



HM Revenue  
& Customs

# Annual Report and Accounts 2014-15



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# HM Revenue and Customs Annual Report and Accounts 2014-15

(For the year ended 31 March 2015)

Accounts presented to the House of Commons pursuant to Section 6(4) of the Government Resources and Accounts Act 2000 and Section 2 of the Exchequer and Audit Departments Act 1921

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HMRC Finance, Room C4, South Block, Barrington Road, Worthing BN12 4XH

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# Your Charter

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## Our role

- We make sure that the money is available to fund the UK's public services by collecting taxes and duties as laid down by Parliament. We help families and individuals with targeted financial support.
- We want to give you a service that is even-handed, accurate and based on mutual trust and respect. We also want to make it as easy as we can for you to get things right.

To find out more about our Vision go to [www.gov.uk/government/publications/hmrc-purpose-vision-and-way](http://www.gov.uk/government/publications/hmrc-purpose-vision-and-way)

## Your rights – what you can expect from us:

- Respect you
- Help and support you to get things right
- Treat you as honest
- Treat you even-handedly
- Be professional and act with integrity
- Tackle people who deliberately break the rules and challenge those who bend the rules
- Protect your information and respect your privacy
- Accept that someone else can represent you
- Do all we can to keep the cost of dealing with us as low as possible.

## Your obligations – what we expect from you:

- Be honest
- Respect our employees
- Take care to get things right.

## More information

For more information about what we do, your rights, and where you can get help and support, please go to [www.gov.uk/government/publications/your-charter](http://www.gov.uk/government/publications/your-charter) or speak to one of our advisers.

# Who we are and what we do

We are an effective, efficient and impartial tax, payments and customs authority. We collect the money that pays for the UK's public services and help families and individuals with targeted financial support. We help the honest majority to get their tax right and make it hard for the dishonest minority to cheat the system.

We are also one of the UK's biggest organisations: we have around 56,000 full-time equivalent employees in 170 offices across the UK, collecting tax and duties from 45 million individuals and 5.2 million businesses, and pay tax credits to 4.6 million households and Child Benefit to 7.5 million families.

We contribute to the country's economic and social wellbeing and support growth. The UK is the world's seventh largest economy and the second largest in the EU and we play our part by making it as easy as possible for industry and business to trade.

Our key objectives, set by the government, are to:

- maximise revenues
- make sustainable cost savings
- improve the service that we give our customers.

To these, we have added a fourth objective: include and involve our people in how we meet these key objectives and ensure that we invest in their skills, capability and the experience they have of working in HMRC.

We work closely with HM Treasury through the Policy Partnership to deliver effective tax policy which meets government objectives, working together on policy design through to implementation. We are uniquely placed to provide advice on the implementation of tax policies using our considerable expertise, knowledge and insight of our customers and their behaviour, tax compliance and tax legislation.

We also work with a number of other government departments to help deliver their objectives; for example, in collecting student loans and in enforcing the National Minimum Wage.

"Our work is challenging, but by winning the leading case against Eclipse 35 at the Court of Appeal we protected about £635 million in tax and sent out a strong warning against involvement in avoidance schemes."

Christina Parkinson  
Solicitor's Office,  
London



# Our achievements in 2014-15

## Maximise revenues

 **£517.7bn**

### £11.9 billion more than in 2013-14.

In 2014-15, total revenue increased by £11.9 billion, or 2.4 per cent, to £517.7 billion as a result of growth in the UK economy and increased compliance activity by HMRC to tackle tax evasion and avoidance, fraud, error and debt.

Achieving more...

**£26.6 billion**

Record compliance revenues

**£768 million**

Compliance revenue from new Accelerated Payments legislation

**£9.79 billion**

Tax protected through successful litigation

**£469 million**

Tax credits error and fraud losses identified and prevented

**1,289**

Prosecutions for tax offences following our investigations

## Make sustainable cost savings

 **£210m**

### Sustainable cost efficiencies.

We made a further £210 million in sustainable cost savings last year, exceeding the target the government set us. We have continued to reshape our workforce and have reduced the cost of our administration, estate, and the goods and services we buy.

with less...

**170**

HMRC offices, compared to 539 in 2005

**19 million**

Fewer sheets of paper we printed

**8 out of 10**

Of our workforce located in our 16 key centres

**16 million**

Work items we now process electronically that keep people's records up-to-date

**£17 million**

Savings made to our estates running costs

## Improve the service that we give our customers

 **10.2m**

### Self Assessment returns submitted by midnight on 31 January 2015.

We improved our handling of the peaks in demand during the January Self Assessment and July tax credits deadlines, but we missed our phone and post targets overall. We continue to invest in digital services for customers.

and delivering...

**71,727**

Customers helped by our new Needs Extra Support service; one in four of them through face-to-face visits by mobile advisers

**2.4 million**

Businesses subscribed to Your Tax Account

**211,405**

Customs checks cleared within agreed targets (95 per cent) to facilitate UK trade

**£335 million**

Net customer cost reductions for all customers since April 2011

**410,000**

Tax credits customers who renewed their claims online

## Include and involve our people

 **1,404**

### The number of events our employees attended during Phase 1 and 2 of Building our Future.

The increasing expectations placed on us from customers requires new ways of working and digital services that are more focused on customers. Building our Future will ensure that we have the right people, skills and locations to deliver this.

with our people

**5.96**

Average number of days our employees were involved in learning activities

**4,500**

Of our people were promoted

**50**

Joined our first-ever tax apprenticeship programme

**77**

Of our people serve as reserves in the Armed Forces

**£908,000**

Donations made by our people to good causes through payroll giving



# Foreword



Lin Homer  
Chief Executive and Permanent Secretary

## Foreword by Lin Homer

Welcome to our Annual Report and Accounts for 2014-15. It has been another good year for HMRC and we have delivered record results in some areas – although we know that there is still more to do to deliver a consistent service to all our customers.

We generate, protect and secure the money that pays for the UK's public services – and I am delighted to report that we generated a total of £517.7 billion in tax revenues last year – £11.9 billion more than in 2013-14. The impact of our compliance activities has increased again this year – realising record results with £26.6 billion achieved this year against £23.9 billion in 2013-14. This means our compliance revenues have increased over each year of the last Spending Review period – a truly fantastic achievement that is due to the thousands of hard-working, dedicated people at HMRC.

Last year, we protected more than £9 billion in tax revenues through legal action in the courts, and we secured important new compliance powers, such as Accelerated Payments for tax avoiders, and a Diverted Profits Tax for multinationals which try to move their profits to other countries.

We have significantly reduced error and fraud in the tax credits system to a new all-time low of 4.4 per cent in 2013-14, the third consecutive annual decrease. The figure for 2012-13 has also been revised, down from seven per cent to 5.3 per cent. In real terms that means error and fraud now stands at £1.26 billion – almost £1 billion less compared to 2010-11. This shows that the improvements we are making in how we detect error and fraud are really making a difference.

We also introduced a new telephone and mobile service for people who need extra help with their tax and entitlements; launched the Employment Allowance, which is already giving more than a million employers a National Insurance rebate worth up to £2,000; and put in place arrangements so that customers could pre-register for the new Marriage Allowance, ahead of its going live this tax year. We also increased the number of subscribers to Your Tax Account to more than two million – further evidence of the progress we are making to move more of our services online, to make it easier for businesses and individuals to deal with their tax affairs.

One of our challenges is to handle the peaks in demand for our services throughout the year, to make sure that we deliver a consistent level of service. So I was pleased that we further improved the way we managed both the tax credits renewals and Self Assessment deadlines last year. By the 31 July tax credits renewals deadline, we received more than three million applications, including 410,000 through our new online renewals service. And by the 31 January Self Assessment deadline, we received more than 10.2 million returns, a record 85.5 per cent of which were online.

The percentage of calls we handled last year dropped to 72.5 per cent from 79 per cent in 2013-14, and we also missed our 80 per cent target for turning around customer post in 15 working days – 70 per cent last year from 83 per cent in 2013-14. We tried to achieve a more consistent performance over the past year in how we deal with the millions of customer calls and items of post that HMRC receives, by being flexible in moving people between different tasks in response to changing levels of demand, but our customer service in this area was not good enough.

We were able to maintain our performance in processing tax credits and Child Benefit claims and changes of circumstance in 15 days for UK claims and in 88 days for international claims – well within our target of 22 days and 92 days respectively.

We have also faced a difficult start to the new financial year. The introduction of a number of longer-term changes, such as a new telephony system late last year, has led to longer call handling times – reducing the number of calls we can take in a day. In our effort to limit these impacts, we prioritised our phone service over the post, which led to an increase in the levels of post on hand, and reduced service levels for customers contacting us by post too.

The new government expects all departments to make further efficiency savings – and we will continue to work hard to reduce our costs where we can sustainably afford to do so. Last year we made £210 million of cost reductions, bringing our total sustainable cost savings over the past four years to £991 million – exceeding our target by £25 million. We achieved this by continuing the long-term reductions to our workforce in some areas, while recruiting in other areas where we need specialist skills.

Looking to the future, we want to create a modern tax, payments and customs authority that builds on work already underway across the department. In his budget statement just a few days ago, the Chancellor announced that we had been given a total of £1.3 billion to help fund our transformation, compliance work and new policies and targets. It demonstrates the government's confidence in our ability to deliver for the UK – showing how central our work is to their agenda. In return, we have been set the challenge of raising an additional £5 billion a year.

There are six specific areas that together will deliver the transformation we need to achieve:

- personalising online accounts, to give us and our customers a single view of their dealings with HMRC
- continuing to move the reporting and payment of tax closer to real-time
- making it easier for people to get their taxes and entitlements right
- targeting wrongdoing
- investing in a highly-skilled workforce
- investing in cutting-edge IT.

We plan to introduce personalised online tax accounts for all UK businesses and individuals, building on the services currently being used by two million small businesses. These accounts will bring all of a taxpayer's affairs together into a single place, giving them an up-to-date view of their liabilities and showing them how their tax has been calculated.

Online accounts will better enable businesses and individuals to report and pay the tax due throughout the year in 'real-time', reducing the scope for error, evasion and the build-up of debts.

Having a Single Financial Account that brings together information about pensions, employment and savings will make it easier for people to get it right first time – allowing them to pay what they owe without having to give HMRC information that we already hold.

By designing out error and making it harder for the dishonest minority to cheat, our specialist compliance teams can target wrongdoing more efficiently and will be able to focus on high-yield tax avoiders, evaders and organised criminal gangs, working on complex and challenging cases that will require enhanced legal, digital and analytical skills.

A bright spotlight was focused on our compliance activities in early 2015, following international media coverage of offshore tax evasion. HMRC was challenged about our handling of the issue, but also whether our approach is truly even-handed in dealing with multinational companies, smaller businesses and individual taxpayers.

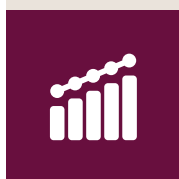
Let me be really clear: we expect all our customers – regardless of size or influence – to pay what they legitimately owe and we will bring those who don't to account, applying the most appropriate civil and criminal sanctions.

Investing in a more highly-skilled workforce that has cutting-edge IT systems at its disposal will help them meet the challenges ahead, as our work becomes more complex, and relies less on manual, routine work.

As we start a new Parliament, the new government will be tasking HMRC to crack down even further on tax evasion and avoidance. It is my firm belief that HMRC is in a very strong place to meet this new challenge, building on our impressive record of achievement and our clear vision for the future for our customers, our people and for the UK.



Lin Homer  
Chief Executive and Permanent Secretary



We have generated increased revenues in every year of the last Spending Review period – a truly fantastic achievement that is due to the thousands of hard-working, dedicated people at HMRC.

# Performance

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# Strategic report – reviewing our performance

## At a glance...

Our performance has continued to improve against our three key objectives: maximising revenues, improving the service that we give our customers and making sustainable cost savings. We still have more to do to achieve consistent customer service levels across the year.

## Maximising revenues

In 2014-15, total revenue increased by £11.9 billion, or 2.4 per cent, to £517.7 billion as a result of the widely-reported growth in the UK economy and increased compliance activity by HMRC.

In summary, and compared to 2013-14:

- Income tax (32 per cent of total revenue), and National Insurance Contributions (21 per cent of total revenue) increased one per cent due to higher levels of employment and higher wages
- Value Added Tax (22 per cent of revenue) increased five per cent as a result of significant increases in receipts for the automotive, business services and more notably, the manufacturing sectors. Household spending has also been rising steadily
- Corporation Tax (eight per cent of total revenue) increased three per cent as a result of improvements to profits across all sectors, but particularly the financial sector
- Hydrocarbon oil duties, stamp taxes, alcohol and tobacco duties accounted for 12 per cent of revenues and a number of other taxes, including Capital Gains Tax, Inheritance Tax and Air Passenger Duty, accounted for the remaining five per cent. There were some significant increases in Capital Gains Tax £1.8 billion (46 per cent), Climate Change Levy £0.6 billion (50 per cent) and Bank Levy £0.5 billion (23 per cent) during the year.

"My team's work on investigating and disrupting criminals stops millions of pounds being stolen from the UK Exchequer each year – it's complex and time-consuming, but immensely satisfying."

Julian Saldanha  
VAT Missing Trader Intra-Community Fraud,  
Ipswich

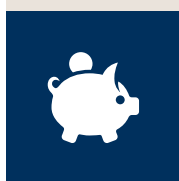
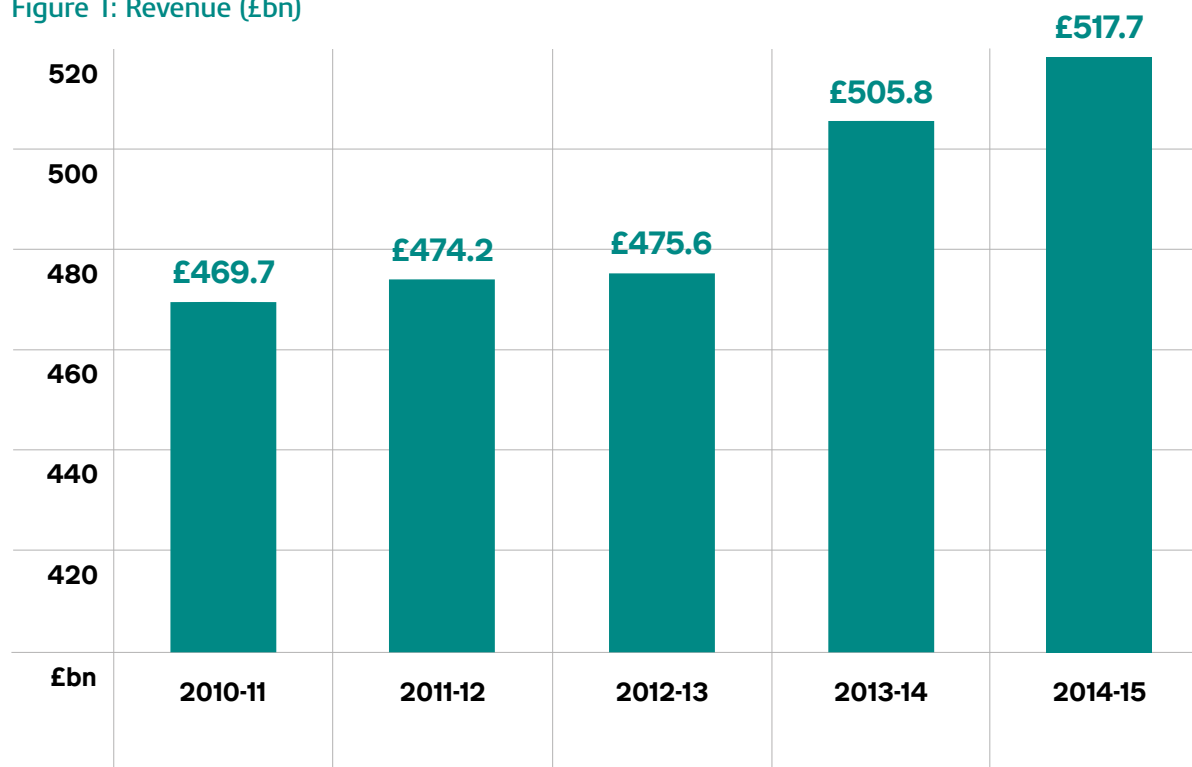


These increases have been offset by some significant decreases in some of the smaller taxes. Petroleum Revenue Tax decreased by £1.1 billion (100 per cent) mainly due to a significant fall in oil and gas prices. Capital Taxes decreased by £0.4 billion (80 per cent) as expected, as revenue for current and future withholding tax liabilities was significantly lower than past charges. Tobacco revenue decreased by £0.3 billion (3.1 per cent) as a result of a continuing decline in smoking.

Full information of the tax revenue collected by HMRC, with year-on-year comparisons, can be found in the Trust Statement at page 98.

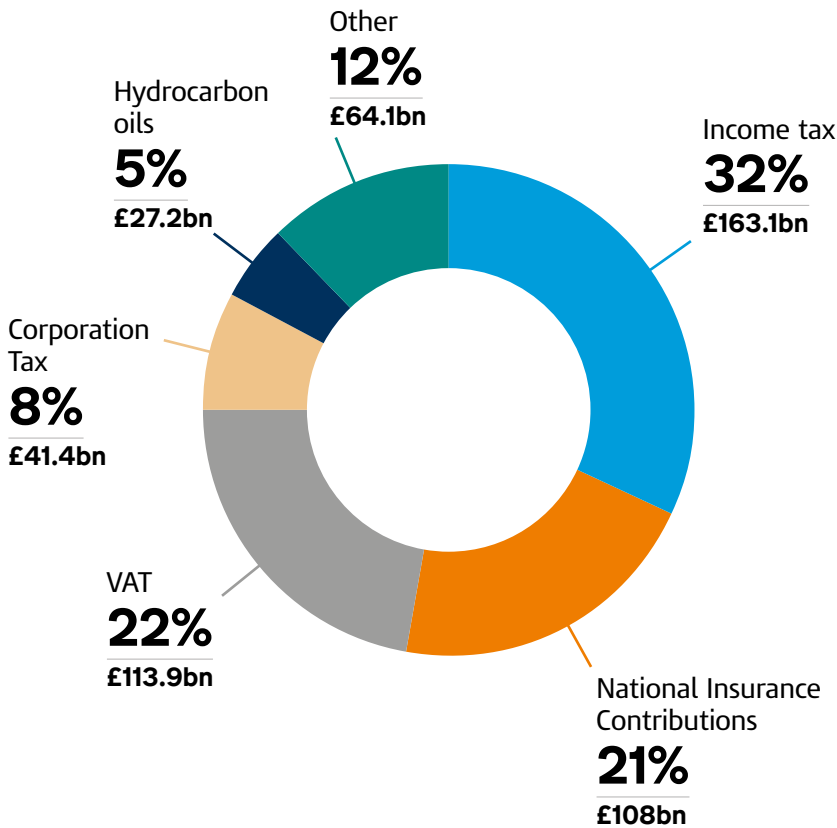
Our strong performance in increasing compliance yield this financial year, and over the Spending Review period since 2010, is a result of continuing to help customers get their tax and payments affairs right. We tailor our approach according to risk and customer behaviours, making the most of new technology, intelligence and analytics.

Figure 1: Revenue (£bn)



During the last year we collected and secured £26.6 billion from our compliance work, more than in any previous year and £2.7 billion more than in 2013-14.

Figure 2: Tax revenue – where the money comes from



The total amount of tax revenue that we should collect is driven by the overall level of activity in the economy and the rates of taxation, allowances and reliefs set by the Treasury.

## Compliance yield – 2014-15 performance

While the vast majority of individuals and businesses pay what they owe, we also need to work very hard each year to make sure that those who try to cheat the system also pay what they should. We refer to the amount of revenue that we either collect or protect from our compliance activities as 'compliance yield' and we explain this in more detail on page 14.

Our compliance yield amounts to billions of pounds that would have otherwise been lost to the UK through tax avoidance and evasion. We have strengthened our grip on those who deliberately cheat the system through fraud, avoidance and evasion and by refusing to pay what they owe. We apply the most appropriate civil and criminal sanctions against this dishonest minority.

During the last year we collected and secured £26.6 billion from our compliance work. Our calculation of the full impact of our compliance activity is based on a well-established methodology, which is designed to capture the impacts of the wide range of compliance work we undertake.



It includes not only cash collected but an estimate of the amount of revenue we prevent being lost together with an estimate of the impact of our current compliance interventions on future customer behaviour. For the first time this year, compliance yield also captures the impact of the new Accelerated Payments regime, which requires up-front payment from users of tax avoidance schemes.

The main components are:

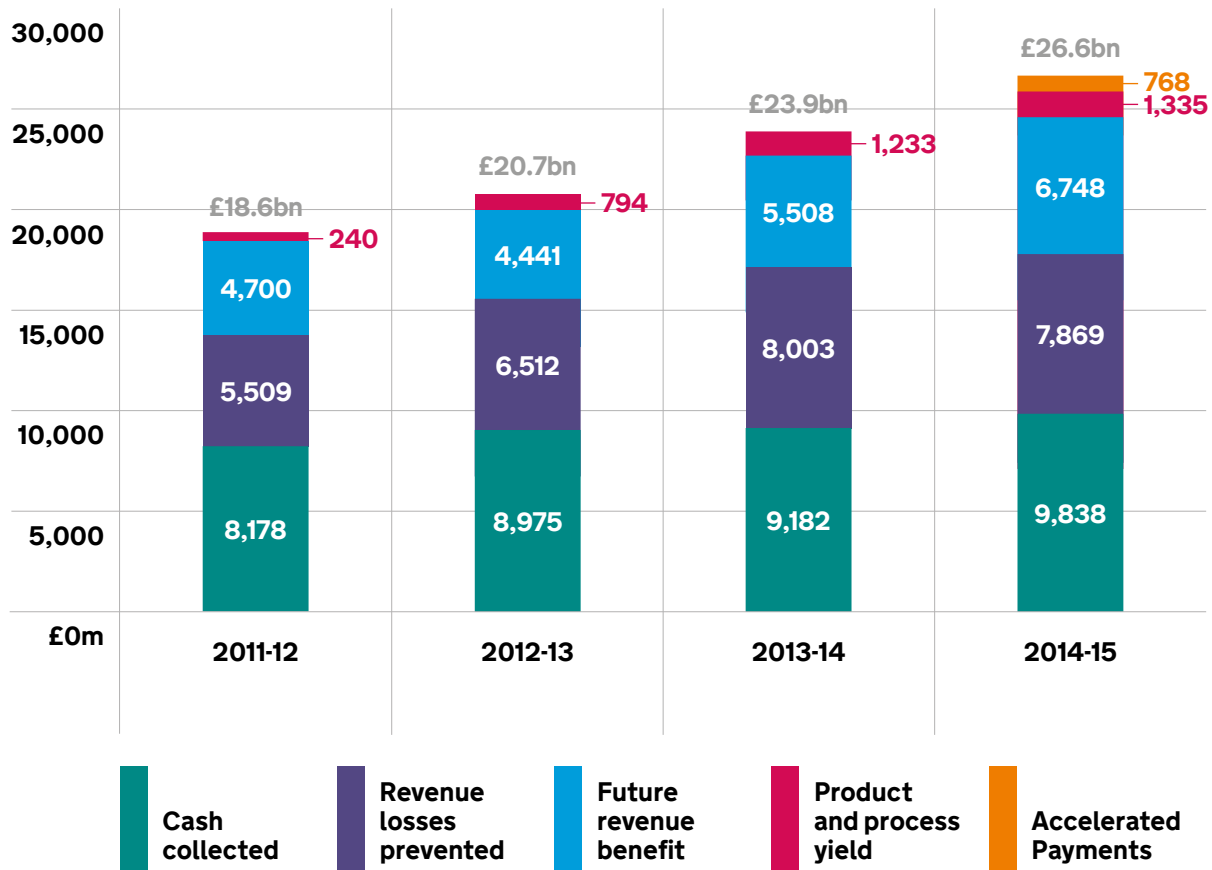
- **£9.8 billion** of cash collected – the amount of additional compliance revenue due when we identify past non-compliance, multiplied by a discount rate to reflect the fact that some of the amounts we identify will not be collected, due to insolvency, for example. While the amounts of tax due from these cases is very clear, we cannot trace every compliance assessment through to final payment, so there is an element of estimation involved in this figure
- **£7.9 billion** of revenue protected – the value of our activities where we have prevented revenue from being lost to the Exchequer; for example, by stopping a fraudulent repayment claim. It also includes the impact of our compliance work to disrupt criminal activity
- **£6.7 billion** of future revenue benefit – the effects of our compliance interventions on customers' behaviour
- **£1.3 billion** of product and process yield – an estimate of the impact in each year of largely legislative changes made in the government's 2010 Spending Review period that closed tax loopholes to reduce opportunities to avoid or evade tax
- **£768 million** of revenue from Accelerated Payments notices – the disputed amounts of tax that some people using tax avoidance schemes are now required to pay upfront within 90 days, as well as the estimated behavioural change already generated by the policy.

"Our customers include some of the UK's wealthiest individuals and we make sure they pay what they owe – we've delivered more than £450 million in additional revenue benefit since 2011."

Kevin Hubbard  
Assistant Director, Affluent Unit,  
Nottingham



Figure 3: Total compliance revenue (£m)



[Technical notes](#) are available online, setting out how we calculate yield in more detail.

We tackle non-compliance through a wide range of targeted activities that include:

- working closely with the 2,000 largest and most complex businesses in the UK. In 2014-15, we generated £7.3 billion of compliance yield from these businesses
- preventing £2 billion from being lost to the UK through tax avoidance and evasion through our enforcement activity and legal action, against a target of £1.79 billion
- tackling tax avoidance schemes in the courts through our legal and counter-avoidance directorates. We protected an estimated £635 million in tax in just one court case after the Court of Appeal ruled against a tax avoidance scheme run by Eclipse Film Partners (No 35) LLP
- generating compliance yield of more than £414 million from the UK's 6,000 wealthiest individuals, as a result of work carried out by our High Net Worth Unit, which has more than 400 specialists dealing with customers who each have a net worth of £20 million or more
- analysing income received by UK businesses from millions of credit and debit card transactions – known as 'merchant acquirer' data. This is a powerful tool for HMRC in tackling tax evasion and has already had a significant impact on bringing in additional revenue, by helping identify those breaking the rules. It has also resulted in a number of prosecutions
- continuing to prevent offshore non-compliance and encourage voluntary disclosure working with other countries multilaterally in the context of international agreements such as the OECD's Common Reporting Standard. The total revenue from the Liechtenstein Disclosure Facility alone, since opening in 2009, passed £1 billion last year

- prosecuting 1,289 cases, predominately for tax-related crimes – securing a collective total of 407 years in prison sentences
- extraditing ten people back to the UK who were wanted for revenue fraud worth an estimated £46.4 million. We continue to pursue all individuals overseas who are wanted in the UK for tax crime.

## Accelerated Payments

### At a glance...

We demand that some individuals and businesses who use tax avoidance schemes pay us the disputed tax before their case is resolved. This stops them from holding on to the money for considerable lengths of time, even years in some instances. We do this by issuing them with Accelerated Payments notices, which demands payment within 90 days.

One of the most significant tools that we now have to tackle avoidance by individuals and companies is the 'Accelerated Payments' legislation introduced last summer. This means those who have entered tax avoidance schemes which are under investigation are now required to pay the disputed tax upfront within three months. Last year we issued 10,000 notices, worth £1.7 billion in tax that we protected.

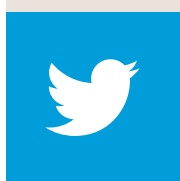
We expect around 64,000 individuals and businesses involved in avoidance schemes currently under dispute with HMRC to receive payment notices. Some cases involve wealthy individuals who are trying to avoid more than £10 million of tax through the use of avoidance schemes.

