**White** %	**Ethnic Minority** %	**White** %	**Ethnic Minority** %	**Not Known** %
SCS	275	5	121	401	98.2	1.8	68.6	1.2	30.2
Grade 6	787	32	406	1,225	96.1	3.9	64.2	2.6	33.1
Grade 7	1,544	47	833	2,424	97.0	3.0	63.7	1.9	34.4
Fast Stream	107	11	81	199	90.7	9.3	53.8	5.5	40.7
SO	3,078	118	1,337	4,533	96.3	3.7	67.9	2.6	29.5
HO	8,140	520	4,246	12,906	94.0	6.0	63.1	4.0	32.9
O	15,008	1,349	10,357	26,714	91.8	8.2	56.2	5.0	38.8
AO	19,009	1,789	18,918	39,716	91.4	8.6	47.9	4.5	47.6
AA	7,613	836	8,103	16,552	90.1	9.9	46.0	5.1	49.0
Total	**55,561**	**4,707**	**44,402**	**104,670**	**92.2**	**7.8**	**53.1**	**4.5**	**42.4**

3. Disability Status

	Disabled	Non-Disabled	Not Known	Total	Percentage of known status Disabled %	Percentage of known status Non-Disabled %	Percentage of all staff Disabled %	Percentage of all staff Non-Disabled %	Percentage of all staff Not Known %
SCS	11	274	116	401	3.9	96.1	2.7	68.3	28.9
Grade 6	48	745	432	1,225	6.1	93.9	3.9	60.8	35.3
Grade 7	120	1,424	880	2,424	7.8	92.2	5.0	58.7	36.3
Fast Stream	11	73	115	199	13.1	86.9	5.5	36.7	57.8
SO	195	3,189	1,149	4,533	5.8	94.2	4.3	70.4	25.3
HO	635	8,821	3,450	12,906	6.7	93.3	4.9	68.3	26.7
O	1,320	14,894	10,500	26,714	8.1	91.9	4.9	55.8	39.3
AO	2,109	16,342	21,265	39,716	11.4	88.6	5.3	41.1	53.5
AA	1,183	6,444	8,925	16,552	15.5	84.5	7.1	38.9	53.9
Total	**5,632**	**52,206**	**46,832**	**104,670**	**9.7**	**90.3**	**5.4**	**49.9**	**44.7**

4. Full/Part Time

	Full	Part	Total	Full %	Part %
SCS	382	19	401	95.3	4.7
Grade 6	1,128	97	1,225	92.1	7.9
Grade 7	2,210	214	2,424	91.2	8.8
Fast Stream	190	9	199	95.5	4.5
SO	4,303	230	4,533	94.9	5.1
HO	11,545	1,361	12,906	89.5	10.5
O	21,930	4,784	26,714	82.1	17.9
AO	28,249	11,467	39,716	71.1	28.9
AA	11,673	4,879	16,552	70.5	29.5
Total	**81,610**	**23,060**	**104,670**	**78.0**	**22.0**

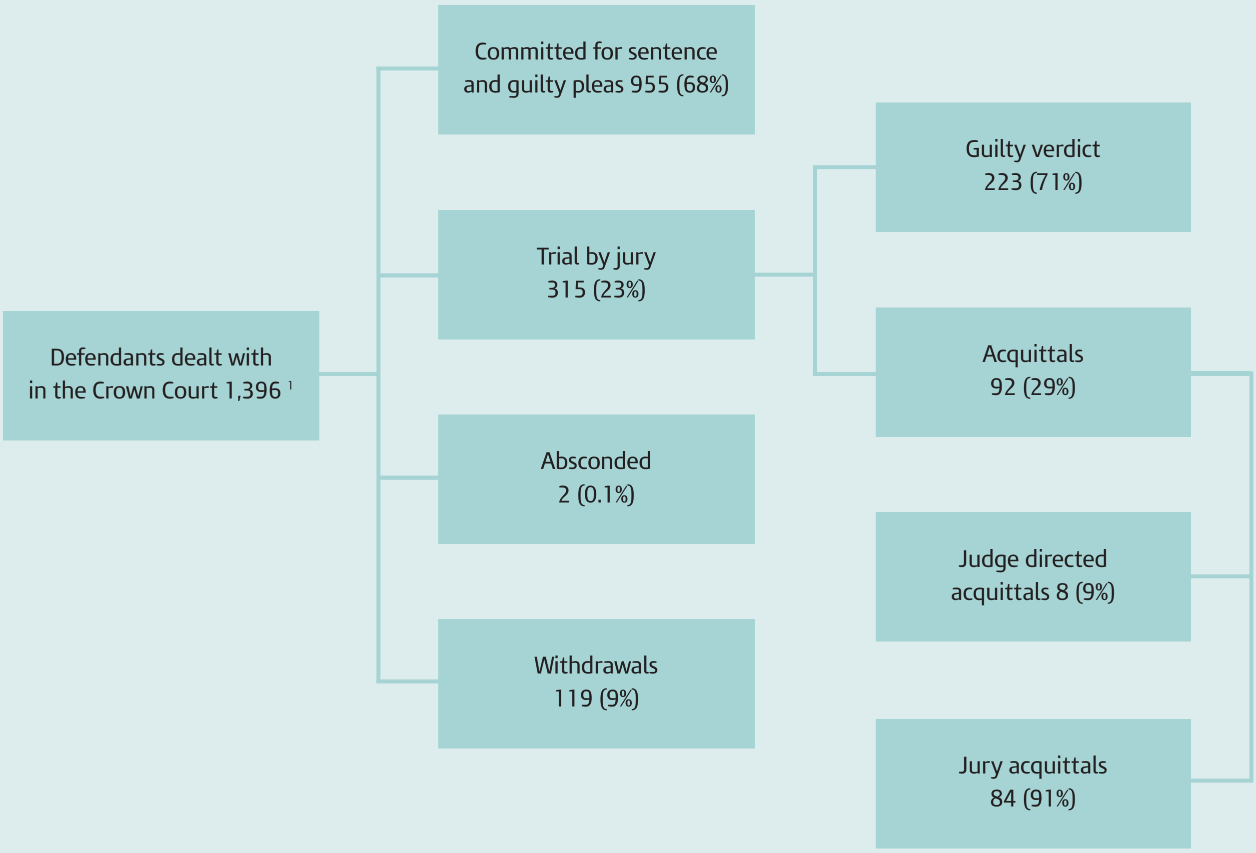
Annex C: Valuation Office Agency outturn 2004-05