The new system does not change the amount of tax that should be paid or affect anyone's right to pursue their dispute with us, if they feel they are legally entitled to the tax advantage claimed by the avoidance scheme. Instead, it sets out who holds the money while the dispute is resolved. Should they win their case, we will repay the tax with interest.

**Figure 4: Accelerated Payments**

Accelerated Payments notices issued	Forecast payments received by March 2015	Actual payments received by March 2015	Refunded after legal challenges	Net value
10,000	£210 million	£596 million	£28 million	£568 million

For the first time, we also issued 379 'follower notices' to tax avoidance users. Follower notices urge tax avoiders to pay the disputed tax they owe after court rulings in similar cases find in our favour. We issued follower notices with a collective value of more than £170 million in 2014-15. If someone who has received a follower notice does not settle their dispute they may be liable to a penalty of up to 50 per cent of their tax and/or National Insurance Contributions in dispute.



Between 1-2pm on 31 January, more than 29,540 people filed a #SelfAssessment tax return online, nearly 500 a minute.

<http://ow.ly/ldX5c>

We win around 80 per cent of avoidance cases that taxpayers take to court, and many more settle with us before it reaches litigation. Where a customer disagrees with a follower notice, they have the right to an independent review. We received 824 requests for review and the amount included on a notice was reduced in 13 per cent of those cases settled.

We also started to target high-risk promoters of tax avoidance schemes in an attempt to change their behaviour, taking the first steps towards, among other things, naming them publicly with a view to disrupting their business model and protecting tax worth tens of millions of pounds.

The estimated compliance revenue protected by Accelerated Payments, through making the use of avoidance schemes less attractive to existing and potential avoidance schemes users, was £200 million in 2014-15.

## Compliance yield performance over the Spending Review period

Our 2010 Spending Review settlement and subsequent fiscal events, such as Budget and Autumn Statement announcements, have required us to deliver a number of compliance yield improvements. The table shows that we have met these targets each year over the period.

**Figure 5: Our compliance yield targets over the Spending Review period (£bn)**

	2011-12	2012-13	2013-14	2014-15
Original baseline	13.0	13.0	13.0	13.0
2012 baseline adjustment to reflect new scoring rules for future revenue benefit	1.7	1.7	1.7	1.7
Baseline error adjustment <sup>1</sup>	1.9	1.9	1.9	1.9
<b>Sub total – revised baseline</b>	<b>16.6</b>	<b>16.6</b>	<b>16.6</b>	<b>16.6</b>
Targeted performance increment from SR10	2.0	4.0	5.0	7.0
Extra target increments added by subsequent fiscal events		0.0	0.4	1.1
Amounts expected from Accelerated Payments				0.4
Amount of stretch added to performance expectations <sup>2</sup>			1.1	0.9
<b>Target</b>	<b>18.6</b>	<b>20.6</b>	<b>23.0</b>	<b>26.0</b>
<b>Outturn</b>	<b>18.6</b>	<b>20.7</b>	<b>23.9</b>	<b>26.6</b>

<sup>1</sup> As part of the 2013-14 audit, an error was found in the calculation of the baseline which should have been £1.9 billion higher.

<sup>2</sup> Stretch refers to agreed increase to targets agreed with HM Treasury to reflect in-year performance.

We reported in detail in our 2013-14 Annual Report about an error we had made in the calculation of our compliance yield performance baseline. We have corrected this error and it is fully reflected in our 2014-15 compliance yield target.

For the first time, in 2014-15, the compliance yield target included the expected impact of the new Accelerated Payments legislation, and consequently our compliance yield includes the outturn performance of this policy. This means that the coverage of the compliance yield measure is wider than it was in previous years, but this change is necessary to fully reflect the increasing range of compliance activity and to report in a way that is consistent with the basis of our targets.

There is one other change in the coverage of reported compliance yield over the period. The impact of one of our SR10 re-investment projects to increase the extent of our debt collection activity was excluded from compliance yield in 2013-14 because of a delay with the availability of the underlying data. The impact of the work is included in 2014-15 (£576 million).

## Reducing costs and providing value for money

### At a glance...

We made a further £210 million in sustainable cost savings last year, exceeding the target the government set us. During the last four years we collected record tax revenues while reducing and reshaping our workforce, so we have the right people, with the right skills in place as we move to more digital ways of working. We reduced the cost of our administration, estate, and the goods and services we buy.

One of our priorities is to continue to drive down the day-to-day costs of running the tax system to deliver better value for money for the taxpayer and the country.

The chart below shows the scale of efficiency saving we have made over the Spending Review period. This is the difference between our budget projections for 2010-11 to 2015-16 (the purple line) and our baseline funding. It also shows £917 million that was re-invested into compliance work, and further investment for new initiatives; for example, implementing Accelerated Payments.

**Figure 6: HMRC expenditure 2008-09 to 2015-16**



#### Notes

<sup>1</sup> Resource outturn after changes from Budget and Autumn Statement. 2015-16 is resource budget. As part of Spending Review 2010 HMRC received additional funding to tackle non-compliance in the tax system. This additional funding was added to HMRC's existing funding in 2015-16. Includes depreciation.

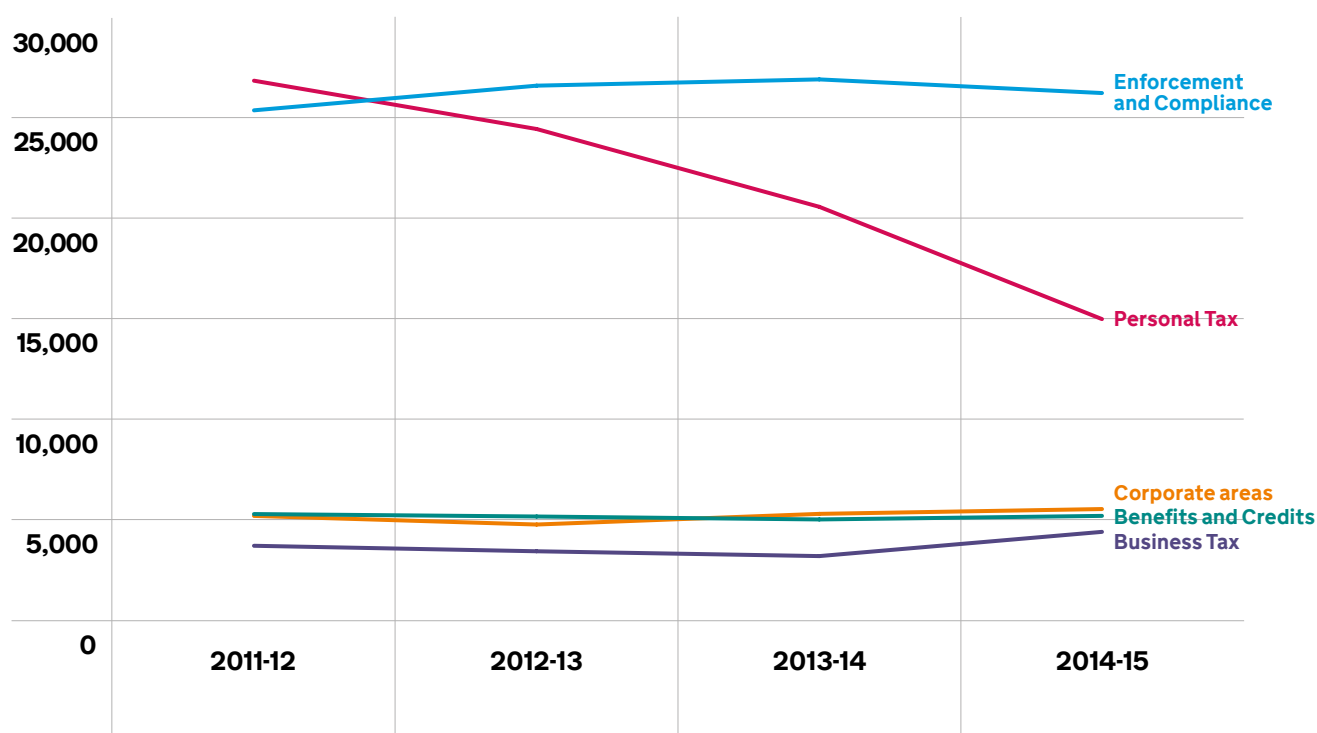
In 2014-15, we continued to transform in size and shape and delivered a further £210 million in sustainable cost savings. This means that in 2014-15, our spending was almost £1 billion less than it would have been compared to 2010-11. The following table sets out how the further sustainable savings in the last year of £210 million relate to our spending.

**Figure 7: Reconciliation of sustainable cost savings (£m)**

	2013-14	2014-15	Saving
Resource departmental expenditure limit outturn (excluding VOA)	3,645	3,465	
Less:			
Depreciation adjustment	-226	-237	
Re-investment to tackle non-compliance in the tax system	-284	-342	
Ring-fenced funding e.g. from autumn statements and spending reviews	-106	-145	
Non-permanent staff outside the scope of spending reviews	-81	-32	
Adjustment for inflation	34		
	<b>2,982</b>	<b>2,709</b>	273
Less one-off savings			-63
Sustainable efficiency savings			<b>210</b>

We have made these savings by changing the way we work right across the department, but particularly in our customer operations areas. By increasing automation, we no longer have to manually process 16 million routine work items to keep people's records up to date. We have supported more of our customers to file online and introduced new digital services, for example, to enable tax credits customers to renew online. We have changed our processes so customers have less need to contact us, such as stopping 25 million outputs (for example, coding notices to people with no tax liability). We have also improved training for our staff so they can more easily move between areas of work.

**Figure 8: HMRC staff numbers (FTE)**



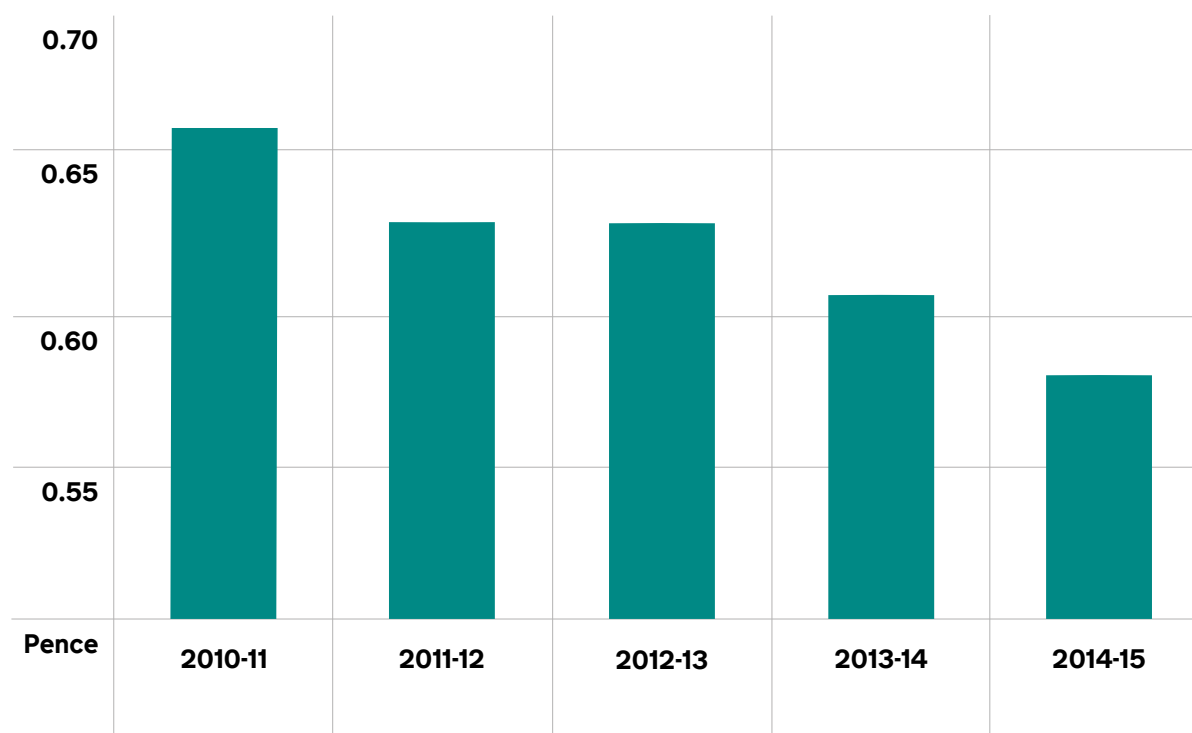
We reduced the total number of full-time equivalent (FTE) staff in post over the 2010 Spending Review period from 67,000 to 56,000 in 2014-15.

The significant reduction in our estate also meant we saved another £17 million in estates running costs in 2014-15 and £235 million over the Spending Review period.

We also made a further £14 million in new sustainable IT savings last year through changes to existing contracts and realising the benefits of the shift from paper to digital. That means we made a total of £424 million savings in IT over the Spending Review period.

Compared to the total revenues we collect, our administration costs are very low. The efficiencies we have delivered, together with increasing revenues, mean that the cost of collecting tax in the UK dropped from 0.66 pence per pound in 2010-11 to 0.58 pence in 2014-15.

**Figure 9: Overall cost of collection (pence per £ collected)**



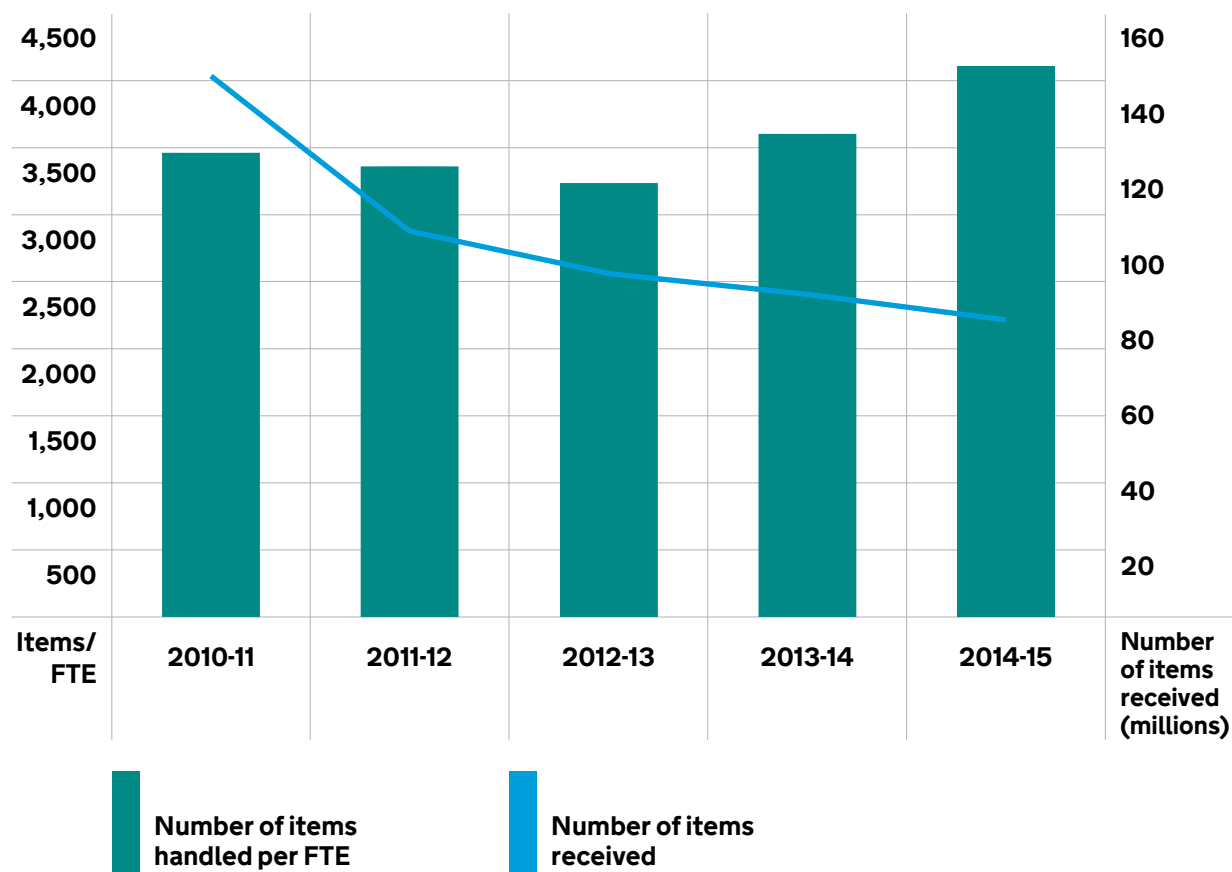
"We're working at the forefront of data-led compliance – making the most of all the details we now get on debit and credit card payments to improve our hit rate for identifying people in the hidden economy."

Chas Coysh  
Merchant Acquirers Data,  
Systems Evasion and Audit Team,  
London



We have successfully reduced unnecessary customer contact and seen demand for phone and post contact decrease, which has enabled us to make cost savings. The chart below shows that our people working in customer contact have increased their productivity, supported by improvements such as Intelligent Telephony Automation. This increase has not been sufficiently large enough however, for us to maintain our customer service performance targets in 2014-15.

**Figure 10: Customer contact items\* handled per full-time equivalent (FTE) employee and demand**



\* Customer calls and post to Personal Tax Operations' teams

## Improving customer services

### At a glance...

While we improved customer service during some of our busiest times of the year, overall we did not meet our targets for call handling or dealing with post. We know that we have more to do to deliver the consistent level of service that customers expect from us.

We know that good service can help customers get things right, whether that is paying the right amount of tax or receiving the payments to which they are entitled. In the past, we have not provided a good enough level of service when customer demands have been at their highest. So last year, we worked hard to make sure that customers received a more consistent level of service throughout the year.



Our efforts to improve the way we dealt with the Self Assessment and tax credits deadlines in particular, benefited millions of customers. For example, 85.5 per cent of the 10.2 million Self Assessment returns we received were submitted online. And, on deadline day, we answered 99.9 per cent of phone calls, compared to just 53 per cent in 2009, the last time the deadline fell on a Saturday.

And, by the 31 July tax credits renewals deadline, we received more than three million applications, including 410,000 through our new online renewals service. During the last week before the deadline, we received 1.2 million applications and answered 96 per cent of calls.

While we did improve significantly the level of service we provided during these peak times, overall we missed our targets for answering calls and dealing with post.

On phone handling, the number of call attempts we handled fell to 72.5 per cent in 2013-14, against our target of 80 per cent. And we only turned around 70 per cent of the post we received last year within 15 days, below our target of 80 per cent and less than the 83 per cent we achieved in 2013-14.

We exceeded our targets for processing new tax credits and Child Benefit claims and changes of circumstances: achieving 15 days for UK claims, against a target of 22 days, and 88 days for international claims, against a target of 92 days.

**Figure 11: Call attempts handled (per cent)**

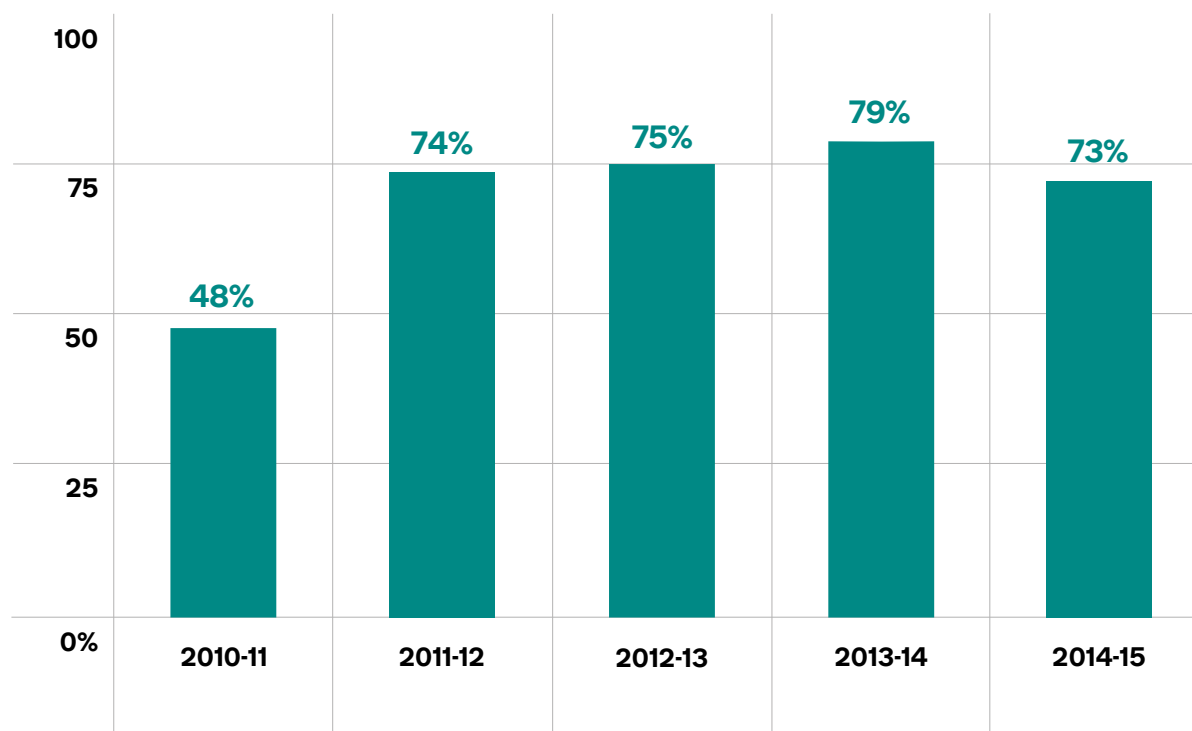
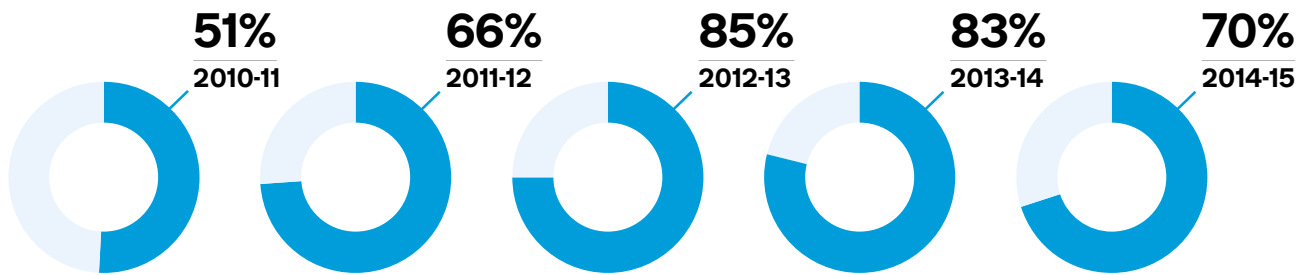


Figure 12: Post handled within 15 working days (per cent)



During the year, we made many changes to our processes to improve the service that we give our customers, but our performance was affected by teething problems with new systems, and in some cases we were too optimistic about how quickly and smoothly we could manage the changes we were making. Given the millions of transactions we deal with each year, a reduction in the speed of our IT systems by, say just a few seconds, can have significant impacts on our performance.

Some of the improvements we made included:

- introducing a new telephone system, which enables us to put more people on our helplines at busy times and to build new services for the future, such as webchat
- introducing a new system of scanning the post we receive, so we can deal with our customers' letters more quickly and securely online, rather than moving them around our offices
- replacing our Enquiry Centre network with a new service of mobile face-to-face advisers and specialist help over the phone for our most vulnerable customers. The new Needs Enhanced Support service helped 71,727 customers in 2014-15, 17,371 of them in person
- rolling out a 'once and done' approach to dealing with customers to 250 of our advisers, and adopting 137 of the ideas they have tested to improve our service in 2014-15
- introducing an online tax credits renewals service, which saw 410,000 people renew online in 2014, with a 94 per cent satisfaction rate
- expanding our online seminars for businesses to cover more of the topics they tell us they need. More than 352,000 small businesses viewed our advice and signposting videos on YouTube, and our e-learning modules had more than 155,000 customer views. We also sent more than 50 million support and advice emails. Our involvement in the cross-departmental Support to Growth Agenda has resulted in more than 356,000 clicks-through to growth guidance.

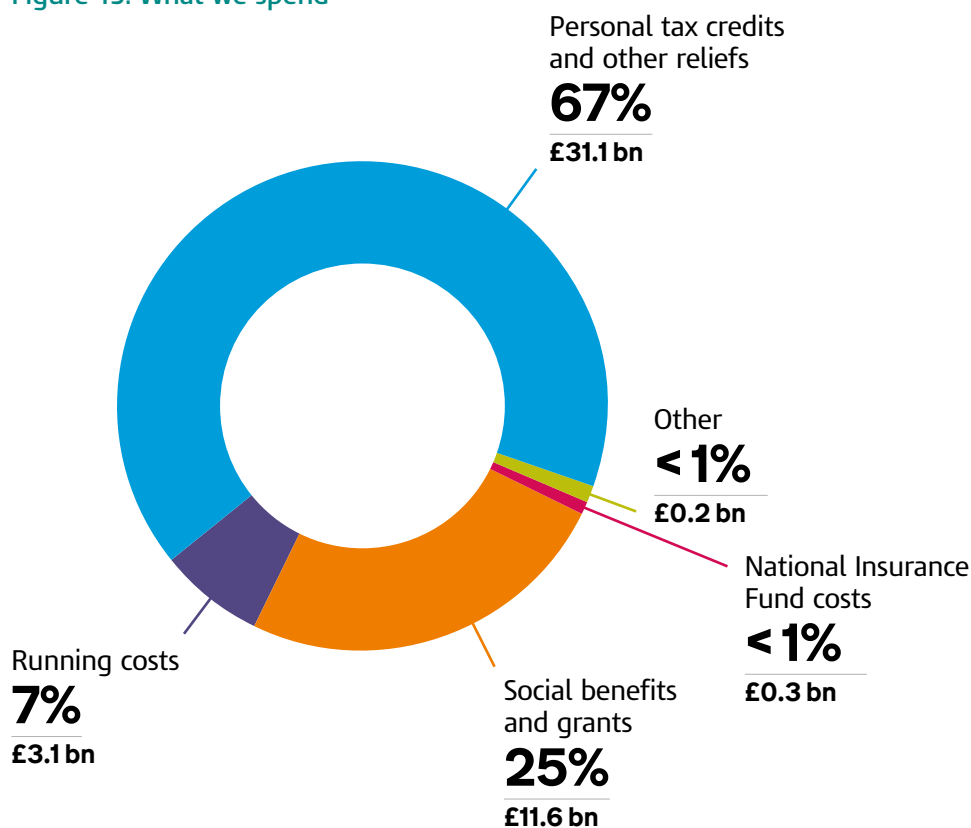
We know that we still have more to do to achieve the consistent customer service levels expected of us. So, we are continuing to invest in modern, digital services and changing how we operate and handle our 50 million customer calls and 15 million items of post – modernising the way we work and automating as much as we can to improve customer service and to be more efficient.

Over time, new systems such as Real Time Information for PAYE (RTI) will help us work more efficiently, by automatically reflecting changes in customers' circumstances in their tax code during the year, rather than at the end of the year. This will help us to increase the number of customers who pay the right amount of tax without the need for us or them to intervene after the end of the tax year, reducing the 3.5 million overpayments and 2.5 million underpayments that we had to deal with in 2014-15.

## Total departmental expenditure

What we spend in addition to the administrative costs of running the department includes significant costs relating to the National Insurance Fund and payments to external customers, including personal tax credits and Child Benefit.

Figure 13: What we spend



The chart above does not include non-budget expenditure of £4.7 billion relating to payments to the National Insurance Fund, which were made by HMRC on behalf of HM Treasury. More information can be found at Note 5 of the Resource Accounts on page 152. For more detail about what we spend see Statistical Table 1 on pages 84-86.

"I love this job - since we started, we've answered thousands of customers' questions, and get a lot of positive feedback from people saying they like this new service."

Javid Bashir  
@HMRCcustomers Twitter account team,  
PT Operations,  
Shipley

**Figure 14: In summary: key performance indicators**

The following table sets out in more detail our main performance data compared to the previous year.

	2013-14	2014-15
<b>Creating sustainable cost reductions</b>		
Unit costs (pence per £ collected/paid out)		
Collecting income tax (Self Assessment and Pay As You Earn)	0.93	0.83
Collecting Corporation Tax	0.77	0.71
Collecting National Insurance Contributions	0.25	0.27
Collecting VAT	0.64	0.64
Administering personal tax credits	1.41	1.42
Administering Child Benefit	0.55	0.51
<b>Compliance yield performance</b>		
Cash collected from compliance	£9.2bn	£9.8bn
Future revenue benefit	£5.5bn	£6.7bn
Revenue loss prevented	£8bn	£7.9bn
Product and process yield	£1.2bn	£1.3bn
Accelerated Payments	–	£0.8bn
<b>Total revenue raised</b>	<b>£23.9bn</b>	<b>£26.6bn</b>
Payment on time – proportion of businesses and individuals who pay tax on time – using VAT as lead indicator	86.9%	86.8%
<b>2012-13</b>		
Personal tax credits error and fraud – amount of tax credits money claimed by people who are not entitled to it	£1.5bn (5.3%)	£1.3bn (4.4%)
<b>2011-12</b>		
Tax gap – difference between all the tax theoretically due and tax actually collected	6.6% (£33bn)	6.8% (£34bn)
<b>Stabilising and improving customer service</b>		
<b>2013-14</b>		
% of post cleared within 15 working days of receipt	82.6%	70%
% of post cleared within 15 working days of receipt passing HMRC quality standards	91.3%	93.1%
% of post cleared within 40 working days of receipt	96.9%	93.9%
% of post cleared within 40 working days of receipt passing HMRC quality standards	91.2%	93.0%
% of call attempts handled by our contact centres	79.2%	72.5%
% of return transactions carried out online		
(12 months to quarter end e-returns, SA, PAYE, VAT, CT and Stamp Duty Land Tax)	96.7%	97.1%
Increase/decrease (-) in cost for all customers dealing with us (compared to March 2010)	+£15.3m	-£335m
Increase/decrease (-) in cost for business customers dealing with us (compared to March 2010)	+£44.29m	-£272m
Customers find us straightforward to deal with - all customers rolling annual score out of 100 (margin for error in brackets)	72.8 (±2.4)	71.2 (±2.6)



For more detailed information about our performance go to page 124 of the Resource Accounts

*Lin Homer*

Lin Homer  
Principal Accounting Officer  
15 July 2015

# Delivery against our 2014-16 Business Plan

## At a glance...

We are on track fully or partially to deliver 26 of the 30 main external commitments made in our 2014-16 Business Plan, covering key areas of our work such as generating revenue, making payments, and tackling fraud and error. We haven't delivered yet on the remaining four, which cover our customer call and post handling targets, employee engagement and sickness absence.

When we published our latest [HMRC Business Plan](#) in April 2014 we committed ourselves to delivering further improvements to how we maximise revenues, improve customer service, make sustainable cost efficiencies and include and involve our people in how we meet these key objectives.

The table below sets out the main external commitments, what business plan priorities we have delivered on so far, and what we still need to deliver by the end of 2016.

**Figure 15: Business Plan commitments**

- R** Not on track
- A** Delayed
- G** On track, or complete

Business Plan commitments	Status
<b>Bringing in more money</b>	
<b>Revenue and benefits</b>	
<b>We will</b> deliver additional compliance revenues of £26.3 billion in 2015-16.	<b>G</b>
<b>We will</b> use specialist teams to identify individuals with hidden assets in the UK or offshore. Our 'affluent' teams are expected to deliver £520 million by 2015-16.	<b>G</b>
<b>We will</b> make far more use of the customer information we collect to exploit sources of data, which will allow us to track sales of £400 billion a year through the use of credit cards.	<b>G</b>
<b>We will</b> strengthen our work to make sure migrants from the European Economic Area claim the right amount of Child Benefit and Child Tax Credit, by introducing a range of new compliance checks.	<b>A</b>
<b>Tax avoidance</b>	
<b>We will</b> continue to reduce the estimated £3.1 billion lost due to tax avoidance each year, by reducing the opportunities to become involved in tax avoidance, and using targeted communications that emphasise the pitfalls of tax avoidance and our success in tackling it.	<b>G</b>
<b>We will</b> enhance our capability to tackle multinational enterprises which seek to avoid UK tax by shifting profits from the UK, including creating a Large Business taskforce and implementing the new Diverted Profits Tax.	<b>G</b>
<b>We will</b> continue to prevent offshore non-compliance using agreements with foreign countries, such as the Liechtenstein Disclosure Facility, UK/Swiss Agreement and voluntary disclosure facilities with Crown Dependencies and Overseas Territories.	<b>G</b>
<b>Fraud and error</b>	
<b>We will</b> reduce fraud and error by using real time information supplied by customers and employers to risk assess which groups of customers are most likely to be non compliant.	<b>G</b>
<b>Criminals</b>	
<b>We will</b> strengthen our capacity to disrupt the activities of organised criminal gangs operating in the illicit road fuel market, through the introduction of a new fuel marker from April 2015 and the expansion of our road fuel testing unit.	<b>G</b>

Continued

Business Plan commitments	Status
<b>Debt</b>	
<b>We will</b> use new ways of collecting debt, so all relevant government departments and bodies can access a range of private sector debt collection, analytics and enforcement services – known as the Debt Market Integrator.	A
<b>We will</b> use new powers to modernise the way we collect debt, and tackle the persistent minority who refuse to pay what they owe, by recovering money from debtors' bank and building society accounts, including ISAs.	G
<b>Serving our customers</b>	
<b>Putting our customers at the heart of everything we do</b>	
<b>We will</b> make it ever-easier for our customers to do business with us online, by testing new channels and services, including making payments through telephony self-service.	A
<b>We will</b> pre-populate Self Assessment returns with employment income, meaning customers won't have to fill in the details on pay.	A
<b>We will</b> start preparing for the replacement of the annual tax return in favour of a single, digital account for all customers by providing five million small businesses and ten million individuals with their own digital tax accounts by early 2016.	A
<b>We will</b> use SMS messaging to reassure customers that their information has been received, or that their case is being dealt with.	G
<b>We will</b> make 'webchat' and email alerts available for Self Assessment customers who can already complete their returns entirely online.	A
<b>We will</b> enable tax credits customers to use their online tax account to manage their claim, report changes and renew online.	G
<b>Customer service</b>	
<b>We will</b> achieve a consistent level of service across our helplines, handling at least 80 per cent of calls in 2015-16. In 2014-15 we answered 72.5 per cent of calls.	R
<b>We will</b> reply to at least 80 per cent of customer correspondence and complaints within 15 working days and 95 per cent in 40 days. In 2014-15 we turned around 70 per cent of post within 15 working days and 93.9 per cent of post within 40 days.	R
<b>We will</b> increase to 75.8 per cent the proportion of customers who find HMRC straightforward to deal with	A
<b>For our benefits and credits customers</b> we will continue to handle all new claims and changes of circumstances for UK customers within 22 days.	G
<b>For our benefits and credits customers we will</b> continue to handle all new claims and changes of circumstances for international customers within 92 days.	G
<b>Making savings, efficiencies and innovation</b>	
<b>Make sustainable cost savings</b>	
<b>We will</b> make sustainable cost savings of £205 million.	G
<b>Workforce</b>	
<b>We will</b> continue the national conversation we are having with our people through Building our Future, while at the same time responding to feedback from events, to ensure we make continuous improvement in our delivery of future phases.	G
<b>We will</b> develop and implement a new leadership academy for more than 4,000 of our senior leaders at grade 7 and above, to build leadership and management capability.	G
<b>We will</b> build a stronger employer/employee relationship, while maintaining effective union relationships.	A
<b>We will</b> increase the percentage of employees who feel that they have the skills required to do their job to 91 per cent in 2015-16.	A
<b>We will</b> improve employee engagement by continuing to work towards our ambition of achieving the Civil Service Employee Engagement Index benchmark (59 per cent in 2014). The Employee Engagement Index from the Civil Service People Survey 2014 was 43%. The Employee Engagement Index from the Pulse Survey in March 2015 was 42%.	R
<b>We will</b> improve engagement among the Senior Civil Service, by maintaining or exceeding the Civil Service Employee Engagement Index benchmark (which was 74 per cent in 2014).	G
<b>We will</b> reduce the average working days lost per employee to 7.0. In 2014-15 the average working days lost was 7.98 days against the target of 7.0 days.	R

\* For information about the risks to delivering our 2014-16 Business Plan commitments see page 52 of the Governance Statement.



For more information about our 2014-16 Business Plan visit [www.gov.uk](http://www.gov.uk)

# Debt, complaints and powers

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## How we manage debt

The vast majority of taxpayers pay their taxes in full and on time. Individuals and businesses need to pay the tax that is due, or return a tax credit overpayment, otherwise it is unfair on the honest majority. We estimate that about ten per cent of the money legitimately owed to the Exchequer is not paid on time and has to be pursued using our debt collection powers.

## Our debt balance

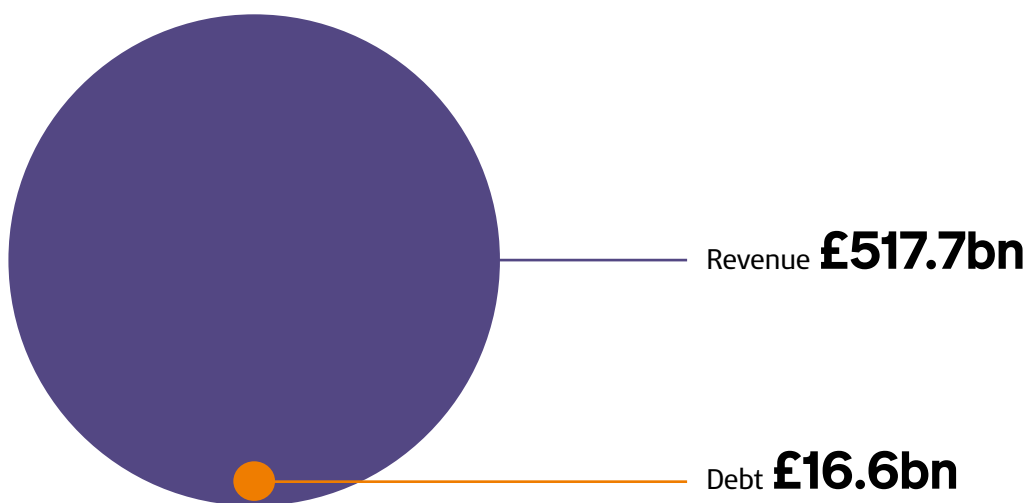
The debt balance is a snapshot of the total amount of debt owed at any given time. It includes debt that has been created in year, as well as older debt outstanding from previous years. The total amount of debt owed to HMRC last year was £16.6 billion. This comprised taxes, duties, penalties, and interest charges owed by individuals and businesses, as well as £3.6 billion of tax credits overpayments that we are trying to recover. This represents a year-on-year reduction of £160 million.

## Money due to HMRC

We make it as easy as possible for our customers to pay what they owe by offering a range of payment methods and facilities.

Where customers are unable or unwilling to pay on time, we pursue outstanding amounts quickly and efficiently. We collected £41 billion using our debt collection powers in 2014-15. The majority of this debt is repaid in the same year, but some is old debt from previous years that is recovered more slowly.

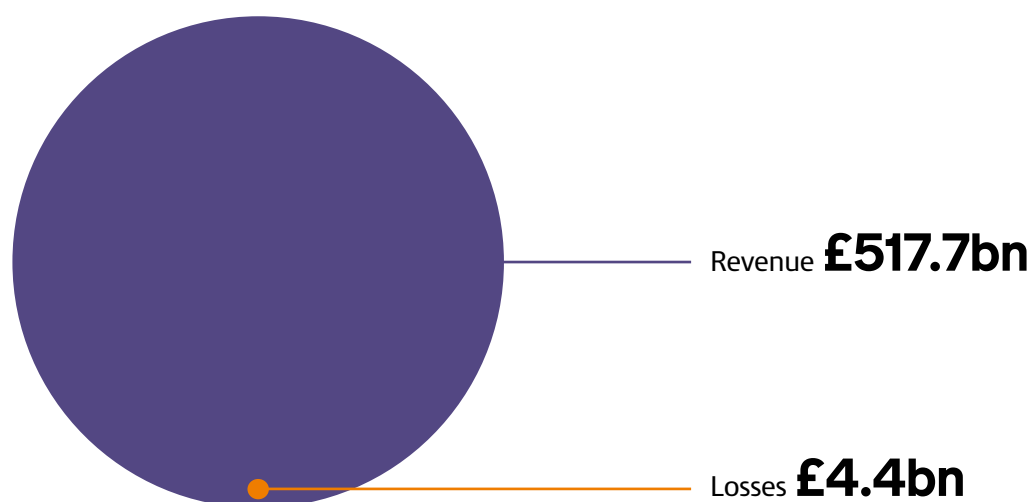
Figure 16: Debt in pursuit compared to revenue



We are able to offer Time to Pay arrangements to individuals and viable businesses which need more time to pay us what they owe, due to temporary financial difficulties. At the end of March 2015, we had agreed arrangements worth more than £2.7 billion – an increase of £761 million since April 2013.

Losses, which occur when we formally cease collection activity, and are mainly driven by individual and business insolvencies, totalled £4.4 billion, which was a reduction of £900 million on the previous year.

**Figure 17: Losses compared to revenue**



Further information about revenue losses can be found on page 114 of the Trust Statement

We use private sector debt collection agencies (DCAs) to help with our debt collection activities. From August 2014, we increased our use of DCAs in the initial stages of tax credits debt collection to send letters, text messages and make telephone calls on our behalf. DCAs collected £220.5 million in overdue tax and tax credits payments in 2014-15 – an increase of £7.3 million on the previous year.

**Figure 18: Total due**

	Mar 2014	Mar 2015
<b>Total due (receivables £ billion)*</b>	<b>30.8</b>	<b>32.9</b>
<b>Made up of:</b>		
Payment deadline not yet reached	7.5	8.7
Under dispute, appeal or investigation	3.5	4.1
Contractual payments in place	3.1	3.5
Actively being pursued or enforced	16.7	16.6
<b>Includes:</b>		
Time to Pay arrangements	1.9	2.7
Subject to legal proceedings	0.9	1.2

\* See note 4 (page 110) of the Trust Statement for a definition and fuller details of tax receivables and note 6.2 (page 154) of the Resource Accounts for fuller details of tax credits receivables.



# Complaints

HMRC deals with 45 million individuals and 5.2 million businesses. Each year we receive and respond to 50 million phone calls and 15 million letters from Self Assessment and PAYE customers. Given the sheer size and scale of our organisation, it is inevitable that we will sometimes make mistakes and receive complaints from customers.

We want our response to complaints to be among the best in government, and to ensure that we learn from feedback from customers, so that we can continuously improve our services and reduce future complaints.

During the last financial year, our increasing focus on tax credits error and fraud, debt recovery and compliance more broadly, has generated more contact and complaints from some customer groups. We received 74,427 complaints, compared to 64,729 in 2013-14. Despite this increase, we have successfully resolved 98.6 per cent of complaints handled by our two-tier internal complaints process.

When a customer is unhappy with the outcome of a complaint to HMRC, they can take their case to the Adjudicator, who acts as a fair and unbiased referee of complaints about HMRC and the Valuation Office Agency. The current Adjudicator is Judy Clements OBE.

Customers who are unhappy with the Adjudicator's decision can ask their MP to refer their complaint to the Parliamentary and Health Service Ombudsman, Dame Julie Mellor. The Ombudsman investigates complaints that individuals have been treated unfairly or have received poor service from government departments, other public organisations and the NHS in England.

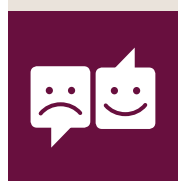
Details of HMRC complaints referred to the Adjudicator and the Ombudsman in 2013-14, following Adjudicator investigation, are shown in the table below. Our 2014-15 performance will appear in their annual reports, which are due to be published later this year.

**Figure 19: Complaints to the Adjudicator and Parliamentary and Health Service Ombudsman**

	Adjudicator 2013-14	Ombudsman 2013
Number of HMRC complaints accepted for investigation	1,087	69
Number of investigations reported on	2,311 <sup>1</sup>	40 <sup>2</sup>
Number of cases upheld in full	1,229 (53.2%)	6 (15%)
Number of cases upheld in part	844 (36.5%)	4 (10%)
Number of cases not upheld	173 (7.5%)	27 (67.5%)

<sup>1</sup> For completeness, 65 cases were withdrawn by customers. These cases represent the outstanding 2.8 per cent of cases settled by the Adjudicator.

<sup>2</sup> For completeness, three cases were resolved through intervention (without a formal investigation). These cases represent the outstanding 7.5 per cent of cases settled by the Ombudsman.



We want our response to complaints to be among the best in government, and to ensure that we learn from feedback from customers, so that we can continuously improve our services and reduce future complaints.

We continue to try to resolve customer difficulties at the earliest possible opportunity, without the need for them to escalate their complaints.

We recognise that the number of complaints referred to and upheld by the Adjudicator is still too high.

Since February 2013, the Tax Assurance Commissioner, Edward Troup, has been leading work to improve the way we respond to complaints and learn from what customers tell us. This includes being able to 'stand in the customer's shoes' and improve our processes using this valuable feedback.

Our focus over the last financial year has been on sustaining those improvements, and continuing to develop and refine them, so we can maximise the benefits from complaints information and use them to make viable changes to how we work.

## Detentions and warrants

HMRC is responsible for investigating a range of criminal offences involving tax fraud by individuals and organised crime groups. This means our criminal investigators have the power to arrest anyone whom they reasonably suspect of being involved in or committing a tax-related offence.

**Figure 20: Detentions and warrants**

		2014-15
<b>1</b>	<b>The number of individuals kept in detention for up to 24 hours (in a police station or Border Force suite)</b>	
	where the detention is as a result of an arrest by HMRC	510
	where the detention is as a result of an arrest by another government agency, either at, or immediately before, adoption by HMRC for criminal investigation	246
	where the detention is as a result of voluntary attendance	198
<b>2</b>	<b>The number of individuals detained for more than 24 hours, but less than 36 hours, and subsequently released without charge (Section 42, Police and Criminal Evidence Act)</b>	5
<b>3</b>	<b>The number of individuals for whom warrants of further detention beyond 36 hours (Section 43, Police and Criminal Evidence Act )</b>	
	authorised	Nil
	refused	Nil
	<b>In relation to each warrant of further detention (authorised under Section 43, Police and Criminal Evidence Act )</b>	
	the period of further detention authorised	Nil
	the total period spent in detention	Nil
	whether the person was charged or released	Nil
<b>4</b>	<b>The number of intimate searches under Section 55 of the Police and Criminal Evidence Act carried out in relation to suspects in our cases detained in police or Border Force custody</b>	Nil

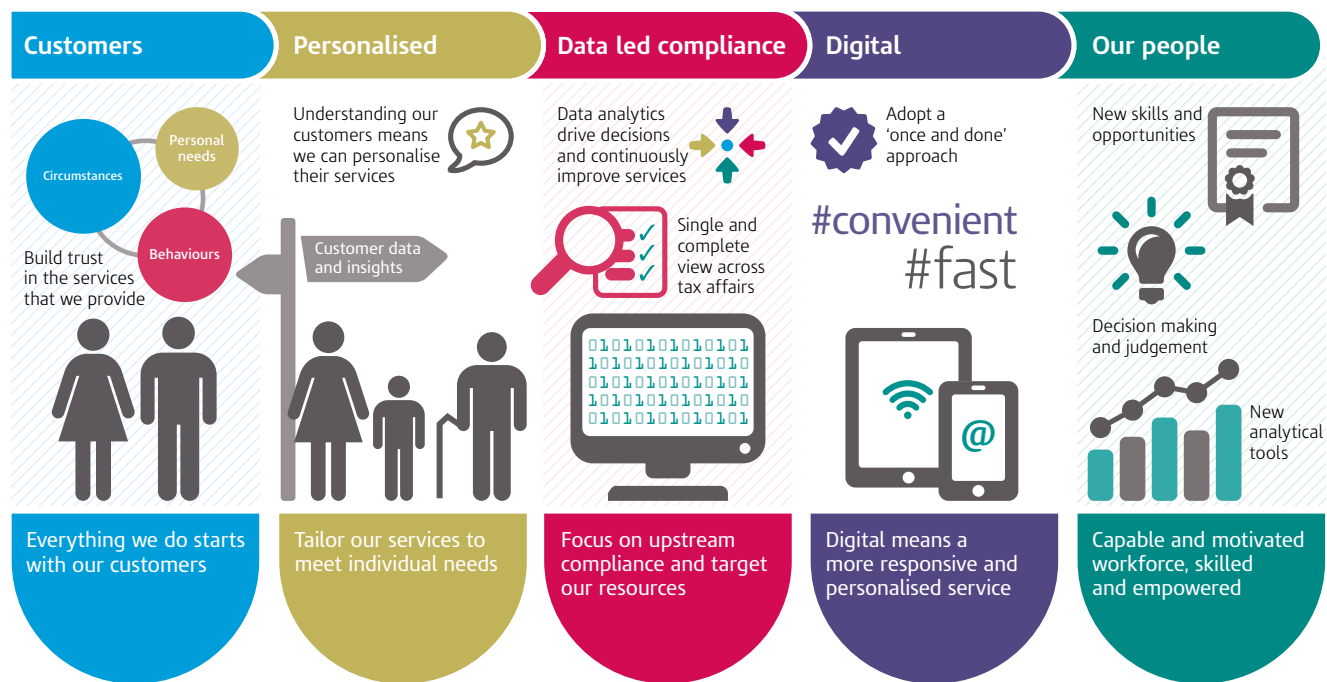
# Delivering a high-quality tax and payments system

We are transforming the way we work to put customers at the heart of everything we do. That means redesigning our processes around them, rather than the taxes they pay or benefits they receive. We will create multi-channel digital services that everyone who has a choice will want to use. We will automate many of our processes that are currently done manually, making them quicker and more efficient.

By making better use of the data and intelligence we have about our customers, we can personalise those services according to their behaviours and their needs at the time. We will also bring everything together in one place, so customers can deal with us once and be done, not multiple times with multiple people. We will also provide the same service for their agents and intermediaries.

Better use of personalised data will also enable us to change the way we do our compliance work. Our focus will be on helping people to get their taxes and entitlements right in the first place, promoting compliant behaviour and preventing error from happening at all, and then targeting our enforcement response at those who deliberately seek to cheat the system.

This will all be achieved by building on our digital achievements, rolling out new online services to individuals and businesses successively over the coming months and years. We will equip our operations with the modern IT services and platforms they need to run effectively, and give our people the tools they need to do their jobs more efficiently.



New criminal offences announced in clampdown on tax evasion.  
More information here:

<http://ow.ly/KwUOj>

# Simplifying the tax system

HMRC contributes to the government's better regulation agenda by simplifying the administration of the tax system, making it easier for customers to deal with us and reducing their costs and ours.

We achieved our two commitments to reduce costs for all customers and reduce the annual tax administration cost to businesses by £250 million over the four years to March 2015. We delivered estimated savings for all customers of more than £335 million a year, which included £272 million in savings for business customers by March 2015. We worked hard to deliver cost reductions of £538 million so we could offset £203 million in administrative increases that support delivery of government policies, such as the Patent Box regime, the Bank Levy and changes to pensions tax relief.

The rollout of more digital services for businesses has been at the heart of these savings, including Your Tax Account. More than 1.9 million PAYE schemes with employees and pensioners have also reported PAYE in real time, submitting almost 45 million individual live PAYE records. All our customers have benefited from initiatives designed to reduce the need to contact us and the transition from 0845 to 03 prefix helplines.

At the 2014 Autumn Statement we published 'Supporting Small Business: Making tax easier, quicker and simpler' which sets out how we have improved tax administration for small businesses by delivering sustained improvements recommended by the Office of Tax Simplification (OTS).

We worked closely with the OTS in a number of other areas, to deliver greater simplification and tackle complexity in legislation. For example, the Finance Act 2015 includes a number of OTS recommendations around employee benefits which will streamline processes and reduce considerably the numbers of P11D forms that have to be completed by employers.

We are also scrutinised by an independent panel, the Administrative Burdens Advisory Board, which supports small businesses by working with HMRC to advise on where costs can be reduced through more efficient tax administration. The board provides constructive challenge and support to help create a simpler and easier tax system for small business and in its annual report considers that: "HMRC has made, and continues to make progress, with some welcome and significant improvements delivered or in train." The board has also introduced an online facility for small businesses to provide feedback on areas they would like improving.



Read more about how we have improved tax administration for small businesses by visiting [www.gov.uk](http://www.gov.uk)

"Our checks prevent losses of more than £200 million from incorrect benefits and credits claims, but equally importantly, make sure most claimants are getting the correct financial support that's so vital to them."

Tracey Ellis-Bromhead  
Benefits and Credits, Undeclared Partner Team,  
Liverpool



# Sustainability

## Overview

The three pillars of sustainability – economic, social and environmental impact – apply to all aspects of our work. They are central to our strategic role in collecting taxes and duties, administering tax credits and Child Benefit, how we engage with our customers, our people and local surroundings, and our contribution to cost savings across government.

## Governance arrangements and plans






We report progress against the environment targets set for us by government, and those we have set ourselves, to the Home Affairs sub-committee leading on the Greening Government Commitments, the Department for the Environment and Rural Affairs and HMRC's Performance Committee. The external body, Carbon Smart, verify all our environment data.

Our Environment Champion makes sure that environmental impacts are included in high-level decision making, and environmental thinking influences how we interact with our customers and manage our suppliers and estate. He is supported by our Environment Committee, sustainability practitioners and an army of more than 500 green volunteers.

## Meeting our targets

Last year marked the final year of the 2010-15 Greening Government Commitments for sustainable operations and procurement. Overall, we made savings over and above the levels required in all areas, except water.

Figure 21: Sustainability targets

Greening Government commitment		Government reduction target 2015	Position at 31 March 2015	Position on target
	Greenhouse gas emissions	25%	35%	Exceeded
	Waste	25%	56%	Exceeded
	Water	6m <sup>3</sup> per FTE (efficiency target)	7.80m <sup>3</sup> per FTE	Not met
	Paper	10%	40%	Exceeded
	Domestic flights	20%	29%	Exceeded

Improving water efficiency has been our biggest challenge, albeit one that we have been tackling through active management of leaks and water surveys. Business travel has attracted close scrutiny, but it is also a necessity for us as a large operational department with offices spread throughout the UK. While our travel requirements are increasing, in line with our commitment to deploy more employees on frontline activities and improve the visibility of senior leaders, road travel is declining in favour of more sustainable options. For example, rail travel was up by two per cent in 2014-15, and more than 290,000 audio conferences took place during the year. Due to the increase in frontline activity, 1,500 extra flights were undertaken in 2014-15. However, we have still made a 29 per cent reduction since 2009-10.