	Target 2004-05	Result 2004-05
Valuation Accuracy		
Contain reductions in the 2000 local rating lists to less than 7.5% in respect of compiled list appeals settled in 2004-05,	7.5%	**9.7%**
and to a maximum of 4.7% of the total compiled list rateable value over the entire life of the 2000 rating lists.	4.7%	**4.6%**
Rating Revaluation		
Prepare for the forthcoming revaluation of non-domestic properties in England and Wales by producing draft rating lists by 30 September 2004,		✔
and compiled rating lists by 31 March 2005.		✔
Council Tax Revaluation		
Prepare for the forthcoming revaluation of domestic properties in **Wales** by producing draft valuation lists by 1 September 2004,		✔
and compiled valuation lists by 31 March 2005.		✔
Prepare for the revaluation of domestic properties in **England** by digitising data for 97.5% of properties by 31 March 2005,	97.5%	**100%**
and, by 31 July 2004, evaluate whether the automated valuation model (AVM) can be utilised effectively for the banding of a minimum of 60% of dwellings.	60%	✔
Land Services		
Achieve an increased fee income of £19.2m	£19.2m	**£19.4m**
and ensure that its share of VOA costs is covered.		✔
Customer Satisfaction		
Maintain customer satisfaction, based on annual surveys, at 86%.	86%	**77%**
Value for Money		
Improve productivity by 2.5% in 2004-05	2.5%	**2.4%**
and achieve improvements of at least 15%, on 2004-05 figures, by 2007-08.	15% by 2007-08	**On target**
People Satisfaction		
Improve staff satisfaction in working for the VOA in comparison with other places of work, based on annual survey results, by 1%.	53%	**58%**
Financial 'Break Even'		
Recover full resource costs within Parliamentary Approved Estimates, including a return on capital of 3.5%, from fees and charges.		✔

Annex D: CEO - Defendant Outcomes April 2004 to March 2005

83% of the prosecution work carried out by CEPO in the year to 31 March 2005 was carried out in the Crown Court which reflects the serious and complex nature of the work. Including cases conducted in the Magistrates Courts, CEPO prosecuted 1692 defendants; 1406 were convicted (228 in the Magistrates Court and 1178 in the Crown Court).

The following chart shows outcomes in the Crown Court and relates to defendants rather than cases. Overall, 68% of defendants were committed for sentence or entered guilty pleas, indicating the quality of case preparation and presentation.



At April 2004, CEPO had 1,189 prosecution cases as work in progress. This figure had risen to 1,216 by the end of March 2005. Work in progress therefore rose by a total of 27 cases. The number of new cases received was 1,329 and 1,237 were completed.

1 4 cases (involving 5 defendants) were transferred to the CPS for prosecution during this period.

Annex E: HM Customs and Excise (HMCE) Statistical Data [1]

Revenue [2]

Excise Fraud

Prohibited and Restricted Goods

Detentions and Warrants

Search of Persons

1 Any apparent discrepancy between totals and the sum of the constituents in these tables is the result of rounding.

2 HM Customs and Excise 2004-05 Accounts (HC447) was published on 10 October 2005. The published Trust Statement is stated on an accruals basis. Figures in the following tables are on a cash basis. Further details can be found on our website at www.hmrc.gov.uk

Revenue

1a: Former HM Customs and Excise summary of net revenue - accruals basis [a]

£ million

	2003-04	2004-05
Value Added Tax	71,140	74,154
Hydrocarbon oil	22,852	23,336
Tobacco	8,594	8,060
Alcohol	7,588	9,090
Betting and gaming	1,379	1,414
Customs Duties [b]	1,953	1,870
Air Passenger Duty	799	874
Insurance Premium Tax	2,327	2,362
Landfill Tax	625	673
Climate Change Levy	822	743
Aggregates Levy	335	320
Total	118,416	122,897
less payment of revenue due to:		
Isle of Man	(129)	(227)
less remissions, write offs and provisions for bad and doubtful debts and liabilities	(782)	(2,161)
Net receipts	117,504	120,510

(a) The figures in this table show net tax and duty receipts as recorded in HM Customs and Excise 2004-05 Trust Statement.
(b) Customs Duties reported above include Agricultural Duties which are reported separately in the Trust Statement.

1b: Former HM Customs and Excise summary of net receipts - cash basis [a]

£ million

	Table	2003-04	2004-05
Value Added Tax	2 & 3	69,275	73,058
Hydrocarbon oil	12 & 13	22,786	23,314
Tobacco	5 & 6	8,093	8,103
Spirits	10	2,362	2,385
Beer	7	3,044	3,101
Wine and made wine	8 & 9	2,006	2,233
Cider and perry	11	153	157
Betting and gaming	14	1,347	1,421
Customs Duties [b]		1,942	2,196
Air Passenger Duty	16	791	864
Insurance Premium Tax	17	2,294	2,359
Landfill Tax	18	607	672
Climate Change Levy	19	832	764
Aggregates Levy	20	339	334
Total		115,874	120,960
less payment of revenue due to:			
Isle of Man		(144)	(202)
Net receipts		115,727	120,758

(a) The figures in this table show net tax and duty receipts as recorded in HMRC accounting systems.
(b) Customs Duties reported above include Agricultural Duties which are reported separately in the Trust Statement.

2: Amount of revenue remitted or written off [a]

£ million

	Value Added Tax grounds on which remitted or written off						
	remissions	insolvency	other VAT write-offs	VAT total	penalties	other taxes and duties	total
2003-04	11	901	131	1,042	65	12	1,118
2004-05 [b]	23	847	41	911	66	1,211	2,188

(a) HM Revenue & Customs may remit revenue that is not appropriate to collect on the grounds of equity or compassion. We write off debt that has become impossible to collect or not cost effective to collect. We may re-open cases if new information becomes available.
(b) The high remission for 2004-05 'other taxes and duties' figure relates to 'spirits duty' which is the result of changes in the regulations concerning the use of new denaturants.

3: VAT: tax paid, repaid, net receipts and throughput

£ billion

	payments	repayments [a]	net receipts	tax throughput [b]
2003-04	114.9	45.6	69.3	581
2004-05	120.9	47.9	73.1	610

(a) Repayment of tax arises when tax on a trader's purchases exceeds the tax on supplies made. This regularly occurs when supplies made are zero-rated.
(b) Tax throughput is a measure of the total amount of VAT managed by HMRC including VAT on imports.