Our successes include saving paper and cutting waste. We printed 19 million fewer sheets of paper last year. We also cut 2,500 tonnes from the amount of waste we send to landfill and we reused or recycled all of our IT waste.

## Mainstreaming sustainability

We continue to mainstream sustainability in our policies, plans, stakeholder engagement and people initiatives. For example, sustainability assessments are included in all new policy initiatives and sustainability is featuring in plans for the future of HMRC.

## Sustainable estate

We have processes in place to meet the Building Research Establishment Environmental Assessment Methodology (BREEAM) international benchmark for buildings. The environment standard ISO14001 has been awarded for our headquarters office at 100 Parliament Street, London and this certification is also maintained by our primary private sector provider. The impact of extreme weather on our ability to deliver our services and enable employees to work in a safe environment is built into our planning and strategies. Data from the Environment Agency is helping us to identify and monitor offices which are at risk of flooding – we have completed a Flood Risk Assessment identifying sites liable to flooding. Site inspections have been completed and specific risks are now informing site business continuity plans.

## Biodiversity

Biodiversity habitat surveys at a number of key sites have identified 14 priority areas for biodiversity action, including at our office in Darwin House, Shropshire where we are working with the local Wildlife Trust to support restoration of woodland that once formed part of Charles Darwin's home.

## Sustainable procurement

We continue to use the CAESER (Corporate Assessment of Environmental, Social and Economic Responsibility) tool to manage supply chain risks, including sustainability. Our total direct and indirect spend with small and medium enterprises (SMEs) exceeded the 16 per cent target agreed with Cabinet Office, which was a positive outcome, given the complexity and length of our IT and estates contracts. The majority of our sourcing of materials and assets complies with government buying standards, with the only exception being for paper purchases, where there has been an insufficient supply of recycled paper that meets both our needs and requirement for competitive pricing.



## Supporting our communities

Last year we committed funding of £2 million to the Voluntary and Community Sector to help our customers to understand and comply with their tax obligations and claim their correct entitlements. We also gave 4,693 days of employee time to community activity by encouraging our employees to work with voluntary organisations and schools and to participate in civic duties; for example, as magistrates and school governors. Through our partnership with Go-On UK, we helped members of the public to go online for the first time. We also worked with The Prince's Trust and Inspiring the Future to raise the aspirations of young people and assist them in making informed career choices. Further work took place with UK and international agencies to support effective civil governments overseas.

## Charitable giving

In November 2014, our employees raised more than £67,000 for the BBC's Children in Need appeal and volunteers at our Contact Centres in Bathgate, Cardiff and Manchester took telephone pledges from members of the public on the appeal night. Employees made further donations totalling more than £908,000 to other good causes of their choice through our on-line payroll giving arrangements. In June 2014, we were awarded a Gold Quality Mark from the Institute of Fundraising for the seventh year running.



For more information about our commitment to being a sustainable organisation visit [www.gov.uk](http://www.gov.uk)

"It's rewarding to watch older people smile with satisfaction after helping them get online, and see that's its easier and quicker to get their taxes right using our digital services."

Les Delahunty  
Assisted Digital Customer Support,  
Shipley



# Long-term liabilities

We have four Private Finance Initiative (PFI) contracts which are:

- Mapeley STEPS Contractor Ltd, relating to the private sector provision of serviced accommodation across the majority of the departmental estate. The end year of the contract is 2021-22
- Exchequer Partnerships, relating to the provision of serviced accommodation at our 100 Parliament Street headquarters. The end year of the contract is 2037-38
- Newcastle Estates Partnership, relating to the provision of serviced accommodation at a number of sites in the Newcastle-upon-Tyne area, including the redevelopment of the Benton Park View site. The end year of the contract is 2029-30
- Bootle PFI solutions 1998, relating to the provision of serviced accommodation at St John's House, Bootle. The end year of the contract is 2025-26.

Prior to January 2015, HMRC had a significant IT Public Private Partnership contract, which is included within the Resource Accounts on page 120. This was called ASPIRE, and the contract was to deliver a significant proportion of HMRC and Valuation Office Agency IT infrastructure with Capgemini as the prime contractor and other outsourcing partners including Fujitsu.

In 2012, we completed a major renegotiation and restructuring of the contract to deliver significant price reductions and are now working directly with Capgemini, Fujitsu and Accenture, taking more control over managing our IT suppliers.

## Description of departmental reporting cycle

We published our main estimate for 2014-15 in April 2014 as part of the Central Government Supply Estimates – Main Supply Estimates. We also applied for a supplementary estimate, details of which are available in the Central Government Supply Estimates – Supplementary Estimates, published in February 2015. These documents are in the public domain and can be accessed from the government website at [www.gov.uk](http://www.gov.uk).

## Publicity and advertising

We spent about £10 million on advertising campaigns to support our operations in 2014-15. Our major campaigns focused on prompting tax credits customers to renew their claims on time, encouraging Self Assessment customers to file and pay what they owed before the deadline, encouraging tax evaders to change their behaviour and declare all their income and encouraging eligible UK businesses to claim the new Employment Allowance.

We also informed married couples and civil partners about the Marriage Allowance, ahead of its starting in 2015-16 and, as in previous years, we ran an advertising campaign to recruit candidates for our graduate recruitment programme.



Lin Homer  
Principal Accounting Officer  
15 July 2015



# Accountability

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Ian Barlow  
Lead Non-Executive

## Governance Statement

### Lead Non-Executive foreword

HMRC has had a successful year, meeting its financial targets for taxes raised and working within its challenging cost budgets. It has also moved forward to implement its plans for the future for a digitally-enabled, data-driven, more productive organisation, to be based in fewer, but larger, better-equipped offices, which will provide stimulating work and clear career paths for its people. But in the important area of customer service targets were missed and performance has declined, with a reduced percentage of calls answered and longer waiting times. Action is in hand to address these key criteria of success.

The governance section of this report sets out the structure and composition of the Board and its committees and the work it has completed in the past year. Audit and Risk have continued to be busy with an annual cycle of challenge and review of the external reports the department issues, of the work of Internal Audit and the risk function and in reviewing the work of the National Audit Office. Scrutiny has done deep dives into cyber security, producing a well-received report, and into complaints handling where performance is gradually improving. Finally, People, Nominations & Governance has focused on supporting the executive's work on engagement and leadership development.

The Board has concentrated its work on reviewing performance and supporting each of the key elements of the department's transformation plans. At each meeting it reviews the department's performance and transformation hubs. The former tracks delivery against plans for the year; the latter tracks the many elements (more than 120) of the change programme against the long-term blueprint for the department.

HMRC's transformation programme benefits substantially from the advice, support and challenge of eight Non-Executive Directors, five of whom serve on the Board and three others on its committees.

During the year Philippa Hird, Norman Pickavance and Volker Beckers all retired from the Board. I thank them for their significant contribution. We were joined by three new non-executives, Mervyn Walker, who chairs the People, Nominations and Governance Committee (PNG), and Simon Ricketts, who both joined the Board, and Diane Herbert who joined the PNG committee. Details of their backgrounds are on page 43, together with those of the other non-executives.

The non-executives are drawn from a wide variety of experience and all are kept busy. They work in three ways: through the Board acting together; through its committees – Audit and Risk, People, Nominations and Governance, and Scrutiny; and finally one on one through 'buddying' between non-executives and members of the executive team, whereby the non-executive works directly with executives on the development of particular projects.

Examples of the latter include Simon Ricketts, Chief Information Officer at Rolls-Royce, working closely with Mark Dearnley, HMRC's Chief Digital and Information Officer, on the digital transformation; Edwina Dunn, co-founder of Dunhumby, a leading data company, working with Jennie Granger, Director General for Enforcement and Compliance on the new Enterprise Data Hub, the foundation of the department's future data exploitation; and Mervyn Walker, former HR Director at three large FTSE 100 companies, working with William Hague, Chief People Officer, on Building our Future, the platform for HMRC's transformation, which is being discussed with employees through 'town hall' gatherings. John Whiting, currently Director of the Office of Tax Simplification, has continued to support executives with ambitious initiatives, working closely with the Tax Free Childcare design team and supporting the Next Generation Performance Measures work.

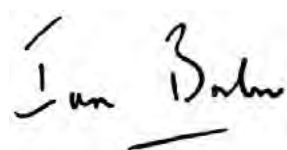
The executive team under Lin Homer's leadership continues to form a cohesive and collegiate group, determined to deliver against ambitious long-term goals. They and the non-executives work well together. This is both encouraging and rewarding for the non-executives and executives alike.

Two particular areas of activity by the department stand out for me last year. First, the rapid rollout of IT projects, and in particular digital products, many of which are already being tested in real time in beta form by millions of customers.

An example of how IT can benefit tax is the success of the RTI (Real Time Information) project implementation, which went on to win an award.

Second, I pick out the Building our Future programme of engagement with the department's people. The programme has been running now for 18 months and I, and the other non-executives who have attended many sessions, have not seen a better example of engagement anywhere at such scale. The persistence and honesty in explaining HMRC's future direction, building each phase on the feedback obtained from the staff at events in the previous phase, has been very impressive. This is now being supported by a new leadership programme to support HMRC's existing talent programmes.

The Board has also paid increasing emphasis to sharing best practice with other departments' NEDs and, working through the Cabinet Office's Efficiency and Reform Group and under the chairmanship of Lord Browne and his successor, Sir Ian Cheshire, to support the reform of functional delivery across Whitehall.



Ian Barlow  
Lead Non-Executive

# How we are structured

## Ministerial arrangements

HMRC is a non-ministerial department established by the Commissioners for Revenue and Customs Act (CRCA) 2005, which gives the legal powers and responsibilities of the department to Commissioners appointed by the Queen.

HMRC's status as a non-ministerial department is intended to ensure that the administration of the tax system is fair and impartial.

HMRC is ultimately accountable to the Chancellor of the Exchequer for how we conduct our business. The Chancellor has delegated the responsibility for oversight of the department to the Financial Secretary to the Treasury, as departmental minister for HMRC. The current departmental minister is David Gauke MP.

HMRC must comply with any directions of a general nature given by Treasury ministers.

## Commissioners

Commissioners are responsible for the collection and management of revenue, the enforcement of prohibitions and restrictions and other functions, such as the payment of tax credits. They exercise these functions in the name of the Crown. The Commissioners are also entitled to appoint officers of Revenue and Customs who must comply with their directions.

The way in which the Commissioners conduct their business is governed by the CRCA, which says that the Commissioners may make arrangements specifying how many of them are required to carry out their functions.

HMRC's current Commissioners are Lin Homer, Edward Troup, Jennie Granger, Jim Harra, Nick Lodge and Ruth Owen. Simon Bowles was also a Commissioner until he left HMRC in March 2015.

Decisions about how our largest and most sensitive cases are resolved are led by the Tax Assurance Commissioner, who is currently Edward Troup. More detail about [how we resolve tax disputes](#) is available on [www.gov.uk](http://www.gov.uk)

## Our committees

We have a committee structure in place that enables our executive committee (ExCom) to undertake effective and transparent decision-making and that provides appropriate challenge and assurance by our non-executives.

## Non-Executive Board



### **Ian Barlow — Lead Non-Executive**

Ian Barlow is a non-executive director of Smith and Nephew plc, Foxtons Group plc and The Brunner Investment Trust plc. He is Chairman of The Racecourse Association and a board member of the China British Business Council. Until 2008, Ian was a senior partner at KPMG.



### **John Whiting — Non-Executive Board Member**

John Whiting is the Tax Director of the Office of Tax Simplification and he joined the Board of Revenue Scotland at the beginning of 2015. Prior to joining the HMRC Board he was Tax Policy Director of the Chartered Institute of Taxation (CIOT), a role he took on after a career with PricewaterhouseCoopers, where he was a tax partner for 25 years.



### **Edwina Dunn — Non-Executive Board Member**

Edwina Dunn is co-founder of Dunnhumby, a driving force in data mining and customer analysis, which created the Tesco Clubcard and loyalty programmes around the world. She now runs HandD Ventures with her husband, working as directors of the Purple Seven theatre and Starcount, an entertainment social media platform.



#### **Simon Ricketts — Non-Executive Board Member**

Simon Ricketts has been Chief Information Officer of Rolls Royce plc since 2010, responsible for IT and business process transformation. He is experienced in leading large and complex transformation programmes in IT, manufacturing, logistics and customer service.



#### **Mervyn Walker — Non-Executive Board Member**

Mervyn Walker has held a range of senior positions in large customer service and industrial companies. He has been Group Human Resources Director at British Airways, Mondi and, most recently, Anglo American. He also has experience of transformation in large and complex organisations.

Philippa Hird, Norman Pickavance and Volker Beckers were also members of HMRC's Board and stepped down in 2014-15.

### Other Non-Executives



#### **Leslie Ferrar**

Leslie Ferrar was formerly treasurer to HRH The Prince of Wales and The Duchess of Cornwall, The Duke and Duchess of Cambridge and Prince Harry. Leslie also holds a number of other non-executive positions. She was previously a tax partner at KPMG.



#### **Diane Herbert**

Diane Herbert was, until recently, Director of Human Resources at Channel 4 Television. Prior to joining Channel 4, Diane worked in human resources for a variety of blue-chip companies across a broad range of industry sectors including manufacturing, telecoms, and media.



#### **Paul Smith**

Paul Smith is the former UK Finance Director of the Ford Motor Company and has board-level experience from across both the public and private sectors in health, housing, transport, financial services and government.

## Roles and responsibilities

As a non-ministerial department, the role of the Board is critical to the success of HMRC. The Board is in place to advise and challenge the management of HMRC, particularly focusing its attention on the performance and future strategic direction of the department. Last year, that meant a strong focus on the development of the strategic plans for HMRC's transformation.

The non-executives on the Board bring with them a wealth of experience from a range of backgrounds, including data analytics, human resources, IT, accountancy and the tax profession. Their skills and professional backgrounds bring an external perspective to the advice the Board gives to help shape strategy and challenge performance.

The Board provides:

- **Challenge:** reviewing and challenging the department's business plan and performance against that plan, with particular reference to agreed strategic priorities
- **Expertise:** providing wider public and private sector expertise to help shape the delivery of strategy and to improve HMRC's performance. They also advise the Chief Executive on senior appointments
- **Strategy:** assuring HMRC's strategic direction is clear and deliverable, taking into account risk and focusing on the long-term success of the department and value for the taxpayer
- **Assurance:** providing the Chief Executive, as Principal Accounting Officer, with assurance that the financial statements are factually accurate, that risk management processes are robust, and that control processes across HMRC are strong and appropriate
- **Stakeholder views:** reflecting the views of HMRC's external stakeholders; supporting HMRC to develop stakeholder communications plans; and using the cross-government network of Non-Executive directors to bring insight and intelligence to support the Executive Committee to identify challenges and opportunities.

The Board does not have a role in day-to-day operational decision-making, nor in tax policy or individual taxpayer matters.

The Board met seven times in 2014-15, including one session dedicated entirely to shaping the department's future strategy. Board members also met with many HMRC teams in 2014-15 to gain insight into their day-to-day work and the challenges they face, including two days visiting frontline offices and meeting with different HMRC talent scheme delegates in Nottingham and Birmingham.

The Board receives regular updates from business areas within HMRC covering financial performance, departmental targets, including customer service measures, and the key risks to performance and transformation faced by the department. At Board meetings, members receive detailed updates on HMRC's performance, which gives them clear oversight of how the department is performing against our objectives and business plan commitments. The Board regularly views ExCom's 'performance and transformation hubs' – a visual representation of the key indicators, against which the executive judges our performance and transformation priorities, which the Board is satisfied provides sufficient quality of data to enable robust performance assessments to be made.

Figure 22: Attendance at Board meetings

Board members	May 2014	July 2014	Sept 2014	Nov 2014	Jan 2015	Mar 2015	Attended
Ian Barlow	Y	Y	Y	Y	Y	Y	6
Volker Beckers	Y	Y	Y	Y	Y	N	5
Simon Bowles	Y	Y	Y	Y	Y	Y	6
Mark Dearnley				Y	Y	Y	3
Edwina Dunn	Y	Y	Y	Y	Y	Y	6
Jennie Granger	Y	Y	Y	Y	Y	Y	6
William Hague				N	Y	Y	2
Jim Harra	Y	Y	Y	Y	Y	Y	6
Philippa Hird	Y						1
Lin Homer	Y	Y	Y	Y	Y	Y	6
Nick Lodge				Y	Y	Y	3
Ruth Owen	Y	Y	Y	Y	Y	Y	6
Norman Pickavance	Y						1
Simon Ricketts			Y	Y	Y	Y	4
Edward Troup	N	Y	Y	Y	Y	Y	5
John Whiting	Y	Y	Y	Y	Y	Y	6
Mervyn Walker			Y	Y	Y	Y	4

## Board committees

The Board's committee structure remains the same as last year, comprising the Board and three supporting committees:

- People, Nominations and Governance
- Scrutiny
- Audit and Risk.

Work is delegated to Board committees, where smaller groups of non-executives and ExCom members can examine issues in more detail and present their findings to the Board for discussion and conclusion. More detailed information on the roles, responsibilities and work done by these committees during the year can be found below.



**Figure 23: Board sub-committees (roles and responsibilities)**

Audit and Risk	Scrutiny	People, Nominations and Governance
<p>Provides assurance to the Board and the Principal Accounting Officer on the accuracy and precision of financial statements and the strength of risk management and control processes across HMRC. Its scope covers all aspects of HMRC business and aspects relating to the Valuation Office Agency (VOA), as escalated. The Chair of the Audit and Risk Committee will attend at least one meeting annually of the VOA Audit and Risk Committee.</p> <p>Advises the Board and the Principal Accounting Officer on:</p> <ul style="list-style-type: none"> <li>• assurance processes and actions in relation to management of risks in an HMRC context</li> <li>• strategic processes for risk, control and governance of the accounting policies, the accounts, the Tax Assurance Commissioner's annual report and the annual report of the organisation, including the Resource Accounts, Trust Statement and the National Insurance Fund Accounts</li> <li>• recommending follow-up action in response to reviews of processes in settled tax cases</li> <li>• the planned activity and results of both internal and external audit</li> <li>• the adequacy of management response to issues identified by audit activity</li> <li>• when necessary, proposals for tendering audit services from contractors who provide audit services to the department</li> <li>• anti-fraud policies, whistle-blowing</li> <li>• processes and arrangements for special investigations.</li> </ul>	<p>A special sub-group of the HMRC Board, which carries out in-depth scrutiny of single issues referred to it by the Board. The committee advises the Board and the Principal Accounting Officer on specific areas within the Board's Remit.</p> <p>Examples of issues that have been referred include:</p> <ul style="list-style-type: none"> <li>• HMRC's strategies, policies, practices and measurement of performance and how they might best be developed and improved</li> <li>• Overseeing a review on complaints handling and making recommendations to the Board on complaints policy, strategy and operational performance.</li> </ul>	<p>Provides advice and scrutiny for the Board and Chief Executive on:</p> <ul style="list-style-type: none"> <li>• nominations arrangements within HMRC</li> <li>• succession planning for appointments to ExCom and the Board, so it can maintain an appropriate balance of skills and experience</li> <li>• the identification and development of leadership capability and high potential across the department</li> <li>• the incentive and reward strategy for the department</li> <li>• HR support for the department's strategic direction and key HR performance indicators</li> <li>• HMRC's ability to meet its legislative responsibilities in relation to its people, including health and safety, the Equality Act and equal opportunities.</li> </ul>

The department also continued the use of a 'buddying' system, introduced in 2013-14, between members of ExCom and non-executive board members with areas of particularly relevant expertise. This allows non-executives to use their experience to help executive colleagues between meetings, and to provide an informal, trusted sounding board outside the formal board setting. Board members now also participate in the preparation of material to be discussed at meetings, to make the most efficient use of their time.

The Board regularly reviews its own effectiveness as part of the arrangements for each meeting, using structured questionnaires. The Board also assessed progress against recommendations from a formal effectiveness review conducted in 2013-14, to ensure there was continuous improvement in its effectiveness and impact, and concluded that Board meetings had become more productive and were generating useful challenge and advice to the Executive Committee.

## Executive Committee (ExCom)



**Lin Homer — Commissioner of Revenue and Customs; Chief Executive Officer and Principal Accounting Officer**

Lin Homer is directly accountable to Parliament for HMRC's performance and helps set the strategic leadership of the Civil Service as a member of the Civil Service Board. She leads the department's 56,000 employees and is accountable for our £3.5 billion budget.



**Edward Troup — Commissioner of Revenue and Customs; Second Permanent Secretary and Tax Assurance Commissioner**

Edward Troup is Head of Profession for Tax, making him one of the UK's most senior tax professionals. He leads on the assurance of large tax settlements worth billions of pounds every year.



**Jennie Granger — Commissioner of Revenue and Customs; Director General Enforcement and Compliance**

Jennie Granger leads teams that secured and protected record compliance revenues of £16.6 billion in 2014-15. Her 26,000-strong team identifies compliance risks to the UK tax system and carries out most of HMRC's compliance, enforcement and debt collection activities.



**Ruth Owen — Commissioner of Revenue and Customs; Director General Personal Tax**

Ruth Owen leads directorates that secured and protected £270 billion last year through income tax, Self Assessment and specialist taxes and reliefs from 45 million individual taxpayers. Ruth, who leads 15,000 employees, is Head of Profession for Operational Delivery in government.



**Jim Harra — Commissioner of Revenue and Customs; Director General Business Tax**

Jim Harra oversees HMRC's relationship with 5.2 million large and small businesses, which paid more than £220 billion in tax in 2014-15. He leads 4,400 employees who secured almost £9 billion in compliance revenues in 2014-15 and dealt with businesses ranging from the largest multinationals to the smallest start-ups.



**Nick Lodge — Commissioner of Revenue and Customs; Director General Benefits and Credits**

Nick Lodge oversees the tax credits and Child Benefit systems, which pay about £40.7 billion every year to millions of families and almost ten million children in the UK. He leads 5,000 employees and the strategic work on HMRC's future transformation.



**William Hague — Chief People Officer**

William Hague leads on the people management, structure and delivery of HR services for our 56,000 employees. This also includes a leading role in Building our Future – the biggest transformation in HMRC's history. His role as joint head of the Civil Service HR Profession includes responsibility for the cross-cutting HR agenda and for shaping future HR strategy.



**Mark Dearnley — Chief Digital and Information Officer**

Mark Dearnley leads on the transformation of one of the largest digital operations in the UK, accountable for two-thirds of all UK government digital transactions, with 1,500 employees ensuring that vital customer and HMRC IT services are working efficiently.



**Justin Holliday — Chief Finance Officer**

Justin Holliday oversees how HMRC is performing against our key government objectives and how we spend our £3.5 billion budget. He leads the finance community in ensuring that they apply the highest standards of financial management.



**Gill Aitken — General Counsel and Solicitor**

Gill Aitken is a standing attendee of ExCom and leads HMRC's legal services, advising HMRC and Treasury on all aspects of tax law and safeguarding billions of pounds in tax revenues.



**Stephen Hardwick — Director of Corporate Communications**

Stephen is a standing attendee of ExCom.

## Roles and responsibilities

ExCom oversees and assures all of HMRC's work and is responsible for setting and delivering strategy. It is the department's main executive forum and the primary place in which Commissioners make their decisions. Individual committee members have portfolios of responsibility that span each line of HMRC business and corporate service function.

ExCom meets in three different forms each month – ExCom, ExCom (Performance) and ExCom (Transformation).

### ExCom

**Chair: Lin Homer, Chief Executive**

During this reporting year ExCom met 12 times, covering a wide range of strategic, operational and financial issues which required decision, agreement or discussion by the department's most senior leadership team. Key issues covered included: long-term business planning and the key enablers for transforming HMRC; IT and infrastructure changes; talent management and succession planning, particularly building the right leadership capabilities to transform the way HMRC serves the UK; and the wider Civil Service reform agenda.

The committee regularly reviews its own effectiveness as part of the arrangements for each meeting and by other means from time to time, for instance coaching, workshops and formal reviews. A formal effectiveness review of ExCom and its sub-committees was conducted during 2013-14 and a number of recommendations were implemented during 2014-15, including the effectiveness of meeting discussions.

### ExCom (Performance)

**Chair: Edward Troup, Tax Assurance Commissioner (Simon Bowles, Chief Finance Officer, until March 2015)**

ExCom (Performance) oversees the department's performance, both in terms of immediate and future objectives. Within a dedicated performance hub, displaying performance indicators agreed by the committee, it analyses HMRC performance against targets and considers ways to improve performance in all areas, including both customer service and value for money.

The committee met 11 times during the reporting period, covering a range of key issues including: key risks; business and workforce planning; compliance revenues secured; tax receipts; customer service performance; and debt.

### ExCom (Transformation)

**Chair: Nick Lodge, Director General Benefits and Credits and Senior Responsible Officer for HMRC Change Portfolio**

ExCom (Transformation) provides senior level governance and ensures effective delivery of both the change portfolio and future strategic transformation. It met 11 times during the reporting period. In addition to monitoring the delivery of the Change Portfolio, key issues covered include: decisions on prioritisation of change projects and programmes; oversight of the strategic direction of the PaceSetter\* and Building our Future initiatives and the contribution they make to departmental transformation.

\* PaceSetter is a set of principles, supported by tools and techniques, which is used to improve staff efficiency in the workplace. It identifies and cuts wasteful processes which are not focused on the customer.

Figure 24: Attendance at ExCom meetings

ExCom	April 2014	May 2014	June 2014	July 2014	Aug 2014	Sept 2014	Oct 2014	Nov 2014	Dec 2014	Jan 2015	Feb 2015	Mar 2015	Attended
Gill Aitken				Y				Y	Y	Y	Y	Y	6
Simon Bowles	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y		11
Mark Dearnley	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	11
Jennie Granger	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	11
William Hague	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	11
Stephen Hardwick	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	12
Jim Harra	Y	Y	N	Y	Y	Y	N	Y	Y	Y	Y	Y	10
Justin Holliday												Y	1
Lin Homer	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	12
Nick Lodge	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	11
Ruth Owen	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	11
Edward Troup	Y	N	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	10

ExCom's sub-committee structure remains the same as last year, comprising three supporting committees:

- Portfolio Delivery Board
- People Matters
- Investment.

More detailed information on the roles, responsibilities and work done by these committees during the year can be found below.