4: VAT: registrations and deregistrations

	number of registered persons at 31 March		number of	
	total	approx. no. of repayment traders [a]	new registrations	deregistrations
2003-04	1,775,236	250,753	228,959	183,324
2004-05	1,826,208	255,188	217,682	166,710

(a) The repayment category consists of those traders whose tax on purchases regularly exceeds their tax on supplies made.

5: Tobacco products: net receipts [a]

£ million

	cigarettes	cigars	hand-rolling tobacco	other smoking and chewing tobacco	total tobacco duties
2003-04	7,634	125	297	36	8,093
2004-05	7,631	119	318	34	8,103

(a) This table shows revenue received in the financial year. Table 6 shows quantities released for consumption in the financial year. As duty payments are generally made in the month following release, the receipts and quantities are not fully aligned.

6: Tobacco products: quantities released for consumption [a]

	cigarettes (*million sticks*)			other tobacco products (*000kg*) [b]		
	home produced	imported [b]	total	cigars	hand-rolling tobacco	other smoking and chewing tobacco
2003-04	52,297	4,812	57,109	988	3,213	626
2004-05	47,224	4,444	51,667	778	3,044	522

(a) This table shows quantities released for consumption in the financial year. Table 5 shows revenue received in the financial year. As duty payments are generally made in the month following release, the receipts and quantities are not fully aligned.
(b) Includes figures for imports from EU countries which are estimates based on duty receipts.

7: Beer: production, quantities released for consumption and receipts

	production in UK (*000 hectolitres*)	quantities released for consumption [a] (*000 hectolitres*)	total receipts (*£ million*)
2003-04	58,546	60,594	3,044
2004-05	57,432	58,845	3,101

(a) Includes figures for imports from EU countries which are estimates based on duty receipts.

8: Wine and made wine: receipts

£ million	wine of fresh grape						wine of fresh grape
	still wine		sparkling				
	15% and under	over 15%	15% and under	made wine	wine-based RTD (coolers)	total wine	produced in UK [a]
2003-04	1,732	63	125	63	23	2,006	2.2
2004-05	1,946	65	131	63	28	2,233	3.1

(a) Included in previous columns for wine of fresh grape and total wine.

9: Wine and made wine: quantities released for consumption

000 hectolitres	wine of fresh grape						wine of fresh grape
	still wine		sparkling				
	15% and under	over 15%	15% and under	made wine	wine-based RTD (coolers)	total wine	produced in UK [a]
2003-04	10,913	299	648	354	429	12,643	14
2004-05	11,917	298	687	341	535	13,777	15

(a) Included in previous columns for wine of fresh grape and total wine.

10: Spirits: quantities released for consumption and UK production

hectolitres of alcohol

	quantities released for consumption				UK production
	home produced whisky	imported and other spirits [a]	spirit-based RTD	total quantities	of potable spirits
2003-04	319,063	762,995	127,495	1,209,554	4,486,917
2004-05	313,999	792,351	106,523	1,212,872	4,040,590

(a) Includes figures for imports from EU countries which are estimates based on duty receipts.

11: Cider and perry: quantities released for consumption and receipts [a]

000 hectolitres	still		sparkling	total receipts
	1.2% to 7.5%	over 7.5% but less than 8.5%	5.5% but less than 8.5%	*(£ million)*
2003-04	5,919	46	1	153
2004-05	6,056	70	1	157

(a) Includes figures for imports from EU countries which are estimates based on duty receipts.

12: Hydrocarbon oils: net receipts [a]

£ million

	ULSP [b]	other petrol	total petrol	ULSD [c]	diesel	bio diesel [d]	bio blended [d]	total diesel	road fuel gas	fuel oil [e]	gas oil [e]	total dutiable oil [f]
2003-04	12,696	18	12,713	9,807	36	5.0	0.7	9,848	9	40	258	22,786
2004-05	12,510	-10	12,500	10,505	37	5.5	0.3	10,548	10	37	285	23,314

(a) Excludes oils eligible for duty relief.
(b) ULSP is an abbreviation of ultra low sulphur petrol.
(c) ULSD is an abbreviation of ultra low sulphur diesel.
(d) This applies to pure biodiesel and the proportions of biodiesel blended or mixed with heavy oils.
(e) The figures for quantities and receipts have been adjusted to exclude oils used in industrial processes.
(f) Includes receipts from all other dutiable oils.

13: Hydrocarbon oils: quantities released for consumption [a]

Million litres

	ULSP [b]	other petrol	total petrol	ULSD [c]	diesel	bio diesel [d]	bio blended [d]	total diesel	road fuel gas	fuel oil [e]	gas oil [e]	total dutiable oil [f]
2003-04	27,372	35	27,407	21,141	68	19	3	21,230	211	1,056	6,246	56,029
2004-05	26,561	-21	26,540	22,304	69	20	1	22,395	225	877	6,303	56,267

(a) Excludes oils eligible for duty relief.
(b) ULSP is an abbreviation of ultra low sulphur petrol.
(c) ULSD is an abbreviation of ultra low sulphur diesel.
(d) This applies to pure biodiesel and the proportions of biodiesel blended or mixed with heavy oils.
(e) The figures for quantities and receipts have been adjusted to exclude oils used in industrial processes.
(f) Includes receipts from all other dutiable oils.

14: Betting and gaming: net receipts

£ million

	betting net duties			gaming net duties					
	general betting duty	pool betting duty	total betting duty	gaming duty	amusement machine licence duty	bingo duty	total gaming duty	lottery duty	total betting & gaming duties
2003-04	383	13	396	138	144	111	393	559	1,347
2004-05	443	12	455	157	157	81	394	571	1,421

15: Betting and lottery: taxed stakes [a]

£ million

	general betting duty off-course bookmakers	pool betting duty football and other similar pools	betting duties total taxed stakes	lottery duty gross stakes
2003-04 [b]	32,341	112	32,453	4,586
2004-05	44,971	109	45,081	4,760

(a) Figures represent taxed stakes relating to the duty received in the financial year.
(b) 2003-04 figures have been revised to reflect amendments on betting duties returns data.