Figure 25: ExCom sub-committees (roles and responsibilities)

	Portfolio Delivery Board	Investment Committee	People Matters Committee
<b>Roles and responsibilities</b>	Acts as an additional decision-making body, helping others to implement change, offering support and advice as well as a challenge function operating below, but reporting to ExCom (Transformation).	Makes investment decisions on behalf of ExCom, in line with HMRC's strategic direction and change initiatives, on initiatives which cost more than £2 million, or are new or contentious.	Plans for three to five years ahead in terms of how HMRC will be structured and use our resources. It also oversees the programme of work that will deliver the People Strategy and takes decisions on delegated issues relating to people policies. The committee supports the Chief People Officer in designing and implementing the annual One HR work plan.
<b>Chair</b>	Nick Lodge, Director General, Benefits and Credits	Justin Holliday, Chief Finance Officer (Simon Bowles until March 2015)	William Hague, Chief People Officer
<b>Issues covered</b>	<ul style="list-style-type: none"> <li>Monitored and challenged progress in delivery across and within portfolio clusters</li> <li>Oversaw the identification and management of risks and dependencies across and within portfolio clusters</li> <li>Monitored and challenged progress towards the achievement of HMRC's blueprint ambition</li> <li>Provided advice to ExCom on funding and prioritisation issues.</li> </ul>	<ul style="list-style-type: none"> <li>Examined business cases for: Spending Review 2013 settlement; Autumn Statements 2013 and 2014 investment; and legacy business cases for SR10 settlement; reinvestment settlement</li> <li>Reviewed finance and benefits status and associated risks and issues of core change settlements.</li> </ul>	<ul style="list-style-type: none"> <li>Examined existing HR and people practices as they were updated and refreshed</li> <li>Reviewed new practices as they were being developed</li> <li>Oversaw the delivery and progress of HMRC transformation engagement programme, Building our Future</li> <li>Examined the priority and work plan for the HR policy remit</li> <li>Carried out in-depth reviews of departmental risks referred by the Board, ExCom, or the People Nominations and Governance Committee.</li> </ul>

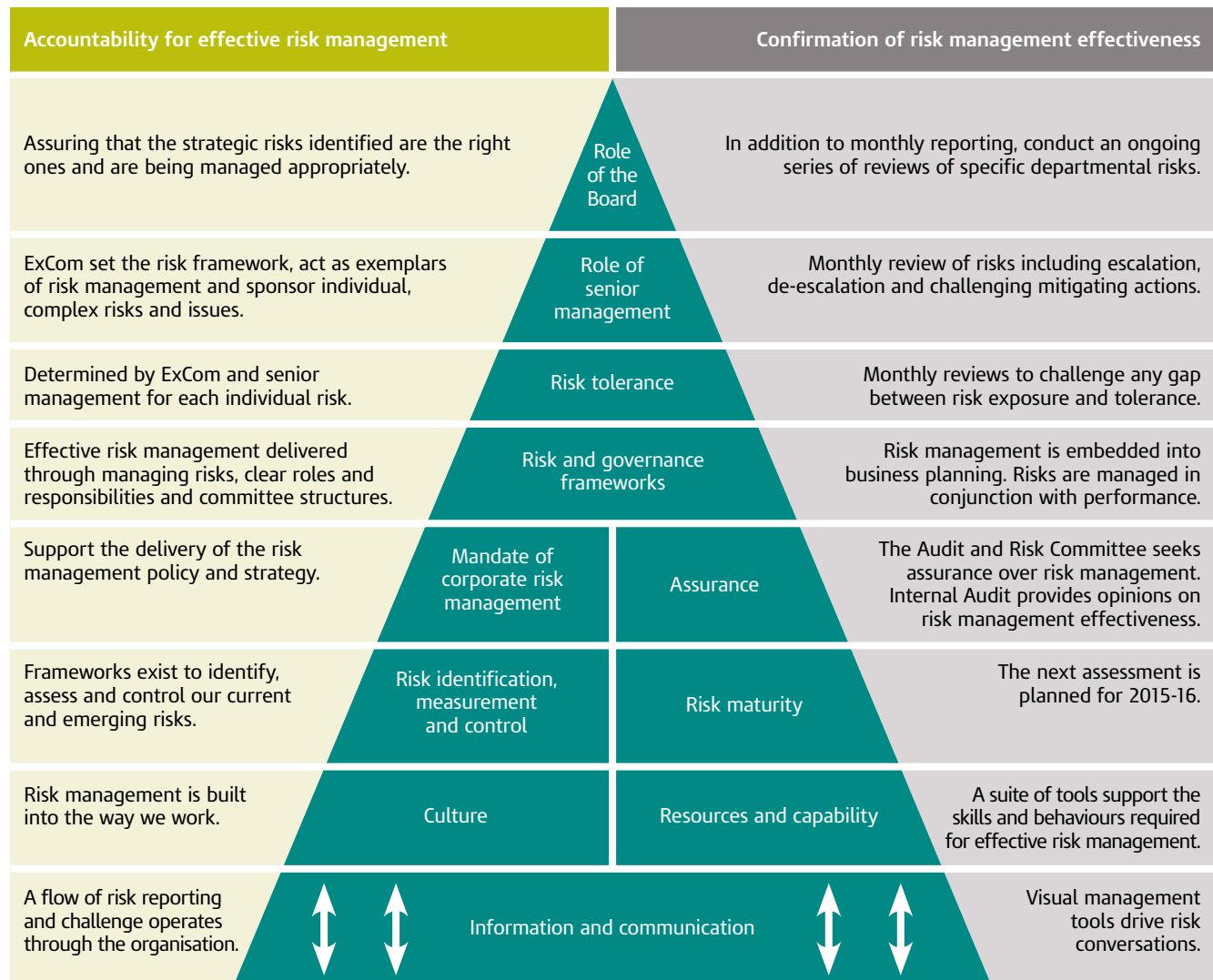
## Compliance with the Code of Good Practice

I have assessed HMRC's compliance with the corporate governance in Central Government Departments' Code of Good Practice 2011. I believe we comply with all of the key principles in the code.

## The risks to our performance: what they are and how we deal with them

Risk management operates at all levels in HMRC, from operational decision making on individual cases, through to strategic-level risks identified in our Departmental Risks and Issues Register.

**Figure 26: HMRC risk framework**



There are several ways that HMRC manages risks. Specifically, in the last year, we:

- enhanced the current risk operating model and agreed Director General sponsors for all risks and issues, supported by director and deputy director risk actionees. This provides a clearer, more transparent link to accountabilities and strategic delivery
- developed a new risk and issue management framework, ensuring that the focus of risk and issue management is on outcome and delivery, rather than process
- operated risk management escalation/de-escalation throughout the business. The aim is to ensure that emerging and existing risks are effectively managed by accountable individuals, including those sitting just below departmental level
- monitored our progress in managing each risk during the year; this includes the work we do internally to mitigate the risk, together with external factors which impact upon the department

- further developed a framework to support the business in delivering critical risk reviews
- supported risk partners by providing formal training opportunities, including risk qualifications, to help them to manage risk more effectively
- strengthened our independent corporate risk management team to further develop, assess and challenge how we manage risk in HMRC.

To ensure ongoing effectiveness of risk management and to identify areas for improvement, we will run an HMRC-wide risk assessment during 2015-16.

## Risk overview

The most significant risks faced by HMRC which could impact on the delivery of our strategic objectives, together with key mitigating actions, are outlined below.

**Figure 27: The risks to our performance: what they are and how we deal with them**

Principal risks	Key mitigating actions
<b>Raising revenue</b>	
As the country's tax, payments and customs authority, our key risk is to collect revenue in a demonstrably fair and balanced way and maximise the flow of money to the Exchequer to help pay for essential public services.	Our performance on receipts against expectations is regularly reviewed at ExCom. Where there is a significant variance, we make sure that not only is the cause understood, but action is taken. This includes: <ul style="list-style-type: none"> <li>• linking the pattern of receipts with risks to tax collection</li> <li>• understanding how tax receipts forecasts affect our picture of risk</li> <li>• changing tax products to support compliance activities.</li> </ul>
<b>Serving our customers</b>	
Our customers are at the heart of the service we aim to provide. One of our challenges is to meet our customers' needs and expectations now and in the future. We must deliver services in a seamless, joined-up way that helps the honest majority to get their tax right and makes it hard for the dishonest minority to cheat the system.	We are strengthening our management of this risk through: <ul style="list-style-type: none"> <li>• listening to our customers and acting on customer feedback to improve the way we handle interactions</li> <li>• continuing to deploy flexible resource from across HMRC to meet peaks in customer demand</li> <li>• beginning an ambitious programme of digital tax services, including accelerating delivery of the personal digital tax account</li> <li>• implementing integrated product and process changes.</li> </ul>
<b>Developing our leadership and management</b>	
Leaders and managers are critical to successful delivery of business performance and plans. We face the continuing challenge to develop our leaders' innovation, resilience and flexibility to ensure we are able to deliver the department of the future.	We have introduced a more co-ordinated approach to developing our leaders by: <ul style="list-style-type: none"> <li>• engaging our leaders in our national conversation on Building our Future about how we will transform over the coming years and building staff engagement</li> <li>• using a suite of metrics (including the People Survey and feedback from the Building our Future events) to track the effectiveness of our actions</li> <li>• developing talent management, including the use of positive action programmes, and succession planning for key leadership roles across our organisation</li> <li>• planning the launch of a Leadership Academy in May 2015.</li> </ul>

Continued



Principal risks	Key mitigating actions
<b>Managing our cyber security</b>	
The protection of our IT systems and customer data is our most significant ongoing risk. As we build our future, we must maintain and safeguard the availability, resilience and security of our systems to enable and protect the integrity of our customers' tax and benefits information.	<p>Many of the key actions over the last year have been to improve understanding of the risk and how to tackle it. This includes:</p> <ul style="list-style-type: none"> <li>• investing in the new Cyber Security Command Centre</li> <li>• continued investment in maintaining and enhancing existing controls</li> <li>• improving defences against direct hacks, malware and detecting anomalies and criminal behaviour</li> <li>• identity assurance work which, once completed, will vastly improve defences against unauthorised access and provide us with a solid foundation for building up transaction and user monitoring</li> <li>• early campaign work, which has begun to address some of the insider risks and threats identified in the new cyber strategy.</li> </ul>
<b>Building our Future</b>	
Building our Future is central to the delivery of all our plans. Our challenge is to join up our transformation activities, ensuring they align to our blueprint and build our digital capability and capacity. Otherwise the risk will be that we cannot support our customers or future ways of working.	<p>We are investing substantial resource in setting out a vision for our long-term future, including a sustainable operating model. Our approach includes built-in feedback loops. To help inform future steps towards that vision we have:</p> <ul style="list-style-type: none"> <li>• consulted widely on the role of the Building our Future national conversation and used the feedback to strengthen and inform our plans</li> <li>• implemented an interactive intranet website to aid the two-way conversation</li> <li>• detailed the capabilities required for delivery of the HMRC Blueprint and developed the HMRC Transformation Roadmap and investment proposition</li> <li>• developed a business readiness model to aid change implementation.</li> </ul>
Other risks to our delivery are outlined below:	
Other risks	Key mitigating actions
<b>Managing our reputation</b>	
As the country's tax, payments and customs authority, it is critical to safeguard the reputation and perception of HMRC and uphold public confidence in our activities and the UK tax system.	<p>To mitigate and reduce the risks to HMRC's reputation in 2014-15, we have:</p> <ul style="list-style-type: none"> <li>• published a wide range of reports and briefings in order to be open and transparent on our performance</li> <li>• held stakeholder conferences to facilitate open discussions with the media and other external stakeholders on our priorities and plans</li> <li>• strengthened our briefing materials in order to be able to rebut misleading or inaccurate criticism quickly.</li> </ul>
<b>Directing and controlling HMRC</b>	
Effective direction and control is essential to an organisation the size and complexity of HMRC. To manage this risk, we must ensure our strategy, business planning and performance measurement are aligned to maximise our contribution to public service delivery.	<p>To manage the risk we have developed a medium to long-term business planning strategy, which includes:</p> <ul style="list-style-type: none"> <li>• creating a coherent approach to planning</li> <li>• continued effective governance, including Board oversight over our business plans and budget allocation</li> <li>• transparent delivery of current Spending Review commitments</li> <li>• developing a new performance measures framework.</li> </ul>

Continued

Other risks	Key mitigating actions
<b>Effectively delivering change</b>	
<p>Transforming HMRC is essential to our future success. In delivering our transformation agenda, we face a challenge in growing sustainable capacity and capability to embed cumulative change and to deliver the benefits.</p>	<p>To manage this risk effectively we have:</p> <ul style="list-style-type: none"> <li>• enhanced our business readiness through a new engagement model between change and business managers</li> <li>• continued to build our change capability for portfolio management by planning for delivery of our Blueprint and Roadmap</li> <li>• developed an investment proposition supported by proactive management of key programme resources via central oversight.</li> </ul>
<b>Managing our suppliers</b>	
<p>Our suppliers are an increasingly important element in the services we provide our customers. A key risk is to manage all the aspects of our contracts effectively, ensuring those contracts are fulfilled, and deliver value for money for the country in the short through to the long term.</p>	<p>To support effective management of our suppliers we have:</p> <ul style="list-style-type: none"> <li>• undertaken regular assurance over supplier credibility and viability</li> <li>• refreshed and updated our contingency plans, legal advice and handling and commercial negotiation strategies. These are now subject to continuous review</li> <li>• refined our 'cost of default' and 'cost of continuance' models with the latest costs and thinking.</li> </ul>
<b>Effectively managing health and safety</b>	
<p>We take our duty of care as an employer and leaseholder very seriously. To deliver against this, we must actively manage health and safety to protect the wellbeing of our people, customers and building users.</p>	<p>Focusing on three key elements; health and wellbeing; H&amp;S compliance (people); H&amp;S compliance (buildings) we have:</p> <ul style="list-style-type: none"> <li>• enhanced our focus on supporting staff wellbeing in the areas of stress management, mental health and cancer care</li> <li>• used contractual provisions to proactively manage our estate</li> <li>• enhanced use of the Staff Safety Database launched in March 2014, enabling our staff to improve their assessments of external threats.</li> </ul>
<b>Maximising our people's performance</b>	
<p>Our people are central to our delivery. To meet the needs of our business now and in the future, we need to engage our staff in our plans, raise the bar on performance and develop our skills.</p>	<p>To understand and support our people we have:</p> <ul style="list-style-type: none"> <li>• undertaken regular and anonymous staff surveys supported by specific action plans for engagement and development</li> <li>• ensured high-level sponsorship of digital capability build</li> <li>• continued to modernise learning and development environment for staff</li> <li>• maintained dialogue with unions and built constructive discussions with employee groups and unions.</li> </ul>
<b>Protecting our assets and data</b>	
<p>Our duty of care around assets and data is critical to our business. A key risk lies in safeguarding all our assets. We must take personal responsibility to use data effectively and appropriately; managing our business continuity to deliver a resilient and trustworthy service to our customers.</p> <p>More information about data-related incidents can be found in the directors' report on page 65</p>	<p>Mitigation of the ongoing risks to our data and assets is critical to delivering a secure service to customers. Continued actions include:</p> <ul style="list-style-type: none"> <li>• a refreshed Information Management Strategy with supporting plans</li> <li>• effective assurance framework over the access to customer data</li> <li>• implementing a new business continuity strategy policy with supporting performance measures</li> <li>• developing more robust data governance and supporting structures.</li> </ul>

# Current control challenges – statement by Principal Accounting Officer, Lin Homer

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Our business planning involves identifying issues that pose a significant risk to our performance and then managing these risks to mitigate their impact.

We do this by regular oversight and scrutiny via ExCom (Performance) and effective assurance from Audit and Risk Committee. How we manage risks is set out in our risk management strategy, together with policies and supporting guidance. This includes:

- defined roles and responsibilities at all levels
- a corporate reporting process, which includes the escalation and de-escalation through individual lines of business risk management activity
- the behaviours we require for effective risk management
- critical success factors.

A number of specific sources contribute to my annual review of these risks, including:

- individual statements from each member of the Executive Committee, outlining the governance, risk and control arrangements in their business areas
- the governance statement provided by the Valuation Office Agency and the review that underpins this
- the production of the Great Britain and Northern Ireland National Insurance Funds' governance statements. There are two funds and two accounts produced, which I sign separately. Many of the activities relating to the transactions of the two funds are carried out by other departments and agencies (for example, the Department for Work and Pensions and the Department for Social Development in Northern Ireland) and I receive letters of assurance from the Accounting Officers of each of these
- bi-monthly reports to the Audit and Risk Committee on the status of recommendations made by external scrutiny bodies, such as the National Audit Office, Public Accounts Committee and Treasury Select Committee
- the Director of Internal Audit's annual opinion to me, as Principal Accounting Officer
- the Tax Assurance Report, compiled by the Tax Assurance Commissioner
- National Audit Office reports
- external reports on HMRC, produced by organisations including the Information Commissioner's Office, Her Majesty's Inspectorate of Constabulary, the Independent Police Complaints Commission and the Office of the Surveillance Commissioners. (Details of the recommendations made by the NAO and other external reviews during the year can be found at page 60). Formal assurance that I receive from HMRC's senior information risk owner that information risk has been appropriately managed in the conduct of HMRC business
- our enhanced approach in response to the 2013 review of quality assurance of government analytical models, including the development of new, high-level departmental guidance, and our contribution to the cross-government working group on quality assurance
- the reviews that underpin the Managing Risk of Financial Loss project. This is an HM Treasury requirement that government departments conduct financial process assessments of their significant financial processes.

## Our approach to 'whistle-blowing'

'Whistle-blowing' is when someone raises a concern about wrongdoing, or an attempt to cover up wrongdoing, in an organisation where they work. Our arrangements for managing whistle-blowers have been closely examined by the National Audit Office, Public Accounts Committee, our Executive Committee and Audit and Risk Committee.

We also made a number of changes to our approach in 2014-15, including:

- improving the quality of guidance for our people
- raising awareness
- developing clear definitions of whistle-blowing and misconduct, to ensure accurate and consistent recording of cases
- new ways of capturing management information
- increasing the number of people authorised to deal with whistle-blowing cases and providing them with additional training.

Taking all of these into account, I recognise that there are a number of real challenges we continue to face. Over the past year, we have successfully managed a number of issues that have posed a risk to delivery of our core work. Details of these can be found below:

## Customer service levels

We made good progress in supporting our customers during the January Self Assessment and July tax credits peaks, through successfully deploying our flexible resourcing approach. We also automated processes and introduced new telephony and new communication channels, including social media. But we recognise that we still have more to do to achieve the consistent customer service levels expected of us. We are investing in modern, digital, customer-focused services, and changing how we operate, to deliver a service that will more consistently meet required standards.

## Workforce planning

During this year we recognised that we needed to more effectively manage our workforce, linking our immediate needs to our longer-term vision. Since then, we have agreed a workforce strategy and approved high-level 2015-16 workforce plans. We are developing a clear picture of where the business wishes to grow as we develop and begin to implement our location strategy for 2020. Our programme of activity is subject to regular assurance reviews, led by a deputy director alongside a focus on key risks.

This will continue to be a challenge in the future as there are many dependencies to actively manage. Specifically, this year we have:

- taken a co-ordinated approach to link the delivery of changes for Spending Review 2013 and the strategic resourcing and location strategy, including use of more effective governance structure and scrutiny
- produced workforce plans for Spending Review 2013 and delivered a range of related projects
- created and delivered apprenticeship opportunities in HMRC, with plans to expand in future.

The risk exposure on workforce planning improved in 2014-15 and that trend is expected to continue in 2015-16. However, there are many dependencies in an organisation of our size and complexity, which means that volatility, and therefore risk exposure, remains high.

## **Tax credits error and fraud**

The Comptroller and Auditor General qualified his regularity opinion on HMRC's 2014-15 Resource Accounts, because of material levels of error and fraud in the payments of personal tax credits. Our latest estimate of error and fraud at 4.4 per cent of finalised entitlement for 2013-14 is the lowest since the current personal tax credits scheme was introduced in 2003-04. Since the launch of the departmental strategy to reduce tax credits error and fraud in 2009, the rate has fallen by 4.5 percentage points (from 8.9 per cent in 2008-09).

Following a recommendation in the Comptroller and Auditor General's Value for Money report 'Tackling tax credits error and fraud', published in February 2013, we ran a trial early in 2013 which showed that the private sector could carry out like-for-like checks on tax credits awards and provide additional capacity. Following this trial, the Chancellor announced at Autumn Statement 2013 that HMRC would work in partnership with a private sector supplier to carry out fraud and error checks to prevent money being paid out to tax credits claimants erroneously.

We subsequently signed a contract in May 2014, under which a private sector supplier is now carrying out checks on claims, to add to the capacity of the work carried out by our own teams. The supplier began undertaking these checks in November 2014. The contract envisages up to five and a half million more compliance checks over the three years that the contract is expected to run, with the potential to reduce incorrect payments by up to £450 million.

## **Spending Review 2010 baseline calculation**

In June 2014, our original SR10 baseline calculations were reviewed by the National Audit Office, which raised significant questions around how the figures were arrived at. Three key issues were identified:

- an inadequate audit trail for how we arrived at the original numbers
- an over-reliance on inadequately-tested numbers
- a lack of rigour in the original process which produced the numbers and the audit trails. We turned our attention directly to learning lessons and managing the risk of repetition.

We have:

- created a single, comprehensive audit file which contains all of the paperwork from the original baseline setting, including everything we relied on to reach key judgments
- identified other key data upon which our performance story is highly dependent, so we can test them for any weaknesses. We will also critically review our performance story in other areas to identify performance information where we have attached high significance to a number and assess any associated risks
- created a more rigorous process around the production of our numbers and for assembling the audit trail around significant topics in the future.

These actions have significantly improved the robustness of our controls in this area.

## **Tax credits appeals**

Our appeals performance has continued to improve throughout the year and is now in a good position. Work levels and customer waiting times are reviewed weekly. Our employees have been trained to work flexibly, enabling us to change the amount of resource we deploy to ensure we meet our targets.

## Identity Assurance (IDA)

Last year we were concerned that our plans with the Government Digital Service to deliver new services to business and agent customers would not be effective. To manage this we have played a key role in bringing to life GOV.UK Verfiy, the cross-government authentication process for online digital services, which is focused on individuals. We trialled the service with a number of its exemplars, and subsequently during the Self Assessment peak, and further HMRC online services are being added on an almost monthly basis. For non-individuals, following the decision not to pursue business and organisational IDA due to lack of cross-government need, we continue to take a leading role in the thinking of future development and are working closely with the Department for Work and Pensions and other stakeholders to agree a realistic extension to the existing digital gateway, while seeking to strengthen and improve it so that it has the core functionality we need.

## Conclusion

An organisation of HMRC's size and complexity will always have a significant number of risks to manage at any one time, but I am satisfied that the governance arrangements that I have put in place are sufficient to continue managing these risks effectively. Based on the review I have outlined above, I conclude that HMRC has a sound system of governance, risk management and internal control that supports the department's aims and objectives.



Lin Homer  
Principal Accounting Officer  
15 July 2015

# Recommendations made by external scrutiny bodies

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We know how important recommendations made by external scrutiny bodies are to our work and we closely monitor how they are implemented. We monitor recommendations made by the Public Accounts Committee (PAC), the Treasury Select Committee (TSC) and the National Audit Office (NAO), reporting to our Audit and Risk Committee (A&RC).

In recent years, we have revised our approach so that reporting to A&RC is more frequent and comprehensive and now includes a wider range of external organisations, such as the Major Projects Authority and the Independent Police Complaints Commission. Our Chief Executive presents a report to each meeting of the A&RC, updating it on the status of recommendations and whether any are overdue. A&RC reviews progress and calls responsible Directors General to its meetings on occasions to explain why a recommendation has not been implemented promptly. We prioritise recommendations into two tiers, based on the greatest financial, operational, or reputational risk of not implementing them.

Tier 1 recommendations we consider to have the greatest impact. Tier 2 recommendations are normally made after inspections on various aspects of our work. We report to AR&C on their progress at every meeting.

We provide information to A&RC on:

- whether we have accepted or rejected external recommendations
- the number of recommendations implemented and new recommendations received since the last report
- how we plan to proceed with overdue recommendations that have not been implemented by the agreed date.

We consider recommendations overdue if they have not been implemented by the date agreed when we accepted them. Last year we implemented 204 tier 1 and 90 tier 2 recommendations, with 13 tier 1 and no tier 2 recommendations overdue.

The NAO published a report in February entitled 'Increasing the effectiveness of tax collection: a stocktake of progress since 2010' which reviewed HMRC's progress in implementing NAO and PAC recommendations made since 2010. The NAO reviewed 235 recommendations, 216 of which we accepted, and concluded that "HMRC engages strongly with the accountability process," and "takes a robust approach to implementing those recommendations it had accepted, which is the vast majority of those made".

Figure 28: Tier 1 recommendations

	Opening balance <sup>1</sup>	New	Closed	Closing balance <sup>2</sup>	Overdue <sup>3</sup>
NAO/PAC/TSC reports	22	43	51	14	3
NAO cross-cutting reports <sup>4</sup>	8	12	17	3	0
NAO <sup>5</sup>	47	80	92	35	1
Others <sup>6</sup>	17	53	44	26	9
<b>Total</b>	<b>94</b>	<b>188</b>	<b>204</b>	<b>78</b>	<b>13</b>

Figure 29: Tier 2 recommendations

External body making recommendation	Opening balance <sup>7</sup>	New	Closed	Closing balance <sup>8</sup>	Overdue <sup>3</sup>
High risk assurance reviews <sup>9</sup>	20	19	39	0	0
European Commission and European Court of Auditors	40	18	32	26	0
Health and Safety	1	0	1	0	0
HM Inspectorate of Constabulary	14	4	6	12	0
Interception of Surveillance Commissioners	5	0	5	0	0
Office of Surveillance Commissioners	0	7	6	1	0
UK Statistical Authority	0	0	0	0	0
GCHQ	1	0	1	0	0
<b>Total</b>	<b>81</b>	<b>48</b>	<b>90</b>	<b>39</b>	<b>0</b>

<sup>1</sup> Balance at 1 April 2014<sup>2</sup> Balance at 31 March 2015<sup>3</sup> Operational constraints have led to a delay in implementation beyond the envisaged target date. All are reviewed at each Audit and Risk Committee meeting<sup>4</sup> NAO cross-government reports with recommendations appropriate to HMRC<sup>5</sup> Section 2 audit recommendations and management letters<sup>6</sup> Independent Police Complaints Commission and Major Projects Authority<sup>7</sup> Balance at 1 April 2014<sup>8</sup> Balance at 31 March 2015<sup>9</sup> All new recommendations following High Risk Assurance reviews are now reported as tier 1, Major Project Authority recommendations



## Responding to external opinion

We are proactive in working with organisations that represent our customers – from large and small business groups to professional accountancy bodies and charities which deal with customers who need extra help. We listen to and act on their feedback in a number of ways to ensure that their expertise helps us to fine tune the way we work.

### Stakeholder events

We hold two conferences each year for our external stakeholders to build engagement with, and awareness of, our work. The audience for these events includes representatives from tax agents, professional bodies, legal professionals, tax campaigning organisations, academics, customer and Voluntary Community Sector (VCS) organisations, and the media. Both events provide an opportunity to highlight our commitment to transparency and to working in partnership with our stakeholders.

Feedback from these events has confirmed that our stakeholders welcome the opportunity to ask questions and hear at first-hand how we are doing. This includes highlighting where we need to do more and our plans for meeting the changing needs of our customers through, for example, the introduction of new digital services.

### Stakeholder surveys

We undertake annual qualitative research with Parliamentarians, stakeholders and journalists. The results are enabling us to gauge stakeholders' perceptions of HMRC and track improvements over time. This insight is also helping to inform our future engagement work including, for example, on highlighting how, and where, we need to strengthen our support for Parliamentarians and their support staff.

### Consultative groups

We seek the advice of our stakeholders to help us with our day-to-day and future work. We have a number of consultative forums for businesses, individuals, agents and representative bodies which meet regularly to deal with a wide range of strategic and operational issues.



David Gauke: @HMRCgovuk's '10 things a tax avoidance scheme promoter won't always tell you' sets out the risks of signing up to a scheme.'

This is from our @HMRCconferences account

## Case studies

### Taxpayer Data Standards Forum (TDSF)

The TDSF is a group of 15 expert external stakeholders representing the payroll community, who work with us to deliver better outcomes for employees and pensioners, as well as employers and pension providers. We collectively identified an issue with new employees, which increased the risk of them overpaying or underpaying tax, as on many occasions they were unable to give their employers enough information about their tax affairs for the right tax code to be issued to them from day one. This meant a temporary code had to be issued – resulting in tax being underpaid or overpaid in some cases.

The TDSF identified a change to our systems, which allowed us to correct the tax code more quickly and prevent under or overpayments building up. They also helped improve our guidance on transfer mergers and successions and influenced recent proposals for changes to PAYE.

### Administrative Burdens Advisory Board (ABAB)

ABAB is an independent board, which brings together the business knowledge and expertise of business people and professionals from different backgrounds to support and test the department in our efforts to make tax easier, quicker and simpler for small businesses. By way of an example, during collaborative working on the implementation of Real Time Information for PAYE and the review of business benefits, ABAB raised concerns that the continued use of an employer end-of-year checklist imposed unnecessary burdens on businesses for limited value to HMRC. Through sharing of data and open debate it was agreed to remove the checklist, reducing the overall burden on business by an estimated £35 million.



For more information about the work of the Administrative Burdens Advisory Board visit [www.gov.uk](http://www.gov.uk)

"ABAB is a critical friend to HMRC and we have welcomed the candid debate about the direction HMRC is taking and the challenges it faces in doing so. ABAB's aim is to help make a difference to the experience small and medium-sized businesses have in dealing with HMRC."

Teresa Graham, Chair of the Administrative Burdens Advisory Board

# Directors' report

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This section explains our approach to pension liabilities, whether any of our senior management have financial interests outside of HMRC, and how we've performed in managing our sickness absence rates. We also have a statutory duty to report any serious data-related incidents. More information about our Board and its responsibilities, including how we are organised, can be found in the Governance Statement on page 39.

## Pension liabilities

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS).

The defined benefit scheme within the PCSPS is unfunded and is contributory. The department recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS.

In respect of defined contribution schemes, the department recognises the contributions payable for the year.

The Valuation Office Agency merged with The Rent Service on 1 April 2009, taking on employees who are members of the Local Government Pension Scheme (LGPS). Further information can be found within the Valuation Office Agency accounts.

For more information about pension options, see page 80 of the Remuneration Report and for details about pension figures, see page 147 of the Resource Accounts.

## Register of interests

Senior managers within HMRC, including the non-executives, are required to complete a declaration of any interests. No significant company directorships or other interests were held by Board members which may have conflicted with their management responsibilities. Note 22 to the Resource Accounts confirms that no member of the Board, including non-executives, has any related-party interests.

## Published sickness absence data

We set ourselves a target to reduce the average number of days lost to sickness absence, known as average working days lost, or AWDL, based on the number of full-time equivalent employees to 7.0 in 2014-15. We missed our target, ending the year at 7.98. We still plan to reduce AWDL by pursuing our approach of balancing active management of attendance, with activities aimed at promoting people's health and wellbeing. We continue to build and develop the skills, capability and confidence of managers to deal with sickness absence in line with our procedures and policy, which aims to support the employee to return to work if possible. During the year our priorities have been to implement organisational change in HMRC in a way which takes account of the potential impact on people.

We have continued to promote better awareness of stress, in terms of how to manage it and build personal resilience, whatever the cause. Managers carry out assurance checks to ensure sickness absence is being managed in line with procedures and to provide coaching where necessary. The rise in long-term absence of 21 days or more has led to more case conferencing, including with occupational health experts, to help achieve the best outcomes for employees and for HMRC. A new Mental Health Advocate role has been created to provide extra support in this important area. We are also working with [Macmillan Cancer Support](#) to raise manager awareness and help in the support management of people affected by cancer.

## Personal data-related incidents

All government departments are required to publish information about any serious data-related incidents, which have to be reported to the [Information Commissioner](#).

**Figure 30: Summary of protected personal data-related incidents formally reported to the Information Commissioner's Office (ICO) in 2014-15**

Date of incident (month)	Nature of incident	Nature of data involved	Number of people potentially affected	Notification steps
October 2014	An employee sent a password-protected spreadsheet containing customer details to a prearranged named individual at a financial institution. It was later discovered that data relating to customers who had no relationship with the financial institution had been included in error.	The data was a mixture of names, addresses and other personal data items, but did not include full bank account details. The ICO considered that the data was not particularly sensitive and was unlikely to cause the data subjects substantial damage or distress.	7,573	We contacted financial institutions to advise them that their customers' data had been disclosed.
November 2014	Two batches of cheques, sent to a third-party service provider for processing, were 'signed for' as received, but identified as missing.	The data would have included names and some bank account details. The ICO recognised that HMRC guidance was in place, and recommended that key guidance be communicated to employees to ensure that they are regularly reminded of data protection obligations.	263	We notified customers.
January 2015	An employee carried out a mail merge to issue a number of statutory notices. An error was made, which caused the data to become misaligned, resulting in the despatch of letters to the wrong addresses.	The data included names, customer reference numbers and other references. The ICO considered it unlikely that substantial damage or distress would be suffered by the affected customers.	304	We notified customers.

## Other protected personal data-related incidents in 2014-15

Incidents which did not require reporting to the Information Commissioner were recorded centrally within the department and are set out in the table below. Small, localised incidents are not recorded centrally and are not included in these figures. Figures for 2013-14 are shown in brackets.

**Figure 31: Summary of other protected personal data related incidents in 2014-15**

Category	Nature of incident	Total
I	Loss of inadequately-protected electronic equipment, devices or paper documents from secured government premises	2 (4)
II	Loss of inadequately-protected electronic equipment, devices or paper documents from outside secured government premises	5 (7)
III	Insecure disposal of inadequately-protected electronic equipment, devices or paper documents	1 (0)
IV	Unauthorised disclosure	28 (32)
V	Other	2 (0)

### Statement on information risk

The number of centrally-managed security incidents impacting on protected personal data in HMRC reduced from 43 to 38 in 2014-15. A further 6,000 mostly minor incidents potentially impacted on customers. The number of customers affected by these centrally-managed incidents is 10,768, which is a significant increase from the previous financial year and is largely the result of a single incident affecting 7,573 customers.

### Further action on information risk

We deal with millions of customers every year and tens of millions of paper and electronic interactions. We continue to take the issue of data security extremely seriously and continually look to improve the security of customer information. We use security incident reports and analysis to understand and reduce security risk, so we can make sure the department is seen as a trusted and professional organisation.



Lin Homer  
Principal Accounting Officer  
15 July 2015



We launched our new Cyber Security Command Centre in April 2015 to safeguard our online services and networks against hackers and other threats. It provides the latest tools and technology to help our cyber experts detect and respond to evolving cyber security threats to our people and customers.

# People

Building our Future, HMRC's transformation programme, has our customers and our people at its heart.

The increasing expectations and demands placed on us from customers and from ministers require new ways of working and Building our Future will ensure that we have the right people, with the right skills in the right places to deliver.

Over the past year we have continued our recent record of delivering more with less, bringing in record revenues and enhancing customer service, while making further sustainable cost reductions.

We again increased the revenue we bring in, to £517.7 billion – a new record. We also brought in record compliance revenues of £26.6 billion and made £210 million in cost efficiencies. And we achieved this while making real and steady improvements in our customer service.

In January, we had a record-breaking Self Assessment peak, with more than 10.2 million returns received by the deadline, 85.5 per cent of which were sent online. On deadline day, we answered 99.9 per cent of calls first time.

This was our biggest digital event ever – and how we managed this peak, and last year's tax credits peak, was a great example of how we are changing. More than 1,500 colleagues moved between lines of business to help deliver that work and it shows that, when we work flexibly and collaboratively, it delivers both for our customers and for our people.

As we shift to new technologies and new ways of working, the shape of our organisation is changing too. For example, we moved around 1,400 people into new roles and promoted more than 4,500 people over the course of 2014-15.

In Personal Tax, we are recruiting 3,000 people in permanent and temporary roles to help us meet a range of customer demands where we don't already have the right skills in the right locations to do new work.

It is also important for us to keep developing future pipelines of talent. Through our Tax Academy, we are one of the biggest recruiters of graduate talent in the Civil Service – and this year we are aiming for a further 250 graduates and internal colleagues to join our Grade 7 programme.

Last autumn, we also welcomed around 50 people to join our first-ever tax apprenticeship programme. We are taking on more than 200 operational delivery apprentices this year, and we will see more than 100 people join our digital teams on apprentice and graduate schemes by the end of 2015.

Transforming HMRC by reducing costs, improving the customer experience, maximising revenues and involving and investing in our people, means transforming the style of leadership in HMRC.

The Civil Service Leadership Statement, which was published in February, sets out the expectations of, and standards for, leaders in the Civil Service, with a focus on the themes of inspiring, confident, and empowering.

To create the necessary momentum, we need to invest in our senior colleagues and support them to develop their leadership skills. One of the ways we will do this is through a new Leadership Academy – which went live at the beginning of May 2015 and represents a major, long-term investment in our leaders.

We will support people to develop core leadership skills, as well as the additional skills specific to the role they do, by asking our leaders – SCS to Grade 7s – to invest a minimum of five days in their continuous development as a leader each year for the next five years. The principal focus will be people leadership, complemented by specific strategic leadership priorities, such as digital and commercial.

The Leadership Academy will offer a mixture of flexible options – face-to-face, workplace activity, Action Learning Groups, masterclasses, shadowing and coaching.

## Diversity and inclusion

We want our workforce to reflect the diversity of our customers and to develop and use the collective experience of that diverse workforce to deliver a high-quality service.

In January 2015, we published our diversity data in accordance with the requirements of the Equality Act 2010. The data shows the diverse make-up of our employees and highlights the actions we have in place to develop under-represented groups and address equality issues in the workplace. In support of our actions, we have Executive Committee Champions and employee networks in place for eight diversity strands. The networks offer people the opportunity to share experiences, comment on new initiatives and ensure that everyone in the workforce is treated fairly and can give of their best.

We are proud to be recognised and acknowledged as a leader in terms of our approach towards equality, diversity and inclusion. Our approach has gained external recognition and we have won a number of awards. For example, *The Times* put the department in the top 50 employers for women, for the third year running. We were winners in the Business Disability Form (BDF) ICT award category for delivering IT accessibility for our employees and ranked joint 27th on Stonewall's Top 100 Employers list for 2015. Our LGB&T staff network was also highly commended by Stonewall.

Disabled staff are employed across all grades and locations. We operate the Guaranteed Interview Scheme and have an established team dedicated to ensuring reasonable adjustments. We are raising awareness of mental health issues to ensure that sufficient support is available to managers and staff, and we are offering development opportunities for people from Black, Asian and Minority Ethnic (BAME) backgrounds, as well as other minority groups. We continue to improve access to our services for disabled customers and to raise awareness of their needs with our frontline staff. We are committed to improve representation rates, particularly at senior levels. We have set ourselves goals at Senior Civil Service (SCS) and grades 6 and 7.

**Figure 32: Number of male and female employees**

	Female	Male	Total 31 March 2015
Directors General	4	5	9
Directors and deputy directors	115	181	296
All other employees	37,110	26,873	63,983

The Senior Civil Service (SCS) provides high-level support to government ministers, assisting in the development and implementation of government policy, and to ensure the effective management of services. A broad group of 3,900 professionals are employed in 55 government departments and agencies across the UK.

**Figure 33: SCS employees by pay band**

Grade	Number at 1 April 2014	Number at 1 April 2015	Percentage change
Permanent Secretary	2	2	0%
SCS3	8	7	-12.5%
SCS2	41	42	+2.44%
SCS1	274	262	-4.4%
<b>Totals</b>	<b>325</b>	<b>313</b>	<b>-3.7%</b>
Out on loan/secondment (not included in the above)	16	18	+12.5%

## SCS employee numbers

The overall total of 313 SCS employees comprises 295 in HMRC and 18 in the VOA. The slight decrease in SCS employees total is due to an increase in the number of loans/secondments and a number of SCS employees leaving before the end of the year and their replacements not joining HMRC until after 1 April 2015.

## SCS posts

The total number of SCS posts reduced from 400 at the end of 2009 to 357 at 1 April 2015. There are 335 posts in HMRC and 22 posts in the VOA. The number of posts continued to be monitored closely to ensure SCS structures mirror changes in the overall size of the organisation. The number of SCS posts generally exceeds headcount of permanent SCS due to ongoing recruitment for vacant posts. A number of these vacant posts are filled by non-SCS pay bands on temporary promotion.

## SCS recruitment

We have adopted rigorous governance, assessment and selection in our SCS recruitment practices to put the right people with the right skills in key roles and enhance our leadership capability. Governance over the number and nature of SCS posts remains with HMRC, but from 1 August 2014 Civil Service Resourcing (CSR) has handled the recruitment process.

A total of 77 HMRC and VOA posts were advertised during the last year, with a number of appointments made on promotion into and within the SCS from HMRC and across the Civil Service:

- 56 posts were advertised across Whitehall
- 21 posts were advertised via external recruitment campaigns.

## Non-SCS recruitment

The way we recruit and redeploy our people supports the drive to transform HMRC into a more flexible, transparent and modern organisation, offering customers a more highly-personalised service that they will increasingly access online. We are continuing to build our workforce of the future by redeploying people across the organisation, using team moves and recruitment campaigns.

Last year, we redeployed 2,754 people into Enforcement and Compliance and promoted 4,566 people across the department. This includes 2,500 promotions within Enforcement and Compliance and around 1,000 promotions from grade AA to AO, as our need for AAs is reducing. In 2014-15, where essential to business delivery, we recruited 2,160 people, 207 on fixed-term contracts and 1,953 permanently. A total of 7,000 people left HMRC in 2014-15.



## Reporting on the tax arrangements of public sector appointees

All government departments and their arm's length bodies which employ appointees 'off payroll' for more than six months have to report to the Treasury about the financial arrangement, to make sure it is transparent and that the appointee in question is paying the right amount of tax and National Insurance.

We have reviewed the way we employ appointees to ensure our processes are robust. We have the right to request assurances, and do so, from the appointees in relation to monies received from HMRC. We can terminate the individual's contract if these assurances are not provided. The tables below outline the off payroll arrangements for 2014-15.

**Figure 34: All existing off-payroll engagements, as of 31 March 2015, for more than £220 per day and that last for longer than six months**

	HMRC	Valuation Office Agency
<b>Number of existing engagements as of 31 March 2015</b>	<b>30</b>	<b>3</b>
Length of existing engagements:		
Less than one year at time of reporting	9	2
Between one and two years at time of reporting	14	1
Between two and three years at time of reporting	5	Nil
Between three and four years at time of reporting	2	Nil
Four or more years at time of reporting	Nil	Nil

All existing off-payroll engagements, outlined above, have been subject to a risk-based assessment as to whether assurance is required that the individual is paying the right amount of tax and, where necessary, that assurance has been sought.

**Figure 35: All new off-payroll engagements, as of 31 March 2015, for more than £220 per day and that last for longer than six months**

	HMRC	Valuation Office Agency
<b>New engagements, or those that reached six months in duration</b>	<b>14</b>	<b>6</b>
Right to request information about income tax and National Insurance Contributions	14	6
Requests for information made	14	6
Information has been received	13	4
Information has not been received	1*	2
Engagement terminated as a result of information not being received	Nil	2

\* The individual has left the department and we continue to seek the necessary information and assurances where appropriate.

**Figure 36: Board members, and/or, senior officials with significant\* financial responsibility**

Number of individuals who are Board members and/or senior officials with significant financial responsibility	HMRC	Valuation Office Agency
On payroll	66	7
Off payroll	Nil	Nil

\* Significant financial responsibility relates to HMRC directors and above, plus other senior positions with financial accountability or controlling roles, such as finance and programme directors.

## Consultancy and temporary employees

We occasionally use professional service providers to help with specialist work – including consultancy, contingent labour, learning, legal advice, translation, interpretation and research services. We only use these services when the department does not have the necessary skills internally, or where an independent external expert opinion on a complex issue is required.

External advisers provide us with technological expertise to help with delivery of strategic objectives and major programmes. Contingent labour is used to deploy specialist expertise quickly, drive change and deliver increased efficiency with tight resources.

We continue to implement the Cabinet Office directive to reduce the use of consultants across central government. This directive, and the austerity measures introduced from May 2010, has seen a significant reduction in spend on consultancy. We continue to look for ways of achieving savings and introduced new procurement tools to improve our data analysis and share best practice in the employment of consultants with different parts of the department.

Our spending on consultancy increased to £566,676 in 2014-15, from £336,000 in 2013-14. This was due to an investment in IT expertise to support and deliver efficiencies from our modernisation of HMRC's IT and digital infrastructure. This is still a significant reduction from the £1.1 million we spent in 2011-12, £10.1 million in 2010-11 and £47 million in 2009-10. Our figures are based on the Cabinet Office definition of consultancy, which is narrower in scope than the definition we use in the Resource Accounts.

Total consultancy and contingent labour spend for the Valuation Office Agency for 2014-15 is £1.82 million.

## Health and safety

The safety and wellbeing of our people is an important priority for HMRC and last year our main focus was on our commitment to support the Public Health Responsibility Deal and the Time to Change Pledges to reduce discrimination and stigma around mental health issues in the workplace. Supporting employees, raising awareness and building manager capability and confidence in this area is key, and as part of our strategy we launched a mental health advocacy service and guidance, which signposts our people who need extra support to the clinical and pastoral support available both within and outside the department.

We have started to roll out the provision of automated external defibrillators and we are providing training to first aiders at those locations. A new employee safety checks process also helps improve the personal safety of employees who work away from the office.

We actively encourage our employees to report accidents, ill health, or instances of work-related stress to their managers at an early stage and we provide this information to directors monthly as part of highlighting trends, establishing risk areas and informing health and safety performance. We received recognition from the Royal Society for the Prevention of Accidents with a silver award for our occupational health and safety management system.

Our estates team work with a number of private sector partners who provide property services across the whole HMRC estate. Each partner is responsible for ensuring compliance with health and safety legislation and we monitor their performance closely. Management of health and safety at site level has been further enhanced through changes to our network of senior responsible managers, with additional resources committed to fire and building-related safety.

We have to report some incidents to the Health and Safety Executive under the Reporting of Diseases and Dangerous Occurrences Regulations, known as RIDDOR. Most of the incidents in the 'specified injuries' category were minor fractures due to slips, trips or falls on our estate, or as part of the work activity. Incidents reported in the 'over seven-day' category (in Great Britain; and over three days in Northern Ireland) are injuries where a person, due to an accident at work, is unable to work as normal for those periods.

**Figure 37: Reporting of Diseases and Dangerous Occurrences Regulations 1995 (RIDDOR): reports to the Health and Safety Executive**

RIDDOR incidents	2012-13	2013-14	2014-15
Fatal injuries	0	0	0
Specified injuries	15	19	13
Dangerous occurrences	1	0	0
Over three-day injuries	16	0	3
Over seven-day injuries	40	35	32
Diseases	6	4	3
<b>Total</b>	<b>78</b>	<b>58</b>	<b>51</b>

Non-RIDDOR incidents	2012-13	2013-14	2014-15
Upper limb disorder	135	100	80
Stress	708	926	831
Slips/trips/fall	554	474	429
Violence and verbal abuse	322	272	353
Acoustic	37	119	23
Bite (animal/insect)	181	98	100
Burns	114	134	87
Contact with moving machinery	11	15	12
Cut	86	98	74
Electrical	22	29	23
Environmental	327	364	269
Exposure to hazardous substances	12	71	47
Fall from height	9	4	8
Lifting/carrying injury	46	69	51
Road traffic accident	194	194	188
Struck by moving vehicle	22	25	17
Struck by moving / flying object	100	88	86
Other *	678	587	453
<b>Total</b>	<b>3,558</b>	<b>3,667</b>	<b>3,131</b>

\* H&S incident categories are selected by the investigating officer on the reporting form. 'Other' is typically self-selected where more than one category applies. We are reviewing the incident categories to reduce the opportunity to select 'other' and more accurately capture the causal factor(s) leading to the incident.

# Valuation Office Agency

The Valuation Office Agency (VOA) is an executive agency of HMRC and provides the property valuations and advice required to support taxation and benefits. The Agency employs just under 3,500 full-time equivalent people in 70 offices across England, Wales and Scotland.

The VOA is responsible for maintaining the valuation lists of 24.8 million domestic properties and approximately 1.9 million non-domestic properties across England and Wales, which enable the collection of council tax and business rates by local authorities. The VOA's work also enables the payment of significant sums of housing benefits, the collection of key national taxes by HMRC and the setting of fair rents. Additionally the VOA, through its Property Services team, provides property valuations and expert advice to the wider public sector, enabling public bodies to make the best use of their property assets.

The Agency's vision is that: "The VOA's customers have confidence in its valuations and advice. As a modern professional organisation, with expert and committed people, we act fairly, consistently and efficiently."

To help achieve its vision, the VOA has four strategic objectives:

- Target and achieve customer trust
- Drive quality and consistency through improved processes
- Develop and sustain the right capabilities
- Sustainably reduce costs and improve value for money.

The VOA delivered another strong operational performance in 2014-15. By the end of March 2015, the VOA had cleared 149,000 of 168,000 (88 per cent) business rates appeals covered by the Chancellor's 2013 Autumn Statement commitment to clear 95 per cent of appeals received before 30 September 2013 by July 2015. The VOA also began work on the national revaluation of all non-domestic property for business rates purposes, which will come into effect on 1 April 2017.

Where customers challenged their council tax band (formally or informally) 99 per cent of customers received a decision within two months. The VOA's operational work is supported by four Network Support Offices, which handled 322,000 business rates and council tax calls in 2014-15 and resolved many enquiries at the first point of contact.

VOA's Housing Allowances, Statutory Valuations and Property Services teams met or exceeded all of their timeliness and quality targets, and Property Services provided £15.99 million of professional property advice to its customers, which included high-profile projects such as the High-Speed 2 rail link.

The VOA further developed its information, analysis and policy functions, to improve the information and advice it provides to its clients and delivery partners across government. This included working with the Office for National Statistics to provide house rental price data for the Retail and Consumer Price Indices and the new experimental Index of Private Housing Rental Prices. The VOA also continued to work closely with HM Treasury and the Department for Communities and Local Government on the Administrative Review of Business Rates in England.

Work on the VOA's transformation programme continued – which includes changes for its IT, estates, data, customer contact and people. As part of these changes, the VOA moved its internet presence to the new GOV.UK website, reduced its estate by approximately 3,300m<sup>2</sup> and continued co-locating some of its offices with other government departments.



For more information about the work of the Valuation Office Agency visit [www.gov.uk](http://www.gov.uk)

# How we share data

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Being transparent in our work is vital to ensure the fairness, impartiality and accountability of HMRC. Our approach is to look at ways of sharing our data within our legal framework and to be mindful of our duty to protect customers' privacy, while safeguarding the effective operation of the tax system.

The Tax Transparency Sector Board, established in 2012, has continued to drive our publication activities, contributing and advising on our open data strategy. They have hosted a number of discussions with external organisations, contributing to improve our understanding of the value and use of tax information to the broader benefit of UK citizens.

This group has been influential in the debate on the release of some of HMRC's key data; gathering views, for example, on the controlled sharing of non-financial VAT registration data, which now forms part of the Small Business Enterprise and Employment (SBEE) Act.

As part of the discussions around data sharing, we worked on a clause also included in the SBEE Act, to release publicly non-financial data on exporters (mirroring similar information already published on importers).

We have also given different interest groups the opportunity to tell us their opinions on the way data sharing proposals should be implemented.

We have:

- engaged in open policy-making discussions that contributed to the development of a civil service-wide policy paper on data sharing and the introduction of a National Information Infrastructure by the Cabinet Office
- attended public debates, including an event sponsored by the Chartered Institute of Taxation, about our data-sharing proposals
- held direct conversations with civil society and privacy groups on the merits of sharing data for the public benefit
- provided personal tax summaries to around 22 million taxpayers, explaining how their income tax and National Insurance contributions have been calculated and how the government has spent their money
- regularly issued national statistics and data on our spending and procurement, as well as information on how our organisation is structured and performs
- made anonymous information available through the HMRC Datalab, which is an accredited safe and secure facility for the research community to access our data for high-level analysis.



For more information about the work of the Tax Transparency Sector Board visit [www.gov.uk](http://www.gov.uk)

# Remuneration report

The remuneration report contains information about senior employees and covers our policies on salaries, bonuses and benefits in kind, as well as on performance assessment and contract termination.

## Remuneration policy

The Senior Civil Service (SCS) is a pool of senior leaders employed across government, with a common framework of terms and conditions. SCS pay and conditions are not delegated to individual departments. Recommendations on SCS pay are provided by the [Review Body on Senior Salaries](#) in an annual report to the Prime Minister.

The government responds to its recommendations, and departments are then informed about its decision by the Cabinet Office. SCS pay and non-consolidated awards at HMRC are decided by the department's Remuneration Committee in line with this central guidance.

Before making its recommendation, the Review Body considers:

- the need to recruit, retain and motivate suitably able and qualified people to exercise their different responsibilities
- regional/local variations in labour markets and their effects on the recruitment and retention of employees
- government policies for improving public services, including the requirement on departments to meet the output targets for the delivery of departmental services
- the funds available to departments as set out in the government's departmental expenditure limits
- the government's inflation target.

The Review Body also considers wider economic factors and the affordability of its recommendations.

## Service contracts

There is a legal requirement that all civil service appointments must be made on merit, and on the basis of fair and open competition. The recruitment principles published by the [Civil Service Commission](#) explain the limited circumstances when other appointments can be made.

Unless otherwise stated, the officials covered by this report hold appointments which are open-ended. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme. No such compensation payments were made to senior managers during 2014-15.

## Performance management system

HMRC has two permanent secretaries: the Chief Executive Officer and the Tax Assurance Commissioner. Below them are three levels of senior civil servant: director general, director and deputy director, which are underpinned by a job evaluation scheme that creates a consistent way of comparing the relative value of jobs within and across departments. A pay award that averaged one per cent of the total SCS paybill was implemented from 1 April 2014.

## Remuneration committees

The Main Remuneration Committee comprises the Chief Executive, all directors general, and an independent observer. The committee makes performance decisions for directors and signs off the sub-committee performance recommendations for deputy directors and the performance of deputy directors is moderated at director general-led remuneration committees, in line with Cabinet Office performance guidance to meet the performance group allocations.

The Permanent Secretaries moderate the performance and non-consolidated awards for directors general with advice from an independent observer. The performance of the Valuation Office Agency's Accounting Officer is assessed by HMRC's Principal Accounting Officer and moderated by the Main Remuneration Committee, which also sets the reward level.

The performance and reward arrangements for our Permanent Secretaries are managed by the [Cabinet Office](#).

## Pay awards

There are two financial elements that make up SCS pay: base pay and non-consolidated performance-related pay. Both elements are linked to performance, but are considered and awarded separately.

Base pay awards in 2014-15 were only paid to 'Top' and 'Achieving' performers whose pay falls below the median of their pay range and all awards were capped at this level, with the exception of one individual. Delivery of performance against objectives is rewarded through a non-consolidated performance award for those who make the biggest contributions. Non-consolidated performance awards for 2014-15 were made to SCS in the 'Top' performance group only, based on 2013-14 performance.

SCS members are ranked from strongest to weakest on their performance and are allocated to three performance groups: Top (top 25 per cent of performers), Achieving (next 65 per cent of performers) and Low (bottom ten per cent of performers).

Performance assessments consider whether:

- business objectives within the performance contract have been met
- the corporate, capability and development objectives in the performance contract have been met
- leadership behaviours and professional skills elements of the common framework have been demonstrated
- the degree of difficulty or ease of meeting the objectives in the light of actual events has been reflected.

Non-consolidated performance award decisions are monitored to guard against bias or discrimination. The value of non-consolidated awards paid in 2014-15 for performance in 2013-14 were set as:

- SCS1 – £9,500
- SCS2 – £12,500
- SCS3 – did not exceed the Cabinet Office limit of £17,000.

## Policy on notice periods and termination payments

We follow the standard policy for SCS notice periods and termination payments contained in the Civil Service Management Code.