16: Air Passenger Duty: number of passengers, airlines and net receipts

	number of passengers[a] *(millions)*								
	EAA destinations			Non EAA destinations					
	reduced rate	standard rate	total	reduced rate	standard rate	total	total chargeable passengers	airlines registered at 31 March	total net receipts [a] *£ million*
2003-04	69.6	2.8	72.4	15.9	2.7	18.5	90.9	279	791
2004-05	74.9	2.6	77.5	17.7	3.0	20.7	98.1	296	864

(a) Duty is required to be paid in the month after that in which the flight took place. The duty receipts and passenger number figures are therefore not fully aligned.

17: Insurance Premium Tax: premiums and net tax receipts

£ million

	premiums [a]			
	at standard rate	at higher rate	total	total net receipts [b]
2003-04	45,141	987	46,128	2,294
2004-05	45,822	1,030	46,852	2,359

(a) Figures are tax exclusive.
(b) Premium figures relate to premiums declared on returns covering periods during the financial year. The total receipts figure is taken from accounting information on revenue received during the financial year. The receipts and premium figures are therefore not aligned.

18: Landfill Tax: quantities of waste, numbers of sites and net receipts

	standard rate waste [a]	lower rate waste [a]	exempt waste [a]	no of operators at 31 March	no of sites at 31 March	total net receipts [a] [b]	environmental tax credits [c]
	000 tonnes	*000 tonnes*	*000 tonnes*			*£ million*	*£ million*
2003-04[d]	47,265	13,950	15,533	578	1,412	607	46
2004-05	46,121	13,028	17,409	532	1,367	672	45

(a) Tonnage figures relate to tonnage declared on returns covering periods during the financial year. The total receipts figure is taken from accounting information on revenue received during the financial year. The receipts and tonnage figures are therefore not aligned.
(b) Receipts are net of contributions to the environmental credit scheme.
(c) Credit claimed in respect of contribution to the environmental credit scheme. The figures relate to credits on returns covering the periods ending during the financial year.
(d) 2003-04 figures have been revised to reflect amendments on Landfill Tax returns data.

19: Climate Change Levy: levy on supplies of energy, numbers of operators and net receipts

	levy on supplies of				
	electricity [a]	gas [a]	solid and other fuels [a]	no of operators at 31 March	net receipts [a]
	£ million	*£ million*	*£ million*		*£ million*
2003-04	616	195	5	220	832
2004-05	558	191	5	223	764

(a) Levy figures relate to levy declared on returns covering periods ending during the financial year. The total receipts figure is taken from accounting information on revenue received during the financial year. The receipts and tonnage figures are therefore not aligned.

20: Aggregates Levy: quantities of aggregate, numbers of operators and net receipts

million tonnes	taxable tonnage [a]	relieved tonnage [a]	exempt tonnage [a]	no of operators at 31 March	net receipts [a]
					£ million
2003-04 [b]	248	34	19	717	339
2004-05	244	41	18	730	334

(a) Tonnage figures relate to tonnage declared on returns covering periods during the financial year. The total receipts figure is taken from accounting information on revenue received during the financial year. The receipts and tonnage figures are therefore not aligned.
(b) 2003-04 figures have been revised to reflect amendments to Aggregates Levy returns data.

Excise Fraud

21: Tobacco [1]

	2001-02	2002-03	2003-04	2004-05
Revenue loss [2]				
Total fraud and smuggling	£3.1bn	£2.6bn	£2.9bn	**Not available**
Fraud and smuggling - Hand Rolling Tobacco (HRT)	£0.6bn	£0.6bn	£0.7bn	**Not available**
Fraud and smuggling - cigarettes	£2.5bn	£2.0bn	£2.2bn	**Not available**
Cigarette illicit market share	20%	15%	16%	**Not available**
Total legal cross border [2,3,4] shopping of which:	£1.2bn	£1.4bn	£1.4bn	**£1.1bn**
• HRT	£0.2bn	£0.2bn	£0.2bn	**£0.2bn**
• Cigarettes	£1.0bn	£1.2bn	£1.2bn	**£1.0bn**

Cigarettes				
Total consumed of which:	75bn	73bn	72.5bn	**Not available**
• UK duty paid	54.5bn	54.5bn	54.0bn	**52.0bn**
• Legally shopped [3]	6.0bn	7.0bn	6.5bn	**5.0bn**
• Cigarettes successfully smuggled	14.5bn	11.5bn	12.0bn	**Not available**
Total seized of which [5]	2.6bn	1.9bn	1.8bn	**2.0bn**
• Overseas seizures	919m	641m	728m	**1,008m**
• Air seizures	284m	263m	207m	**243m**
• Inland seizures	227m	186m	201m	**130m**
• Maritime seizures	1,128m	787m	621m	**588m**
• Cross channel passenger seizures	38m	21m	22m	**22m**
Number of cross Channel seizures	10,685	5,506	5,632	**5,217**

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 -2005' 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 2004-05 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).

21a: Proportion of total cigarette seizures by brand

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

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 in 2004-05, previous years' seizures over 500,000 analysed.

Cigarettes (Continued)

	2001-02	2002-03	2003-04	2004-05
HRT illicit market share	52%	53%	57%	**Not available**
HRT seized	385 tonnes	258 tonnes	185 tonnes	**166 tonnes**
Other outputs/results				
Tobacco gangs disrupted	60	87	69	**68**
Number of people sentenced	431	331	429	**204**
Average sentence	17 months	17 months	14 months	**23 months**
Benefits determined by court	£44.98m	£146.41m	£181.25m	**£24.20m**
Confiscation orders	£3.63m	£2.3m	£9.45m	**£5.20m**
Vehicles seized	11,064	8,616	6,848	**6,093**
Scanner detections				
Cigarettes	325.0m	399.5m	394.0m	**295.0m**
HRT	12.6 tonnes	30.8 tonnes	18.2 tonnes	**18.6 tonnes**
Cannabis	9.3 tonnes	14.9 tonnes	10.0 tonnes	**22.3 tonnes**
Heroin	46.0kg	413.5kg	408kg	**163.5kg**
Cocaine	Not available	579kg	122kg	**28kg**
Ecstasy/amphetamines	160kg	–	1170kg	**371kg**
Clandestines	470	1,193	494	**361**

22: Oils [1]

	2001-02	2002-03	2003-04	2004-05
Revenue loss – GB [2]				
Total diesel (non-UK duty paid)	£1,000m	£1,000m	£1,000m	**£950m**
Illicit diesel (fraud and smuggling)	£700m	£650m	£700m	**£600m**
Cross border shopped diesel	£350m	£350m	£350m	**£350m**
Total petrol [3] (non-UK duty paid)	£400m	£250m	- [4]	- [4]
Revenue loss – NI [2, 3]				
Total	£290m	£285m	£305m	**£245m**
Total diesel (non-UK duty paid)	£215m	£210m	£220m	**£180m**
Total petrol (non-UK duty paid)	£75m	£75m	£85m	**£65m**
Market share – GB				
Diesel (illicit)	6%	5%	5%	**4%**
Petrol (non-UK duty paid) [3]	2%	2%	- [4]	- [4]
Market share – NI [3]				
Diesel (non-UK duty paid)	58%	55%	52%	**42%**
Petrol (non-UK duty paid)	20%	20%	23%	**18%**
Total oils seized	3.95m litres	4.03m litres	2.48m litres	**2.50m litres**
Volume seized - GB	2.20m litres	2.44m litres	0.96m litres	**0.72m litres**
Volume seized - NI	1.75m litres	1.59m litres	1.52m litres	**1.78 m litres**
Laundering plants				
Total disrupted	38	46	31	**26**
GB	30	25	18	**8**
NI	8	21	13	**18**
Mixing plants [5]				
Total disrupted	2	7	4	**Not available**
GB	2	4	1	**Not available**
NI	nil	3	3	**Not available**
Gangs disrupted	19	14	13	**9**
GB	12	13	11	**4**
NI	7	1	2	**5**
Challenges				
Total	16,313	29,302	84,700	**108,773**
Commercial	Not available	Not available	60,022	**80,137**
Non-commercial	Not available	Not available	24,678	**28,636**

1 All estimates of non duty paid consumption have been revised as a result of improved methodology and data. See 'Measuring and Tackling Indirect Tax Losses - 2005' 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 - indicates a negligible amount
5 For 2004-05 Mixing plants are included in the laundering plant figure as it has not been possible to separately identify them.

Oil (Continued)

	2001	2002	2003	2004
Detections				
Total	3,340	3,960	3,753	**3,760**
Commercial	Not available	1,801	2,043	**2,228**
Non-commercial	Not available	2,159	1,710	**1,532**
Assessments				
Fraud detected and identified	£8.3m	£13.2m	£11.5m	**£7.0m**
Prosecution figures GB				
Number of convictions	9	8	17	**12**
Average sentence	16 months	14 months	14 months	**15 months**
Confiscation orders	£660,000	£374,000	£167,387	**£125,350**
Prosecution figures NI				
Number of convictions	15	3	4	**nil**
Average sentence	16 months	8 months	7 months	**nil**
Confiscation orders	nil	£250,000	nil	**nil**
Vehicles seized in NI	684	1,576	901	**812**

23: Alcohol [1]

	2001-02	2002-03	2003-04	2004-05
Revenue not collected [2, 3]				
Total spirits fraud/smuggling	£300m	£200m	£250m	**Not available**
Spirits cross border shopping	£150m	£150m	£100m	**£100m**
Beer cross border shopping	£50m	£50m	£50m	**£50m**
Wine cross border shopping	£200m	£200m	£200m	**£150m**
Illicit market share				
Spirits	9%	6%	7%	**Not available**
Gangs disrupted	**5**	**2**	**24**	**4**
Seizures				
Spirits	2,149,667 litres	922,423 litres	407,858 litres	**303,252 litres**
Beer	2,613,992 litres	2,952,528 litres	2,773,385 litres	**2,179,932 litres**
Wine	612,052 litres	653,657 litres	1,134,567 litres	**629,034 litres**
Criminal Prosecutions				
Spirits – number of people prosecuted	not available	9	24	**7**
Number of convictions	not available	7	21	**0**
Mixed cases [4] – number of people prosecuted	not available	99	62	**1**
Number of convictions	not available	91	34	**0**

1 All spirits fraud estimates have been revised as a result of improved methodology and data. See 'Measuring and Tackling Indirect Tax Losses -2005' for more details. No fraud/smuggling estimate is available for beer and wine.
2 Estimates are independently rounded to the nearest £50m.
3 The c ross border shopping estimates are for EU duty paid goods only. The 2004-05 estimates are provisional.
4 Mixed cases include mixed alcohol or alcohol with other excise goods.

Prohibited and Restricted Goods

The following tables set out a summary of seizure statistics for the period 1 April 2004 to 31 March 2005.

24: Controlled drugs

	Number of seizures	Weight of items seized *(kg)*
Heroin	128	1,613
Cocaine	1,242	8,606
Ecstasy	49	740 [1]
Other Synthetic Drugs	89	33.46
Cannabis	3,157	57,504

1 Equivalent to approximately 2.7m tablets.
CIDA figures (including HMRC) are as follows: heroin 3,066kg, cocaine 10,626kg, ecstasy and other class A 2,930kg, gangs disrupted or dismantled 299 and assets recovered £33.3 million. A further 65 tonnes of opiate products, 410kg of heroin and 54 tonnes of cocaine were taken out of international supply by upstream CIDA agents.

25: Products of Animal Origin

(i) Totals

Total number of seizures	Total weight of items seized *(kg)*
25,286	216,889

(ii) Weight of seizures by type of animal product

Animal Product	Weight of items seized *(kg)*
Meat	77,087
Fish	84,563
Dairy	40,265
Honey	14,975
Total	216,889

Note:
- Seizures of products of animal origin are recorded by weight and not the number of items seized
- All figures are rounded to the nearest kilogramme

26: 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)*	Volume of item seized *(litres)*
Live animals and birds	80	7,846		
	1		0.06	
Parts and derivatives of endangered species	172	332,043		
	29		29,439.59	
	1			1.75
Ivory	20	192		
	2		13,501	
Plants	18	4,204		
Other CITES listed species	79	465		
	52		252.95	
Preparations of oriental medicines which include parts or derivatives of endangered species	49	826,365		
	14		1,534.48	

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.

27: Plants and plant product subject to plant health controls

	Number of seizures	Weight of items seized *(kg)*
Plants and plant products	1,497	28,189

Note:
- These seizures include 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.

28: Pornography and Paedophilia

	Number of seizures	Total number of items seized
Adult pornographic material	2,956	96,783
Paedophile material	14	386

29: Firearms, offensive weapons, explosives, fireworks etc.