The following sections provide details of the service contracts, salaries and pension entitlements of the department's most senior officials. Where there is no end date of term, it means their appointment is on a permanent basis.

**Figure 38: Single total figure of remuneration and pension benefits (senior officials)**

Senior officials	Single total figure of remuneration and pension benefits <sup>1</sup>									
	Salary (£000)		Bonus payments (£000)		Benefits in kind (to the nearest £100)		Pension benefits (£000) <sup>2</sup>		Total (£000)	
	2013-14	2014-15	2013-14	2014-15	2013-14	2014-15	2013-14	2014-15	2013-14	2014-15
<b>Lin Homer CB</b> Chief Executive and Permanent Secretary From 23 January 2012	180-185	180-185	15-20	15-20	600	200	20-25	70-75	220-225	270-275
<b>Edward Troup</b> Tax Assurance Commissioner and Permanent Secretary From 28 August 2012	150-155	150-155	—	—	500	800	30-35	45-50	185-190	200-205
<b>Simon Bowles</b> Chief Finance Officer 17 March 2009 – 25 March 2015	185-190	180-185 (185-190 full-year equivalent)	—	—	500	100	70-75 <sup>3</sup>	65-70	255-260	255-260
<b>Mark Dearnley</b> Chief Digital and Information Officer 1 October 2013 – 30 September 2016	85-90 (175-180 full-year equivalent)	175-180	—	—	400	300	20-25	65-70	110-115	245-250
<b>Jennie Granger</b> Director General Enforcement and Compliance 1 October 2012 – 30 September 2017	150-155	150-155	5-10	—	500	300	55-60	55-60	215-220	205-210
<b>William Hague</b> Chief People Officer From 23 September 2013	65-70 (130-135 full-year equivalent)	135-140	—	—	400	300	85-90	110-115	155-160	250-255
<b>Jim Harra</b> Director General Business Tax From 16 April 2012	130-135	130-135	10-15	—	500	100	20-25	30-35	165-170	165-170
<b>Justin Holliday<sup>4</sup></b> Interim Chief Finance Officer From 9 March 2015	—	5-10 (145-150 full-year equivalent)	—	—	—	—	—	0-5	—	10-15 (145-150 full-year equivalent)

Continued



Senior officials	Single total figure of remuneration and pension benefits <sup>1</sup>									
	Salary (£000)		Bonus payments (£000)		Benefits in kind (to the nearest £100)		Pension benefits (£000) <sup>2</sup>		Total (£000)	
	2013-14	2014-15	2013-14	2014-15	2013-14	2014-15	2013-14	2014-15	2013-14	2014-15
<b>Nick Lodge</b> Director General Benefits and Credits From 6 August 2012	120-125	130-135	10-15	15-20	500	400	80-85	100-105	220-225	250-255
<b>Ruth Owen</b> Director General Personal Tax From 1 September 2012	130-135	135-140	5-10	15-20	500	100	45-50	35-40	190-195	190-195

<sup>1</sup> These disclosures have been subject to external audit.

<sup>2</sup> The value of pension benefits accrued during the year is calculated as (the real increase in pension multiplied by 20) plus (the real increase in any lump sum) less (the contributions made by the individual). The real increases exclude increases due to inflation or any increase or decreases due to a transfer of pension rights. The value of pension benefits can vary year to year due to a number of factors: the date an individual joined the department; the date an individual left the department; an individual receiving a higher pay increase in one year compared to another year.

<sup>3</sup> MyCSP have recalculated the pension benefits for Nuvo members and this has resulted in a change to the pension benefits range previously reported for Simon Bowles. No other Board member's reported range changed as a result of the recalculations.

<sup>4</sup> In June 2015, Justin Holliday was confirmed as the new Chief Finance Officer following an external recruitment exercise.

## Salary

Salary covers both pensionable and non-pensionable amounts and includes gross salary; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances; and any other allowance to the extent that it is subject to UK taxation. This report is based on accrued payments made by the department.

## Bonuses

Bonuses are based on performance levels achieved in the previous year and are made as part of the appraisal process.

## Benefits in kind

The monetary value of benefits in kind covers any benefits provided by the department and treated by HMRC as taxable, such as hospitality provided at external development events.

## Pay multiples

The pay multiple is the ratio between the remuneration of the highest paid director in the department and the mid-point of the pay range – known as the median. This represents the pay of the employee that lies in the middle of the pay distribution of all employees, excluding the highest-paid director. Total pay includes salary, non-consolidated performance-related pay and benefits in kind. It does not include severance payments, employer pension contributions and the cash-equivalent transfer value of pensions.

The banded pay of the highest paid director in HMRC in 2014-15 was £200,000-£205,000 (2013-14, £195,000-£200,000). This was 8.5 times (2013-14, 8.7 times) the median remuneration of the workforce, which was £23,805 (2013-14, £22,669). The 2013-14 figure is restated, following a change in the methodology in accordance with published guidance.

In 2014-15, as in 2013-14, no employees received pay in excess of the highest-paid director. Remuneration ranged from £2,000-£2,500 to £200,000-£205,000 (2013-14 £2,000-£2,500 to £195,000-£200,000).

The calculation for both 2013-14 and 2014-15 combines workforce pay for both HMRC and the Valuation Office Agency. The 2014-15 median has increased to just above the HMRC officer pay minimum. In 2013-14 and 2012-13 the median was equivalent to HMRC's officer national minimum of £22,669.

The increase in the median is due to reduction of the administrative assistant and assistant officer proportion of the total workforce, and the increase in the proportion in grades from officer to grade 7.

## Non-Executive Board Members

The department's Board comprises both senior operational management and external appointees. The fees of the external appointees are detailed below. Non-Executive Board members are appointed for a fixed term of usually three years.

**Figure 39: Single total figure of remuneration (Non-Executive Board Members)**

Non-Executive directors	Single total figure of remuneration <sup>1</sup>					
	Fees (£000)		Benefits in kind (to the nearest £100)		Total (£000)	
	2013-14	2014-15	2013-14	2014-15	2013-14	2014-15
<b>Ian Barlow (Lead Non-Executive)</b> 20 February 2012 – 31 August 2015	45-50	45-50	100	–	50-55	45-50
<b>Volker Beckers</b> 1 January 2013 – 31 March 2015	15-20	15-20	100	–	20-25	15-20
<b>Edwina Dunn</b> 1 January 2013 – 31 December 2015	5-10 (10-15 full-year equivalent)	10-15	100	–	5-10 (10-15 full-year equivalent)	10-15
<b>Philippa Hird</b> 2 January 2009 – 30 June 2014	30-35	5-10 (30-35 full-year equivalent)	100	–	35-40	5-10 (30-35 full-year equivalent)
<b>Norman Pickavance</b> 1 January 2013 – 31 July 2014	10-15	5-10 (15-20 full-year equivalent)	300	–	15-20	5-10 (15-20 full-year equivalent)
<b>Simon Ricketts</b> 1 September 2014 – 31 August 2017	–	5-10 (10-15 full-year equivalent)	–	–	–	5-10 (10-15 full-year equivalent)
<b>Mervyn Walker</b> 1 September 2014 – 31 August 2017	–	10-15 (15-20 full-year equivalent)	–	–	–	10-15 (15-20 full-year equivalent)
<b>John Whiting</b> 1 April 2013 – 31 March 2016	15-20	15-20	100	–	20-25	15-20

<sup>1</sup> These disclosures have been subject to external audit.

## Civil service pensions

Pension benefits are provided through the civil service pension arrangements. Civil servants are able to choose one of four defined benefit schemes: either a final salary scheme (classic, premium or classic plus); or a whole career scheme (nuvos). These statutory arrangements are unfunded, with the cost of benefits paid for by funding that is voted on by Parliament each year.

Pensions payable under classic, premium, classic plus and nuvos are increased annually in line with pensions increase legislation. Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (partnership pension account).

Employee contributions are salary-related and range between 1.5 per cent and 6.85 per cent of pensionable earnings for classic and 3.5 per cent and 8.85 per cent for premium, classic plus and nuvos. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years' initial pension is payable on retirement.

For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. Classic plus is essentially a hybrid with benefits for service before 1 October 2002, calculated broadly as per classic and benefits for service from October 2002 worked out as in premium.

In nuvos, a member builds up a pension based on his or her pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3 per cent of pensionable earnings in that scheme year and the accrued pension is uprated in line with pensions increase legislation. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between three per cent and 12.5 per cent (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of three providers. The employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of three per cent of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8 per cent of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill-health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of classic, premium and classic plus and 65 for members of nuvos. Further details about the [Civil Service pension arrangements](#) can be found on the website.

New career average pension arrangements were introduced from 1 April 2015 and the majority of classic, premium, classic plus and nuvos members have joined the new scheme. Further details of this [new scheme](#) are available on their website.

Figure 40: Pension benefits<sup>1</sup>

	Accrued pension at pension age as at 31 March 2015 and related lump sum £000	Real increase in pension and related lump sum at pension age £000	CETV at 31 March 2015 (to the nearest £000)	CETV at 31 March 2014 (to the nearest £000)	Real increase in CETV (to the nearest £000)	Employer contribution to partnership pension account (to the nearest £000)
<b>Lin Homer CB<sup>2</sup></b> Permanent Secretary and Chief Executive	115-120	2.5-5	2,174	2,011	66	–
<b>Edward Troup<sup>2</sup></b> Tax Assurance Commissioner	25-30	2.5-5	510	434	45	–
<b>Simon Bowles<sup>3</sup></b> Chief Finance Officer	25-30	2.5-5	414 <sup>5</sup>	346	44	–
<b>Mark Dearnley<sup>3</sup></b> Chief Digital and Information Officer	5-10	2.5-5	64	21	27	–
<b>Jennie Granger<sup>3</sup></b> Director General Enforcement and Compliance	5-10	2.5-5	130	75	37	–
<b>William Hague<sup>2</sup></b> Chief People Officer	30-35	5-7.5	336	260	52	–
<b>Jim Harra<sup>4</sup></b> Director General Business Tax	50-55 (Plus 160-165 lump sum)	2.5-5 (Plus 5-7.5 lump sum)	974	903	24	–
<b>Justin Holliday<sup>2</sup></b> Interim Chief Finance Officer	45-50	0-2.5	588	586 <sup>6</sup>	1	–
<b>Nick Lodge<sup>4</sup></b> Director General Benefits and Credits	50-55 (Plus 150-155 lump sum)	2.5-5 (Plus 12.5-15 lump sum)	973	845	83	–
<b>Ruth Owen<sup>4</sup></b> Director General Personal Tax	40-45 (Plus 125-130 lump sum)	0-2.5 (Plus 5-7.5 lump sum)	646	592	21	–

<sup>1</sup> These disclosures have been subject to external audit

<sup>2</sup> Member of the Premium Scheme

<sup>3</sup> Member of the Nuvos Scheme

<sup>4</sup> Member of the Classic Scheme

<sup>5</sup> CETV at 25 March 2015

<sup>6</sup> CETV at 8 March 2015

## Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme.

The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity.

The figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the civil service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are worked out in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

## Real increase in CETV

This reflects the increase in CETV that is funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.



Lin Homer  
Principal Accounting Officer  
15 July 2015

## Statistical tables

**Table 1: Total departmental spending (£000)**

This table provides further detail by category on HMRC spending.

	2009-10 Outturn	2010-11 Outturn	2011-12 Outturn	2012-13 Outturn	2013-14 Outturn	2014-15 Outturn	2015-16 Plans
<b>Resource DEL</b>							
HMRC administration	3,596,631	3,345,192	3,311,468	3,289,624	3,292,167	3,106,554	3,226,646
Departmental unallocated provision	—	—	—	—	—	—	34,631
VOA administration	644	1,298	5,835	-1,978	-2,085	-2,420	1
Utilised provisions	54,283	48,381	47,599	40,954	33,160	31,057	166,488
National Insurance Fund	433,818	411,362	340,644	334,541	322,125	328,902	296,960
<b>Total resource DEL</b>	<b>4,085,376</b>	<b>3,806,233</b>	<b>3,705,546</b>	<b>3,663,141</b>	<b>3,645,367</b>	<b>3,464,093</b>	<b>3,724,726</b>
<b>Of which<sup>1</sup>:</b>							
Staff costs	2,510,589	2,421,423	2,373,043	2,270,672	2,260,253	2,171,463	2,115,913
Purchase of goods and services	1,417,643	1,153,093	1,086,949	1,069,561	1,130,017	1,061,320	1,372,374
Income from sales of goods and services	-339,163	-310,604	-329,140	-313,498	-321,142	-342,428	-414,499
Current grants to persons and non-profit bodies (net)	8,572	40,628	11,240	29,944	4,012	4,214	972
Current grants abroad (net)	627	595	576	594	449	424	450
Rentals	271,867	259,820	265,590	262,455	225,422	184,626	234,455
Depreciation <sup>2</sup>	203,386	215,373	217,296	226,075	233,890	275,817	271,373
Change in pension scheme liabilities	2,963	—	—	1,255	2,788	2,975	—
Other resource	8,892	25,905	79,992	116,083	109,678	105,682	109,057
Unallocated funds – resource	—	—	—	—	—	—	34,631
	<b>4,085,376</b>	<b>3,806,233</b>	<b>3,705,546</b>	<b>3,663,141</b>	<b>3,645,367</b>	<b>3,464,093</b>	<b>3,724,726</b>

Continued

	2009-10 Outturn	2010-11 Outturn	2011-12 Outturn	2012-13 Outturn	2013-14 Outturn	2014-15 Outturn	2015-16 Plans
<b>Resources AME</b>							
Social benefits and grants	12,179,253	12,259,046	12,134,533	12,160,117	11,492,064	11,601,947	11,668,374
Providing payments in lieu of tax relief to certain bodies	154,513	176,852	101,532	57,134	76,396	99,703	105,083
Filing incentive payments	100,069	—	—	—	—	—	—
HMRC administration	106,926	64,776	3,967	19,596	24,631	70,610	30,000
Payments to add capacity	—	—	—	—	—	2,732	—
VOA – payments of rates to local authorities on behalf of certain bodies	32,049	39,603	47,537	55,747	60,085	65,939	74,190
VOA administration	5,416	5,126	1,139	-398	825	963	1
Utilised provisions	-141,317	-185,491	-56,271	-41,500	-33,383	-31,068	-166,788
Personal tax credits	27,600,898	28,870,775	29,914,314	29,699,832	29,329,220	29,123,165	29,453,632
Other reliefs and allowances	416,046	492,718	634,429	739,496	1,624,497	1,997,314	2,106,675
<b>Total resource AME</b>	<b>40,453,853</b>	<b>41,723,405</b>	<b>42,781,180</b>	<b>42,690,024</b>	<b>42,574,335</b>	<b>42,931,305</b>	<b>43,271,167</b>
<b>Of which:</b>							
Purchase of goods and services	48,327	52,360	79,369	74,927	74,442	85,715	78,200
Income from sales of goods and service	-2,155	-2,365	-2,846	-3,312	-3,702	-4,064	-4,010
Currant grants to persons and non-profit bodies (net)	40,078,530	41,378,570	42,386,319	42,200,664	41,963,365	42,037,716	42,019,946
Subsidies to private sector companies	272,963	308,509	443,358	465,118	551,816	764,666	1,313,818
Depreciation <sup>2</sup>	-3,034	40,054	-9,270	-489	2,859	2,072	1
Take up of provisions	234,910	136,108	14,376	3,829	20,219	69,501	30,000
Release of provision	-175,507	-196,050	-142,802	-41,500	-33,383	-31,068	-166,788
Other resources	-181	6,219	12,676	-9,213	-1,281	6,767	—
	<b>40,453,853</b>	<b>41,723,405</b>	<b>42,781,180</b>	<b>42,690,024</b>	<b>42,574,335</b>	<b>42,931,305</b>	<b>43,271,167</b>
<b>Resource budget</b>							
<b>Total resource DEL</b>	4,085,376	3,806,233	3,705,546	3,663,141	3,645,367	3,464,093	3,724,726
<b>Total resource AME</b>	40,453,853	41,723,405	42,781,180	42,690,024	42,574,335	42,931,305	43,271,167
<b>Total resource budget</b>	<b>44,539,229</b>	<b>45,529,638</b>	<b>46,486,726</b>	<b>46,353,165</b>	<b>46,219,702</b>	<b>46,395,398</b>	<b>46,995,893</b>
<b>Of which:</b>							
Depreciation <sup>2</sup>	200,352	255,427	208,026	225,586	236,749	277,889	271,374

Continued



	2009-10 Outturn	2010-11 Outturn	2011-12 Outturn	2012-13 Outturn	2013-14 Outturn	2014-15 Outturn	2015-16 Plans
<b>Capital DEL</b>							
HMRC administration	214,312	161,073	215,064	190,063	211,019	223,985	154,079
Departmental unallocated provision	–	–	–	–	–	–	1,441
VOA administration	14,432	7,334	5,156	3,968	7,101	7,694	7,300
<b>Total capital DEL</b>	<b>228,744</b>	<b>168,407</b>	<b>220,220</b>	<b>194,031</b>	<b>218,120</b>	<b>231,679</b>	<b>162,820</b>
<b>Of which:</b>							
Capital grants to persons and non-profit bodies (net)	–	–	–	–	–	–	–
Purchase of assets	232,902	172,696	221,589	199,245	220,229	237,864	162,379
Income from sales of assets	-4,158	-4,289	-1,369	-5,214	-2,109	-6,185	-1,000
Unallocated funds – capital	–	–	–	–	–	–	1,441
	<b>228,744</b>	<b>168,407</b>	<b>220,220</b>	<b>194,031</b>	<b>218,120</b>	<b>231,679</b>	<b>162,820</b>
<b>Capital AME</b>							
Social benefits and grants	306,302	226,677	86,255	547	223	11	300
Utilise provisions	80,691	113,996	–	–	–	–	–
<b>Total capital AME</b>	<b>386,993</b>	<b>340,673</b>	<b>86,255</b>	<b>547</b>	<b>223</b>	<b>11</b>	<b>300</b>
<b>Of which:</b>							
Capital grants to persons and non-profit bodies (net)	386,993	340,673	86,255	547	223	11	300
	<b>386,993</b>	<b>340,673</b>	<b>86,255</b>	<b>547</b>	<b>223</b>	<b>11</b>	<b>300</b>
<b>Capital budget</b>							
Total capital DEL	228,744	168,407	220,220	194,031	218,120	231,679	162,820
Total capital AME	386,993	340,673	86,255	547	223	11	300
<b>Total capital budget</b>	<b>615,737</b>	<b>509,080</b>	<b>306,475</b>	<b>194,578</b>	<b>218,343</b>	<b>231,690</b>	<b>163,120</b>
<b>Departmental spending</b>							
Total resource budget	44,539,229	45,529,638	46,486,726	46,353,165	46,219,702	46,395,398	46,995,893
Total depreciation	-200,352	-255,427	-208,026	-225,586	-236,749	-277,889	-271,374
Total capital budget	615,737	509,080	306,475	194,578	218,343	231,690	163,120
<b>Total departmental spending</b>	<b>44,954,614</b>	<b>45,783,291</b>	<b>46,585,175</b>	<b>46,322,157</b>	<b>46,201,296</b>	<b>46,349,199</b>	<b>46,887,639</b>
<b>Of which</b>							
Total DEL	4,110,734	3,759,267	3,708,470	3,631,097	3,629,597	3,419,955	3,616,173
Total AME	40,843,880	42,024,024	42,876,705	42,691,060	42,571,699	42,929,244	43,271,466
	<b>44,954,614</b>	<b>45,783,291</b>	<b>46,585,175</b>	<b>46,322,157</b>	<b>46,201,296</b>	<b>46,349,199</b>	<b>46,887,639</b>

<sup>1</sup> Figures for 2012-13 have been restated to correct some spend classification misalignments reported in prior year accounts.

<sup>2</sup> Includes impairments.

**Table 2: Public spending control (£m)**

This table provides details of the Main Estimate (submitted 29 April 2014) for HMRC spending and the Supplementary Estimate (submitted 11 February 2015) which provide the Final Estimate (Provision) shown. It then shows the actual spend (outturn) against the Final Provision.

	Main Estimate	Supplementary Estimate (adjustment)	Final provision	2014-15 Outturn
<b>Resource DEL</b>				
<b>Voted</b>				
HMRC administration	3,278	-101	3,178	3,107
Departmental unallocated provision	35	-35	0	0
VOA administration	0	0	0	-2
Utilised provisions	39	0	39	31
<b>Non-voted</b>				
National Insurance Fund	302	0	302	329
<b>Total spending DEL</b>	<b>3,654</b>	<b>-136</b>	<b>3,519</b>	<b>3,465</b>
<b>Resource AME</b>				
<b>Voted</b>				
Social benefits and grants	11,703	132	11,835	11,602
Providing payments in lieu of tax relief to certain bodies	172	-74	98	100
e-filing incentive payments	0	0	0	0
HMRC administration	30	115	145	71
Payments to add capacity	8	0	8	3
VOA – payments of rates to local authorities on behalf of certain bodies	73	0	73	66
VOA administration	0	0	0	1
Utilised provisions	-40	0	-40	-31
<b>Non-voted</b>				
Personal tax credits	29,695	797	30,492	29,123
Other relief and allowances	1,914	97	2,011	1,997
<b>Total spending AME</b>	<b>43,555</b>	<b>1,067</b>	<b>44,622</b>	<b>42,932</b>
<b>Capital DEL</b>				
HMRC administration	163	78	241	224
Departmental unallocated provision	1	-1	0	0
VOA administration	9	0	9	8
<b>Total capital spending DEL</b>	<b>173</b>	<b>77</b>	<b>250</b>	<b>232</b>
<b>Capital AME</b>				
Social benefits and grants	1	0	1	0
<b>Total capital spending AME</b>	<b>1</b>	<b>0</b>	<b>1</b>	<b>0</b>

**Table 3: Capital employed continued (£m)**

This table shows a breakdown of HMRC's assets and liabilities, it also shows how capital employed is calculated.

	2009-10 Outturn	2010-11 <sup>1</sup> Outturn	2011-12 <sup>2</sup> Outturn	2012-13 Outturn	2013-14 Outturn	2014-15 Outturn	2015-16 Plans
<b>Non-current assets</b>							
<b>Tangible</b>							
Land	24.0	24.0	28.9	28.9	28.9	50.0	50.0
Buildings	359.3	328.5	285.1	253.0	232.3	282.0	291.6
Accomm refurbishment	74.2	70.2	84.7	74.6	75.2	65.0	72.3
Office and computer equipment	97.7	84.4	82.7	66.1	66.3	84.2	73.0
Vehicles	6.1	4.7	8.9	7.0	9.7	9.7	9.9
Furniture and fittings	36.3	35.0	31.4	29.0	26.2	26.2	26.9
Assets under construction	38.2	30.6	10.5	22.5	23.1	11.4	12.3
Scientific aids	4.4	2.9	4.0	3.7	2.6	1.6	1.4
<b>Total tangible</b>	<b>640.2</b>	<b>580.3</b>	<b>536.2</b>	<b>484.8</b>	<b>464.3</b>	<b>530.1</b>	<b>537.3</b>
<b>Intangible</b>							
Software licences	13.4	13.5	10.0	6.4	6.7	4.4	3.8
Developed computer software	1,003.0	1,058.0	1,031.5	1,040.7	1,020.7	1,019.9	998.5
Website development costs <sup>3</sup>	0.0	0.0	1.4	3.9	5.2	6.6	5.7
Assets under construction	182.7	135.6	162.5	143.8	160.2	172.0	154.7
<b>Total intangible</b>	<b>1,199.1</b>	<b>1,207.1</b>	<b>1,205.4</b>	<b>1,194.8</b>	<b>1,192.8</b>	<b>1,202.9</b>	<b>1,162.7</b>
Total tangible	640.2	580.3	536.2	484.8	464.3	530.1	537.3
Total intangible	1,199.1	1,207.1	1,205.4	1,194.8	1,192.8	1,202.9	1,162.7
Receivables > 1 Year	0.0	1,093.0	1,099.3	1,214.4	1,467.5	1,740.6	1,810.2
<b>Total non-current assets</b>	<b>1,839.3</b>	<b>2,880.4</b>	<b>2,840.9</b>	<b>2,894.0</b>	<b>3,124.6</b>	<b>3,473.6</b>	<b>3,510.1</b>
<b>Total current assets</b>	<b>287.1</b>	<b>885.8</b>	<b>782.8</b>	<b>963.7</b>	<b>1,078.9</b>	<b>1,348.3</b>	<b>1,403.0</b>
<b>Total assets</b>	<b>2,126.4</b>	<b>3,766.2</b>	<b>3,623.7</b>	<b>3,857.7</b>	<b>4,203.5</b>	<b>4,821.9</b>	<b>4,913.1</b>

Continued

	2009-10 Outturn	2010-11 <sup>1</sup> Outturn	2011-12 <sup>2</sup> Outturn	2012-13 Outturn	2013-14 Outturn	2014-15 Outturn	2015-16 Plans
<b>Liabilities</b>							
Liabilities < 1 Year	-1,100.4	-1,918.8	-1,975.0	-1,998.6	-2,720.0	-2,837.7	-2,950.8
Liabilities > 1 Year	-201.4	-418.8	-381.1	-344.3	-335.1	-311.2	-326.1
Provisions	-355.9	-296.0	-168.9	-129.6	-116.4	-152.7	-161.8
<b>Total liabilities</b>	<b>-1,657.7</b>	<b>-2,633.6</b>	<b>-2,525.0</b>	<b>-2,472.5</b>	<b>-3,171.5</b>	<b>-3,301.6</b>	<b>-3,438.8</b>
<b>Capital employed</b>							
Assets	2,126.4	3,766.2	3,623.7	3,857.7	4,203.5	4,821.9	4,913.1
Liabilities	-1,657.7	-2,633.6	-2,525.0	-2,472.5	-3,171.5	-3,301.6	-3,438.8
<b>Total capital employed</b>	<b>468.7</b>	<b>1,132.6</b>	<b>1,098.7</b>	<b>1,385.2</b>	<b>1,032.0</b>	<b>1,520.3</b>	<b>1,474.4</b>

<sup>1</sup> The figures for 2010-11 have been restated to include receivables and payables for tax credits that transferred to the Resource Accounts from the Trust Statement in 2011-12 under clear line of sight.

<sup>2</sup> The approach agreed with HM Treasury has been that certain penalty charges relating to income tax have been treated as income within the Resource Account and offset against HMRC expenditure. The treatment ceased from 1 April 2012 and the penalty charges are now reported within the Trust Statement as Consolidated Fund Extra Receipts.

<sup>3</sup> Website development costs, previously reported within developed computer software, have been reported as a separate intangible category in line with IFRS disclosure requirements.

NOTE: These figures agree with those included in the relevant audited published Resource Accounts except where restated for machinery of government changes.

**Table 4: Administration budget (£000)**

This table shows HMRC administration expenditure, utilised provisions and the administration element of the National Insurance Fund. This table does not include programme expenditure.