	Number of seizures	Total number of items seized
Rifles and handguns	73	367
Shotguns	10	14
Parts of firearms	24	111
Ammunition	58	5,089
Stun guns	219	842
Self defence sprays	447	1,031
Knives and other offensive weapons	1,654	8,293
Fireworks, pyrotechnic articles and explosive materials	11	234

Note:
- Rifles and handguns include automatic weapons, air and gas guns and readily convertible replica guns.
- Other offensive weapons include martial arts weapons, knuckledusters, sword sticks, blowpipes and truncheons.

30: Other prohibited and restricted goods seized

	Number of seizures	Total number of items seized
Exports of strategic goods and goods to embargoed destinations	22	4,014
Radio Transmitters	12	278
Cultural goods	10	688
Goods breaching intellectual property rights	2,863	8,483,675
Rough Diamonds	3	310

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. Embargoed destinations are those countries that are subject to UN, EU, OSCE and UK arms embargoes.
- Goods breaching intellectual property rights include 2 seizures totaling 12,000 empty tobacco packets and one seizure of counterfeit cigars. All other seizures of tobacco products are reported in Table 21.

Detentions and Warrants

In accordance with Article 8(2) of the Police and Criminal Evidence Act 1984 (Applications to HM Customs and Excise) Order 1985 (SI 1985/1800), HM Revenue & Customs publishes statistics on the following matters:

- the number of persons kept in detention for more than 24 hours and subsequently released without charge, and
- the number of applications for warrants of further detention and the results of the applications.

31: Detentions & Warrants

	2003-04		2004-05	
	England and Wales	Northern Ireland	England and Wales	Northern Ireland
Number of persons:				
Detained after arrest	2,983	51	2,619	45
Detained for more than 24 hours and subsequently released without charge	175	0	62	0
Number of persons for whom warrants for further detention were:				
Applied for	28	0	26	0
Granted*	28	0	26	0
***In this instance, the number of persons**				
Charged	28	0	26	0
Released on payment of a compound settlement	0	0	0	0
Number of persons:				
Charged	1,723	22	1,553	26
Released on payment of a settlement	35	10	0	0
Released for other reasons	942	19	854	19

Search of Persons

No traveller is profiled on the basis of their racial or ethnic appearance. However, risk profiles indicate countries that are assessed as high risk for specific types of prohibited and restricted goods. Travellers from these countries are therefore more likely to be spoken to by a Customs officer and the proportion of persons who are then physically searched will tend to reflect the different ethnic backgrounds of those who travel from or to those countries.

This table provides information on the racial or ethnic appearance of persons searched.

Total number of persons searched [1]	10,636
Successful	538
Success rate	5.06%

32: Search by Ethnic Identification Category [2]

Northern European	3,094
Successful [3]	138
Success rate	4.46%
Southern European	1,130
Successful	50
Success rate	4.42%
African Caribbean (Black)	5,034
Successful	270
Success rate	5.36%
Asian	1,156
Successful	57
Success rate	4.93%
Oriental	113
Successful	16
Success rate	14.16%
Middle Eastern	109
Successful	7
Success rate	6.42%

1 In previous years' reports information has been provided on the number of search processes carried out. The information for this year shows the actual number of persons searched and is a more accurate reflection of the effectiveness of our profiling methods.

2 These are the standard identification categories used by UK law enforcement bodies to describe ethnic appearance.

3 'Success rate' 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.

Under section 164 of the Customs and Excise Management Act 1979, HM Revenue & Customs has the powers to carry out searches on persons where there are reasonable grounds to suspect concealment of smuggled goods on or within the body. The different types of search are:

- ***rubdown*** - a search of a clothed person's body by hand which can involve the suspect being asked to remove outer garments such as coats, hats, shoes and socks
- ***strip search*** - a search where the suspect is asked to remove all items of clothing, and
- ***intimate search*** - a search of body orifices where packages could be concealed which can only be performed by a doctor but is very rarely used.

To combat drug smugglers who have swallowed drugs packages, HMRC also uses:

- ***Enzyme Multiplied Immuno Assay Tests (EMITs)*** - performed on a urine sample obtained from a suspect with their permission, used primarily to check for traces of cocaine or opiates. A positive result suggests that the suspect has swallowed drugs packages, and
- ***X-Rays*** - only carried out at a hospital with the suspect's consent.

Policy in these areas is kept under review in order to maintain a balance between the need to curtail the smuggling of drugs and other illicit goods and the need to protect the rights of travellers.

33: Search conducted

	2003-04	**2004-05**
Rub-down	8,464	9,497
Strip	1,522	1,520
Intimate	0	6
EMIT or X-ray	1,217	836
Total	**11,203**	**11,859**
Smuggled goods found during search		
Drugs	404	322
Revenue goods (other goods of interest to HM Revenue & Customs)	114	170
Other prohibited or restricted goods (other goods of interest to other agencies)	60	96
Total	**578**	**588**
Appeals against search		
To a senior officer	14	10
To a JP	1	0
Total	**15**	**10**
Appeals upheld (searches not carried out)	1	1
Complaints	2	7

Annex F: Inland Revenue Statistical Information

1: Cost of Collection

2: Results of work tackling non-compliance

3: Estimated Yield/Cost Ratios

4: Criminal Proceedings

Service Standards

5: Inheritance Tax

6: Stamp Taxes

7: Oil Taxation

8: Compliance Assurance

National Minimum Wage

9: Number of compliance cases completed

10: Number of enquiries received by National Minimum Wage Helplines

11: Complaints about non-payment

Remissions and Write-offs

12: Amounts irrecoverable

13: Grounds on which tax remitted or written off

Any apparent discrepancy between totals and the sum of the constituents in these tables is the result of rounding.

Further details can be found on our website [1].

1 The Department of Inland Revenue 2004-05 Accounts (HC446) was published on 10 October 2005 and is available at www.hmrc.gov.uk or The Stationery Office.

1: Cost of collection (pence per £ collected)

	2000-01 [1]	2001-02 [2]	2002-03	2003-04 [3]	2004-05
Income Tax	1.36	1.38	1.41	1.36	1.34
Corporation Tax	0.98	1.01	1.15	1.24	0.96
Petroleum Revenue Tax	0.15	0.20	0.26	0.18	0.22
Capital Gains Tax	1.33	1.44	2.73	2.09	1.95
Inheritance Tax	1.23	1.21	1.38	1.21	1.14
Stamp Taxes [4]	0.09	0.11	0.17	0.42	0.44
National Insurance Contributions (NICs)	0.59	0.67	0.66	0.49	0.44
Overall cost (pence per £ collected)	1.02	1.06	1.11	1.04	0.97
Tax Credits (pence per £ paid)	2.94	2.53	2.21 [5]	3.03	3.02
Child Benefit (pence per £ paid)	-	-	-	0.64	1.05

1 The one-off STEPS receipt in 2000-01 has been excluded.
2 From 2001-02, ratios are based on resource spend rather than cash.
3 2003-04 ratios have been revised following a more accurate re-allocation of some costs.
4 The 2003-04 ratio was affected by temporary manual processing prior to the introduction of automated processing of SDLT forms
5 Excludes costs of preparing for new tax credits; if these are included, the ratio is 4.58 pence per £ paid.

2: Results of work tackling non-compliance

	2002-03 *(£m)*	2003-04 *(£m)*	2004-05 *(£m)*
Network offices			
Additional tax, interest and penalties:			
Company enquiries			
full	78.5	92.0	91.8
aspect	422.9	490.8	523.0
Self Assessment enquiries			
business full	160.4	173.1	185.1
business aspect	86.2	82.4	86.5
non-business	219.7	212.3	248.8
Employer reviews			
full	182.6	177.0	191.1
aspect	76.2	104.1	121.8
Pre Self Assessment Intelligence work	18.0	21.4	35.8
Late filing penalties	88.5	89.9	87.9
Total additional liability	**1,333.0**	**1,443.0**	**1,571.8**

Specialist offices

Additional tax, credit, duty, interest and penalties:			
Tax Credit Office [1]	WFTC-DPTC [2]	CTC-WTC	CTC-WTC
	32.2	66.7	130.9
Special Civil Investigations	345.1	387.7	1,035.0 [8]
Special Investigations Section	214.3	238.8	250.0
Capital Taxes	135.4	126.4	148.5
Saving, Pensions, Share Schemes	20.4	19.0	22.7
Stamp Taxes [3]	36.3	35.6	8.7
Inland Revenue Charities	6.7	11.4	4.9
Inland Revenue Trusts	14.5	15.3	30.8 [4]
Profit Related Pay	1.5	-	-
Large Business Office - Corporation Tax	1,712.0	1,732.8	2,103 [5, 6]
Large Business Office - Employer Compliance	51	51.7	53.5
International: Energy Group	84.6	85.9 [7]	212 [6]
International Corporation Tax	285.9	335.0	121.4
International: Centre for Non-Residents	13.9	15.7	16.3
Special Trade Investigation Unit	10.2	12.9	15.3
Sub Total	**2,964.0**	**3,139.9**	**4,153.0**
Total estimated additional tax liability	**4,297.0**	**4,582.9**	**5,724.8**

1 Tax Credit value of adjustments. This figure is the difference between the amount of tax credits that would have been overpaid as a result of the claimant's error and the revised amount paid following our intervention (based on information about entitlement at that time) plus any interest & penalties.

2 WFTC (Working Families' Tax Credit), DPTC (Disabled Persons Tax Credit), CTC (Child Tax Credit), WTC (Working Tax Credit)

3 Stamp Duty Land Tax as a new self-assessed tax with tightened legislation, means that the compliance yield in 2004-05 is not directly comparable to the intervention yield from Stamp Duty on land & property in previous years.

4 The increase in yield is mainly due to a small number of large cases, including £6.8 million which relates to a number of stock dividend enquiries that were awaiting the final decision in the Howell & Morton (Robin Settlement Trustees) v Trippier (HMIT) appeal (Tax Case Leaflet 3733) which was finalised in December 2004.

5 For the first time in 2004-05 LBO also reports 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 £2,527m. EG (as part of LBS) will report on the same basis for 2005-06.

6 Figures include the following amounts which are expected to accrue in respect of adjustments affecting future profits reflecting more real time working: LBO: £46m; EG: £39m.

7 Prior to merging to form part of the LBS, LBO and EG reported figures on similar principles but differing in detail. The reported figures now treat timing adjustments and those made in favour of the taxpayer in the same way. If EG had reported on the LBO basis for 2003-04 its yield would have been £115m (£86m).

8 This includes £77.9m claimed elsewhere (eg, LBO/LBS, SIS). There are a number of reasons for the significant increase in additional liability and cost/yield ratio (see table 3): smarter ways of working; working jointly with other parts of the Department (eg LBO, SIS, etc); and undertaking new work such as cases involving losses.

3: Estimated Yield/Cost Ratios [1]

	2002-03	2003-04	2004-05
Network Offices			
Full enquiry work [2]			
Corporation tax enquiries	2.0:1	2.2:1	2.6:1
Self Assessment business enquiries	1.3:1	1.3:1	1.6:1
Aspect Enquiry work			
Corporation tax enquiries	8.7:1	9.4:1	12.9:1
Self Assessment business enquiries	3.4:1	3.2:1	3.4:1
Employer reviews	3.1:1	3.2:1	3.7:1
Other			
Self Assessment non-business enquiries	6.0:1	5.6:1	8.3:1
Specialist Offices			
CT&VAT: International CT	114:1	123:1	
International: Centre for Non-Residents	24.8:1	20.1:1	15.1:1
International: Energy Group	26.7:1	24.9:1	58:1
Special Civil Investigations	18.8:1	18.4:1	56.2:1
Special Investigations	350.1:1	419.3:1	449:1
Large Business Office - CT	55.7:1	54:1	67:1
Large Business Office - EC	6.8:1	6.4:1	6.5:1

1 In calculating these ratios the total of the additional amounts brought into charge from each activity is compared with the costs of salaries, accommodation and other direct operating overheads. Some of the additional amounts may not actually be collected.

2 Where serious irregularities are identified in full enquiry cases taken up in the network, the enquiries are passed to Special Compliance Office who work the cases to conclusion. The yield is reported with Special Compliance Office's yield, but the costs incurred in the network are included in the calculation of yield/cost ratios for full enquiry work. The additional amounts identified by the network at the time the case is passed over are around £40m in 2003-04 (£37m in 2002-03).

Yield/Cost ratios

The ratio between the cost of a particular enforcement activity and the amount of tax brought into charge as a direct result are used as one of a number of factors to help management make considered judgements on the allocation of resources. It is useful in providing retrospective comparison of the cost-effectiveness of individual types of enforcement work. However, this is not the only criterion in deciding how staff are deployed. While maintaining and improving cost-effectiveness is a major consideration, it is also important, for the sake of both fairness and deterrence, to maintain an effective presence in all areas where there may be non-compliance.

No account is taken of the corrective or deterrent effects; although largely unquantifiable, they are almost certainly substantial. For instance, people who have been investigated are likely to improve their standard of compliance in future years. Research on unincorporated businesses which have been investigated suggests that this improvement is maintained for at least five years, effectively doubling the direct yield.

4: Criminal Proceedings

Nature of offences	Guilty	Acquitted	No evidence offered	Proceedings stayed
False Accounts/Returns	10	3	-	-
False Claims/Deductions	7	2	-	-
PAYE: False Returns	2	-	-	-
Sub Contractor's Exemptions				
Certificates Fraud	2	-	-	-
Failure to Notify Chargeability	3	-	-	1
Tax Credits	193 [1]	8 [2]	10 [3]	-
Grabiner (shadow economy)	26	-	2 [4]	-
Internal Fraud				
Internal Staff	10 [5]	-	-	-
Outside accomplices	5	-	-	-
Totals	**258**	**13**	**12**	**1**

1 43 Working Family Tax Credits and 150 new tax credits
2 3 Working Family Tax Credits and 5 new tax credits
3 1 Working Family Tax Credits and 9 new tax credits
4 including 1 success with Department of Work and Pensions
5 Includes 1 Board's Investigation Office

5: Inheritance Tax (IHT)

Customer Service

	2004-05 Target	2004-05 Result
% of post dealt with within 15 working days	80	82
% of post dealt with within 40 working days	95	97
% direct dial telephone calls answered within 20 seconds	90	94
Helpline calls dealt with correctly and completely	90	92
% of death accounts processed within 7 working days	98	98
% of death accounts dealt with within 3 months	95	93
% of taxpayer service work dealt with to an acceptable or better standard	95	93
Receivables management		
% tax calculations paid within 90 days	94	96
Tackling non-compliance		
Number of enquiries into IHT accounts	3,250	2,695
IHT enquiry cost/yield ratio	1:22	1:14
% enquiries/valuations dealt with to a satisfactory or better standard	93	94
Share valuation cost/yield ratio	1:20	1:36
Share valuations settled	30,000	28,128

6: Stamp Duty Land Tax (SDLT)

	2004-05 Target/Forecast(F)	2004-05 Result
Customer Service		
% of documents/returns processed within 5 working days [1]	85	89.2
Compliance (average yield per transaction) [2]		
Residential (£)	3,842(F)	780
Non-Residential (£)	15,103(F)	5,952
Cost Efficiency		
Cost of collecting £100 of Tax (£) [3]	0.12(F)	0.23

Stamp Duty Reserve Tax (SDRT)

Cost Efficiency		
Cost of collecting £100 of Tax (£)	0.03(F)	0.03

1 SDLT returns were initially processed manually but were 'migrated' to an automated system during the course of the year. The statistic for automated returns reflects those processed through the 'core' SDLT system. The results include legacy documents processed under the old (pre-December 2003) Stamp Duty regime.

2 This was the first full year of the new SDLT compliance regime. We benchmarked our results accordingly. The outturns achieved represent the mix of resources applied to processing and compliance work.

3 To de-risk the implementation of the automated system, we chose to extend the period of manual processing in parallel with it at an additional cost.

7: Oil Taxation

	2004-05 Target	2004-05 Result
Customer Service		
Correspondence turnaround		
% dealt with within 28 days	90	93.2
% dealt with within 90 days	98	99.1
% North Sea Clearance applications dealt with within 15 days	100	100
% repayments made within 28 days	100	98

Compliance		
% Petroleum Revenue Tax returns dealt with within 10 weeks	100	100
% Petroleum Revenue Tax assessments made by due date	100	100

Cost Efficiency	2003-04 Result	2004-05 Result
Petroleum Revenue Tax Returns	622	796
Petroleum Revenue Tax Exp Claims	420	450
Corporation Tax Accounts	1,597	1,880

8: Compliance assurance

Cases taken up

	2004-05 Target	2004-05 Result
Corporation Tax Full	5,315	5,409
Corporation Tax Aspect	38,166	38,913
Income Tax Full	32,775	33,417
Income Tax Aspect	37,312	38,873
Personal	130,495	133,281
Employer's Reviews	29,887	29,409

9: National Minimum Wage (NMW)

Number of compliance cases completed

	2002-03	2003-04	2004-05
Non receipt of NMW	1,953	1,886	1,951
Other	4,285	3,655	3,204
Total	6,238	5,541	5,155

10: Number of enquiries received by NMW Helplines [1]

	2003-04	2004-05
Telephone	56,672	61,405 [2]
Written	981	717
e-mail	1,055	1,815
Total	58,708	63,937

1 Dedicated Helplines handle enquiries from the public on all matters concerning the minimum wage.
2 Figures cover the 3 NMW Helplines (Longbenton, Belfast and Glasgow).

11: Complaints about non-payment of NMW

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05
4,682	2,365	1,722	1,998	1,969	1,946

12: Amounts of tax remitted or written off as irrecoverable

£'000

Year ending 31 October	Total	Income Tax	Surtax	Corporation Tax	Capital Gains Tax	Inheritance Tax [1]	Other Duties
2002-03	522,734	386,263	0	125,676	7,065	1,597	2,133
2003-04	577,718	345,336	0	224,981	4,337	769	2,295
2004-05	827,252	515,755	0	301,838	3,774	1,544	4,341

1 Includes Estate Duties and Capital Transfer Tax.

13: Grounds on which tax remitted or written off as irrecoverable

£'000

Year ending 31 October	Total	Hardship [1]	Equity	Miscellaneous [2]	Insolvency	Composition settlements [3]	Taxpayer gone abroad or untraceable
2002-03	522,734	3,265	7,799	110,122	336,730	4,084	60,734
2003-04	577,718	3,520	8,231	33,835	502,807	2,898	26,427
2004-05	827,252	4,321	8,845	34,772	755,015	3,866	20,433

1 The amount remitted on grounds of hardship includes cases of Official Error dealt with under Extra Statutory Concession A19. For 2004 there were 6,489 such cases involving £4,202,690. In addition in a further 77,844 cases of Official Error, an estimated amount of £28,506,527 was left out of assessments on grounds of hardship.
2 For example the amount recoverable is insufficient to justify the cost of proceedings.
3 Tax written off following acceptance of an amount less than the full tax assessed. In such cases the amount accepted in settlement of the liability was not less than the amount likely to be obtained as a result of formal proceedings.

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