	2009-10 Outturn	2010-11 Outturn	2011-12 Outturn	2012-13 Outturn	2013-14 Outturn	2014-15 Outturn	2015-16 Plans
<b>Resource DEL</b>							
HMRC administration	3,483,369	3,217,450	871,766	849,599	777,741	706,563	711,733
Departmental unallocated provision	–	–	–	–	–	–	34,631
Utilised provisions	54,283	48,381	40,850	32,971	26,156	18,831	13,902
National Insurance Fund	–	–	48,953	64,838	60,254	71,647	71,109
<b>Total administration budget</b>	<b>3,537,652</b>	<b>3,265,831</b>	<b>961,569</b>	<b>947,408</b>	<b>864,151</b>	<b>797,041</b>	<b>831,375</b>
<b>Of which:</b>							
Staff costs	2,510,589	2,421,423	335,549	303,503	306,449	311,376	307,750
Purchase of goods and services	861,565	643,079	413,024	391,306	401,842	354,374	349,325
Income from sales of goods and service	-316,102	-296,264	-88,623	-59,518	-68,469	-95,341	-127,000
Current grants to persons and non-profit bodies (net)	–	–	1,999	2,001	2,981	3,027	–
Rentals	271,867	259,820	178,377	195,916	139,403	116,203	151,170
Depreciations	201,586	213,166	66,611	55,000	67,232	96,617	77,300
Change in pension scheme liabilities	2,963	–	–	–	–	–	–
Other resource	5,184	24,607	54,632	59,200	14,713	10,785	38,199
Unallocated funds - resource	–	–	–	–	–	–	34,631
	<b>3,537,652</b>	<b>3,265,831</b>	<b>961,569</b>	<b>947,408</b>	<b>864,151</b>	<b>797,041</b>	<b>831,375</b>

**Table 5: Staff numbers**

This table reflects the average number of full-time equivalent persons employed during the year.

	2012-13 Outturn	2013-14 Outturn	2014-15 Outturn
<b>Core department</b>			
Permanent staff <sup>1</sup>	61,568	59,494	57,510
Others <sup>2</sup>	3,577	3,692	1,401
<b>Total</b>	<b>65,145</b>	<b>63,186</b>	<b>58,911</b>
<b>Valuation Office Agency (VOA)</b>			
Permanent Staff	3,418	3,408	3,346
Others <sup>2</sup>	74	112	91
<b>Total</b>	<b>3,492</b>	<b>3,520</b>	<b>3,437</b>

<sup>1</sup> The "permanent staff" figures include numbers of staff engaged on capital projects.  
2014-15: core department 105 (2013-14: core department 51; 2012-13: core department 0).

<sup>2</sup> The "others" figures include values for contingent labour and consultants.  
2014-15: core department 109, VOA 17 (2013-14: core department 125, VOA 9; 2012-13: core department 105, VOA 12).

#### Explanatory notes for tables 6, 7 and 8. (Pages 92-94)

- Tables 6, 7 and 8 show analyses of the department's spending by country and region, and by function. The data presented in these tables is consistent with the country and regional analyses (CRA) published by HM Treasury in the November 2014 release. The figures were largely taken from the Online System for Central Accounting and Reporting (OSCAR) during the summer of 2014 and the regional distributions were completed by the following autumn (taking on board any revisions to departmental totals). Please note that totals may not sum due to rounding.
- The analyses are set within the overall framework of Total Expenditure on Services (TES). TES broadly represents the current and capital expenditure of the public sector, with some differences from the national accounts measure Total Managed Expenditure. The tables show the central government and public corporation elements of TES. They include current and capital spending by the department and its NDPBs, and public corporations' capital expenditure, but do not include capital finance to public corporations. They do not include payments to local authorities or local authorities own expenditure.
- TES is a cash equivalent measure of public spending. The tables do not include depreciation, cost of capital charges, or movements in provisions that are in departmental budgets. They do include pay, procurement, capital expenditure, and grants and subsidies to individuals and private sector enterprises. Further information on TES can be found in Appendix E of PESA 2014.
- The data includes both identifiable and non-identifiable spending:
  - Identifiable expenditure on services – which is capable of being analysed as being for the benefit of individual countries and regions.
  - Expenditure that is incurred for the benefit of the UK as a whole and cannot be disseminated by individual country or region is considered to be non-identifiable.
- Across government, most expenditure is not planned or allocated on a regional basis. Social security payments, for example, are paid to eligible individuals irrespective of where they live. Expenditure on other programmes is allocated by looking at how all the projects across the department's area of responsibility, usually England, compare. So the analyses show the regional outcome of spending decisions that on the whole have not been made primarily on a regional basis.
- The functional analyses of spending in Table 8 are based on the United Nations Classification of the Functions of Government (COFOG), the international standard. The presentations of spending by function are consistent with those used in Chapter A of the CRA November 2014 release. These are not the same as the strategic priorities shown elsewhere in the report.

**Table 6: Total identifiable expenditure on services by region and country, 2009-10 to 2013-14 (£m)**

	2009-10	2010-11	2011-12	2012-13	2013-14
<b>Region</b>					
North East	1,535	1,584	1,649	1,729	1,680
North West	4,298	4,447	4,668	4,902	4,791
Yorkshire and the Humber	3,171	3,281	3,452	3,628	3,544
East Midlands	2,534	2,631	2,751	2,886	2,813
West Midlands	3,390	3,521	3,715	3,904	3,822
East	2,940	3,061	3,209	3,357	3,241
London	4,695	4,899	5,246	5,517	5,402
South East	4,069	4,225	4,415	4,609	4,402
South West	2,668	2,770	2,897	3,034	2,944
<b>Total England</b>	<b>29,300</b>	<b>30,418</b>	<b>32,002</b>	<b>33,567</b>	<b>32,640</b>
<b>Country</b>					
England	29,300	30,418	32,002	33,567	32,640
Scotland	2,713	2,776	2,865	2,996	2,877
Wales	1,767	1,825	1,908	2,003	1,948
Northern Ireland	1,169	1,221	1,296	1,362	1,342
Total UK identifiable expenditure	34,948	36,239	38,071	39,927	38,807
Outside UK	62	62	76	118	141
Total identifiable expenditure	35,010	36,301	38,147	40,045	38,948
Non-identifiable expenditure	4,194	3,846	3,728	3,632	3,575
<b>Total expenditure on services</b>	<b>39,203</b>	<b>40,147</b>	<b>41,876</b>	<b>43,677</b>	<b>42,522</b>

**Table 7: Total identifiable expenditure on services by region and country, per head 2009-10 to 2013-14 (£ per head)**

	2009-10	2010-11	2011-12	2012-13	2013-14
<b>Region</b>					
North East	596	612	635	692	644
North West	516	633	662	682	674
Yorkshire and the Humber	607	624	653	632	664
East Midlands	567	584	606	692	612
West Midlands	613	633	662	568	673
East	511	527	547	664	544
London	591	608	639	528	642
South East	479	493	510	528	501
South West	511	526	546	568	547
<b>Country</b>					
England	561	578	603	627	606
Scotland	522	532	541	564	540
Wales	581	598	623	651	632
Northern Ireland	652	676	714	747	733
<b>UK identifiable expenditure per head</b>	<b>562</b>	<b>578</b>	<b>602</b>	<b>627</b>	<b>605</b>



Table 8: Total identifiable expenditure on services by function, region and country for 2013-14 (£m)

	North East	North West	Yorkshire and The Humber	East Midlands	West Midlands	East	London	South East	South West	England	Scotland	Wales	Northern Ireland	Outside UK	Not identifiable	Totals
<b>General public services</b>																
Executive and legislative organisations, financial and fiscal affairs, external affairs	2	4	4	3	4	4	5	6	5	37	2	3	2	20	3,562	3,627
General public services not classified elsewhere	0	1	1	0	1	1	1	1	1	5	1	0	0	0	13	19
<b>Total general public services</b>	<b>2</b>	<b>5</b>	<b>5</b>	<b>3</b>	<b>5</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>6</b>	<b>42</b>	<b>3</b>	<b>3</b>	<b>2</b>	<b>20</b>	<b>3,575</b>	<b>3,646</b>
<b>Economic affairs</b>																
General economic, commercial and labour affairs	10	29	21	19	22	28	60	47	23	258	24	11	7	–	–	299
Mining, manufacturing and construction	0	0	0	0	0	0	0	0	0	0	0	0	0	–	–	0
R&D economic affairs	7	22	16	14	17	22	47	37	18	200	19	8	5	–	–	233
<b>Total economic affairs</b>	<b>17</b>	<b>51</b>	<b>37</b>	<b>33</b>	<b>39</b>	<b>50</b>	<b>107</b>	<b>84</b>	<b>41</b>	<b>458</b>	<b>43</b>	<b>19</b>	<b>12</b>	<b>–</b>	<b>–</b>	<b>532</b>
<b>Environment protection</b>																
Environment protection not classified elsewhere	0	0	0	0	0	0	1	0	0	4	0	0	0	–	–	5
<b>Total environment protection</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>4</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>–</b>	<b>–</b>	<b>5</b>
<b>Social protection</b>																
Old age (pensions)	2	5	3	3	3	5	4	10	8	44	4	3	1	3	–	55
Family and children (family benefits, income support and tax credits)	464	1,321	985	829	1,076	1,051	1,540	1,487	911	9,664	859	550	379	46	–	11,498
Housing	0	0	0	0	0	0	0	0	0	0	0	0	0	–	–	0
Social exclusion not classified elsewhere (family benefits, income support and tax credits)	1,194	3,408	2,513	1,943	2,699	2,128	3,740	2,813	1,977	22,415	1,966	1,372	946	71	0	26,771
Social protection not classified elsewhere	1	1	1	1	1	1	3	1	1	11	2	1	2	–	–	16
<b>Total social protection</b>	<b>1,661</b>	<b>4,735</b>	<b>3,503</b>	<b>2,776</b>	<b>3,778</b>	<b>3,186</b>	<b>5,288</b>	<b>4,311</b>	<b>2,898</b>	<b>32,135</b>	<b>2,831</b>	<b>1,926</b>	<b>1,328</b>	<b>120</b>	<b>0</b>	<b>38,340</b>
<b>Total</b>	<b>1,680</b>	<b>4,791</b>	<b>3,544</b>	<b>2,813</b>	<b>3,822</b>	<b>3,241</b>	<b>5,402</b>	<b>4,402</b>	<b>2,944</b>	<b>32,640</b>	<b>2,877</b>	<b>1,948</b>	<b>1,342</b>	<b>141</b>	<b>3,575</b>	<b>42,522</b>

# Financial Statements

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# Foreword and Principal Accounting Officer's responsibilities

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## 1. Introduction

HMRC is responsible for collecting the majority of tax revenue and its financial information is reported in two separate accounts. The Trust Statement reports the revenues, expenditures, assets and liabilities related to the taxes and duties for the financial year. The Resource Accounts reports the costs of running HMRC including making payments of Child Benefit and tax credits. The Valuation Office Agency results are consolidated into the Resource Accounts.

## 2. Basis for the preparation of the accounts

Both sets of accounts are prepared under HM Treasury direction on an accruals basis.

### Trust Statement

The HM Treasury accounts direction, issued under Section 2 of the Exchequer and Audit Departments Act 1921, requires HMRC to prepare the Trust Statement to give a true and fair view of the state of affairs relating to the collection and allocations of taxes and duties, the revenue income and expenditure, and cash flows for the financial year.

### Resource Accounts

The HM Treasury accounts direction, issued under the Government Resources and Accounts Act 2000, requires HMRC to prepare consolidated Resource Accounts to give a true and fair view of the state of affairs of the department and of its net resource outturn, application of resources, changes in taxpayers' equity and cash flows for the financial year.

### Further guidance followed in the preparation of the accounts

HMRC complies with all relevant accounting and disclosure requirements given in *Managing Public Money* and other guidance issued by HM Treasury. This includes the Financial Reporting Manual (*FReM*) and the principles underlying it as well as International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector.

## 3. Principal Accounting Officer's responsibilities

HM Treasury has appointed the Chief Executive as Principal Accounting Officer of HMRC with overall responsibility for preparing the Trust Statement and Resource Accounts and for providing them to the Comptroller and Auditor General.

In preparing these accounts, the Principal Accounting Officer is required to:

- observe the accounts directions issued by HM Treasury, including the relevant accounting and disclosure requirements, applying suitable accounting policies on a consistent basis and explaining any material departures from the *FReM*
- make judgements and estimates on a reasonable basis, including those judgements involved in consolidating the accounting information provided by the Valuation Office Agency
- ensure that there is a high standard of financial management, including robust systems of internal control and that financial systems and processes promote the efficient and economical conduct of the business
- be responsible for the propriety and regularity of the public finances for which the Accounting Officer is answerable and for the keeping of proper records and safeguarding the department's assets as set out in *Managing Public Money* published by HM Treasury
- prepare the accounts on a going concern basis.

## 4. Accounting officers for the Resource Accounts

For 2014-15 the Principal Accounting Officer was Lin Homer. HM Treasury has appointed an additional accounting officer, Penny Ciniewicz, Chief Executive of the Valuation Office Agency, to be accountable for those parts of the department's accounts relating to specified lines of the Estimate and the associated assets, liabilities and cash flows. This appointment does not detract from the HMRC Principal Accounting Officer's overall responsibility for the department's accounts.

The allocation of accounting officer responsibilities in the department was as follows:

Estimate sections A, C, D-I and L-O: Lin Homer, Principal Accounting Officer.

Estimate sections B, J and K: Penny Ciniewicz, Chief Executive of the Valuation Office Agency.

Please see SOPS note 2 in the Resource Accounts.

## 5. Auditors

Both sets of accounts are audited by the Comptroller and Auditor General. The Trust Statement is audited under Section 2 of the Exchequer and Audit Departments Act 1921. The Resource Accounts is audited under the Government Resources and Accounts Act 2000.

The notional charge for both these audit services is disclosed in the Resource Accounts (see note 4). No non-audit work was carried out by the auditors for HMRC.

So far as I am aware, there is no relevant audit information of which the auditors are unaware. I have taken all steps that I ought to have taken to make myself aware of any relevant audit information and to establish that the auditors are aware of that information.

**Lin Homer**

Principal Accounting Officer

15 July 2015

# Trust Statement

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# Trust Statement Audit Report of the Comptroller and Auditor General to The House of Commons

I have audited HM Revenue and Customs' (the department's) Trust Statement for the year ended 31 March 2015 under the Exchequer and Audit Departments Act 1921. The financial statements comprise the Statement of Revenue, Other Income and Expenditure, the Statement of Financial Position, the Statement of Cash Flows and the related notes. These financial statements have been prepared under the accounting policies set out within them.

## Respective responsibilities of the Accounting Officer and auditor

As explained more fully in the Foreword and Principal Accounting Officer's responsibilities, the Principal Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and report on the financial statements in accordance with the Exchequer and Audit Departments Act 1921. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the circumstances of the department and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the department; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

## Opinion on regularity

In my opinion, in all material respects the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

## Opinion on financial statements

In my opinion:

- the HM Revenue and Customs Trust Statement gives a true and fair view of the state of affairs of the collection and settlement of taxes, duties, National Insurance Contributions, Student Loan recoveries, fines, penalties and related expenditures and disbursements administered by the department as at 31 March 2015 and of the net revenue for the year then ended; and
- the financial statements have been properly prepared in accordance with the Exchequer and Audit Departments Act 1921 and HM Treasury directions issued thereunder.

## Opinion on other matters

In my opinion, the information given in the: *Foreword by Lin Homer*, the 'Performance' section of the Annual Report, the 'How we are structured' section of the Governance Statement, and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

## Report

Further details arising from my examination can be found in my Report on the 2014-15 Accounts of HM Revenue and Customs, under Section 2 of the Exchequer and Audit Departments Act 1921, on page R1.

**Sir Amyas C E Morse**  
**Comptroller and Auditor General**  
National Audit Office  
157-197 Buckingham Palace Road  
Victoria  
London  
SW1W 9SP

16 July 2015

# Statement of Revenue, Other Income and Expenditure

For the year ended 31 March			
	Note	2015 £ bn	2014 £ bn
<b>Taxes and duties</b>			
Income tax	2.2	163.1	162.1
Value Added Tax	2.3	113.9	108.2
Corporation Tax	2.4	41.4	40.3
Hydrocarbon oils duties	2.5	27.2	26.9
Stamp taxes	2.6	13.5	12.9
Alcohol duties	2.7	10.7	10.4
Tobacco duties	2.8	9.3	9.6
Other taxes and duties	2.9	27.2	25.3
<b>Total taxes and duties</b>		<b>406.3</b>	<b>395.7</b>
<b>Other revenue and income</b>			
National Insurance Contributions	3.1	108.0	106.7
Student Loan recoveries	3.3	1.8	1.5
Fines and penalties		1.6	1.4
Taxation due from Isle of Man	3.4	-	0.5
<b>Total other revenue and income</b>		<b>111.4</b>	<b>110.1</b>
<b>Total revenue</b>		<b>517.7</b>	<b>505.8</b>
<b>Expenditure</b>			
Impairment charges	7.1	(6.1)	(5.5)
Movement in provisions	8.1	(6.6)	(0.9)
<b>Total expenditure</b>		<b>(12.7)</b>	<b>(6.4)</b>
<b>Disbursements</b>			
National Insurance Contributions due to the National Insurance Funds and National Health Services	3.1	(107.5)	(106.1)
Appropriation of revenue to Resource Accounts	3.2	(31.5)	(30.7)
Student Loan recoveries due to the Department for Business, Innovation and Skills		(1.8)	(1.7)
Taxation paid to Isle of Man	3.4	(0.2)	-
<b>Total disbursements</b>		<b>(141.0)</b>	<b>(138.5)</b>
<b>Total expenditure and disbursements</b>		<b>(153.7)</b>	<b>(144.9)</b>
<b>Net revenue for the Consolidated Fund</b>		<b>364.0</b>	<b>360.9</b>

There were no recognised gains or losses accounted for outside the above Statement of Revenue, Other Income and Expenditure.

The notes at pages 104 to 118 form part of this statement.



# Statement of Financial Position

As at 31 March	Note	2015 £ bn	2014 £ bn
<b>Non-current assets</b>			
Receivables falling due after one year	4	0.9	0.8
<b>Current assets</b>			
Receivables	4	16.6	16.9
Accrued revenue receivable	4	89.7	89.3
<b>Total current assets</b>		<b>106.3</b>	<b>106.2</b>
<b>Total assets</b>		<b>107.2</b>	<b>107.0</b>
<b>Current liabilities</b>			
Payables	5	17.4	14.7
Accrued revenue payable	5	29.8	28.8
Deferred revenue	5	1.0	0.8
Cash and cash equivalents	5.1	1.3	1.2
<b>Total current liabilities</b>		<b>49.5</b>	<b>45.5</b>
<b>Assets less current liabilities</b>		<b>57.7</b>	<b>61.5</b>
<b>Non-current liabilities</b>			
Provision for liabilities	8	14.7	8.5
<b>Net assets</b>		<b>43.0</b>	<b>53.0</b>
<b>Movements on Consolidated Fund account:</b>			
Balance on Consolidated Fund account as at 1 April		53.0	46.6
Net revenue for the Consolidated Fund		364.0	360.9
Less amount paid to Consolidated Fund		(374.0)	(354.5)
<b>Balance on Consolidated Fund account</b>		<b>43.0</b>	<b>53.0</b>

**Lin Homer**

Principal Accounting Officer

15 July 2015

The notes at pages 104 to 118 form part of this statement.

# Statement of Cash Flows

For the year ended 31 March		2015 £ bn	2014 £ bn
	Note		
Net cash flow from operating activities	A	373.9	355.3
Cash paid to the Consolidated Fund		(374.0)	(354.5)
<b>Increase/(decrease) in cash in this period</b>	<b>B</b>	<b>(0.1)</b>	<b>0.8</b>

## Notes to the Statement of Cash Flows

<b>A: Reconciliation of net cash flow to movement in net funds</b>	2015 £ bn	2014 £ bn
For the year ended 31 March		
Net revenue for the Consolidated Fund	364.0	360.9
(Increase)/decrease in non-cash assets	(0.2)	(8.4)
Increase in liabilities	3.9	2.3
Increase in provision for liabilities	6.2	0.5
<b>Net cash flow from operating activities</b>	<b>373.9</b>	<b>355.3</b>

<b>B: Analysis of changes in net funds</b>	2015 £ bn	2014 £ bn
For the year ended 31 March		
Increase/(decrease) in cash in this period	(0.1)	0.8
Net funds as at 1 April (opening bank balance)	(1.2)	(2.0)
<b>Net funds as at 31 March (closing bank balance)</b>	<b>(1.3)</b>	<b>(1.2)</b>

# Notes to the Trust Statement

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Notes to the financial statements provide additional information required by statute and accounting standards to explain a particular feature of the financial statements. The notes which follow will also provide explanations and additional disclosure to assist readers' understanding and interpretation of the financial statements.

## 1. Statement of accounting policies

### 1.1 Basis of accounting

The Trust Statement is prepared in accordance with:

- the accounts direction issued by HM Treasury under the Exchequer and Audit Departments Act 1921
- the 2014-15 Financial Reporting Manual issued by HM Treasury
- International Financial Reporting Standards adapted or interpreted for the public sector context
- the accounting policies detailed in subsequent notes.

The accounting policies have been developed by HMRC in consultation with HM Treasury and have been reviewed during 2014-15. These policies have been applied consistently in dealing with items considered material in relation to the accounts. The Trust Statement is prepared on a going concern basis.

The tax gap is not recognised in the Trust Statement. The tax gap is the difference between the amount of tax that should, in theory, be collected by HMRC (the theoretical liability), against what is actually collected. The theoretical tax liability represents the tax that would be paid if all individuals and companies complied with both the letter of the law and HMRC's interpretation of the intention of Parliament in setting law (referred to as the spirit of the law). The tax gap estimate is net of the department's compliance activities. The tax gap is the tax that is lost through non-payment, use of avoidance schemes, interpretation of tax effect of complex transactions, error, failure to take reasonable care, evasion, the hidden economy and organised criminal attack.

The financial information presented is rounded to the nearest £0.1 billion, except for Certificates of Tax Deposit, Student Loan recoveries, revenue losses, and provision for liabilities, which are rounded to the nearest £1 million, due to the much smaller amounts of revenue accrued.

Further accounting policies are explained under the relevant notes (starting at note 2).

### 1.2 Accounting convention

The Trust Statement has been prepared in accordance with the historical cost convention. Taxes and duties are accounted for on an accruals basis, except for Stamp Duty and National Insurance Classes 1A, 1B and 3, which are accounted for on a cash basis as agreed with HM Treasury. In addition, some repayments are accounted for on a cash basis. Accounting for these elements on a cash basis does not have a material impact on the accounts.

### 1.3 Revenue recognition

Taxes and duties are measured at the fair value of the consideration received or receivable net of repayments. Revenue is recognised when: a taxable event has occurred, the revenue can be measured reliably and it is probable that the economic benefits from the taxable event will flow to HMRC. The taxable events for the main taxes and duties are described in note 2 below. Note 4 provides an explanation of accrued revenue receivable,

note 6 describes the circumstances and approaches used where estimation of accruals is needed and note 8 provides an explanation of provisions and contingent liabilities. Revenues are deemed to accrue evenly over the period for which they are due.

HMRC undertakes compliance work to collect or protect revenue as part of the commitment to narrow the tax gap. This includes work in tackling avoidance, evasion and criminal attack. Given the uncertainty of both the probability of economic flow and reliability of estimated figures, future revenue flows in relation to this activity are not recognised in the accounts until such time as a liability is assessed or established and/or reasonably certain.

## 2 Accounting policies and analysis

### 2.1 Total revenue

For the year ended 31 March	2015 £ bn	2014 £ bn
<b>Total revenue</b>	<b>517.7</b>	<b>505.8</b>

Total revenue increased by two per cent, as a result of growth in the economy. This is reflected by rises in most taxes and duties and is particularly evident in the manufacturing and finance sectors.

### 2.2 Income tax

For the year ended 31 March	2015 £ bn	2014 £ bn
Self Assessment	23.0	25.9
Other income tax revenue (including PAYE)	140.1	136.2
<b>Total</b>	<b>163.1</b>	<b>162.1</b>

The taxable event for income tax is the earning of assessable income during the taxation period by the taxpayer. Where payments are received in advance of Self Assessment returns, the estimate of the income tax component is based on prior year income tax liabilities.

Income tax accounted for 32 per cent of total revenue and increased one per cent compared to 2013-14, as a result of growth in the economy leading to higher levels of employment and higher wages resulting in an increase in PAYE receipts. Self Assessment has fallen slightly due to the impact of forestalling, due to a reduction in the additional rate of tax that was announced in 2012-13, to take effect in 2013-14. As a result individuals deferred receipt of some income so it was received in the 2013-14 year rather than the 2012-13 year. The impact of this meant peak receipts were received for 2013-14 but stabilising again in 2014-15.

### 2.3 Value Added Tax

For the year ended 31 March	2015 £ bn	2014 £ bn
Gross revenue	191.3	183.8
Less: revenue repayable	(77.4)	(75.6)
<b>Net revenue</b>	<b>113.9</b>	<b>108.2</b>

The taxable event for Value Added Tax is the undertaking of taxable activity during the taxation period by the taxpayer. VAT is structured in such a manner that taxpayers are also entitled to claim repayments; hence a breakdown of gross revenue and repayments is disclosed.

Value Added Tax accounted for 22 per cent of total revenue and increased five per cent compared to 2013-14, as a result of significant increases in receipts for the automotive, business services and more notably, the manufacturing sectors. As output has grown, manufacturers have increased their purchases of raw materials and there are increases in the sale of manufactured goods. Household spending has been on a steady rise (at its strongest rate for four years), as consumers spend more money on goods and services. This has been particularly evident in the food, oil, motor fuel and domestic gas sectors.

## 2.4 Corporation Tax

For the year ended 31 March	2015 £ bn	2014 £ bn
<b>Total</b>	<b>41.4</b>	<b>40.3</b>

The taxable event for Corporation Tax is the earning of assessable profit during the taxation period by the taxpayer.

Corporation Tax accounted for eight per cent of total revenue and increased three per cent compared to 2013-14, as a result of improvements to profits across all UK incorporated company sectors, particularly the financial sector.

## 2.5 Hydrocarbon oils duties

For the year ended 31 March	2015 £ bn	2014 £ bn
Road fuel	26.6	26.3
Rebated fuel	0.6	0.6
<b>Total</b>	<b>27.2</b>	<b>26.9</b>

The taxable event for hydrocarbon oils duty is the date of production, date of import or movement of goods out of a duty suspended regime.

Hydrocarbon oils accounted for five per cent of total revenue and increased one per cent compared to 2013-14, due to a reduction in pump prices and a rise in the number of diesel cars in use due to the reported fuel economy and lower road tax, which has driven an increase in diesel consumption.

## 2.6 Stamp taxes

For the year ended 31 March	2015 £ bn	2014 £ bn
Stamp Duty Land Tax	10.5	9.7
Stamp Duty Reserve Tax	2.6	2.8
Stamp Duty	0.3	0.3
Annual Tax on Enveloped Dwellings	0.1	0.1
<b>Total</b>	<b>13.5</b>	<b>12.9</b>

The taxable event for stamp taxes (Stamp Duty Land Tax and Stamp Duty Reserve Tax) is the purchase of property or shares.

Stamp Duty is recognised in the accounting period in which the tax receipt is received and is measured as the cash amount received. Repayments of Stamp Duty are made on a cash basis – these are recognised in the period the repayment is made.

Annual Tax on Enveloped Dwellings (ATED) – this tax relates to residential properties owned by ‘non-natural’ persons, for example, companies, and the taxable event is based on the market value of the relevant property (or properties) being greater than £2 million at 1 April each year.

Stamp taxes accounted for three per cent of total revenue and increased five per cent compared to 2013-14. The increase is primarily due to an increase in Stamp Duty Land Tax transactions and higher prices in both residential and commercial markets.

## 2.7 Alcohol duties

For the year ended 31 March	2015 £ bn	2014 £ bn
Wine, cider and perry	4.2	4.1
Beer	3.4	3.3
Spirits	3.1	3.0
<b>Total</b>	<b>10.7</b>	<b>10.4</b>

The taxable event for alcohol duties is the date of production, date of import or movement of goods out of a duty suspended regime.

Alcohol duties accounted for two per cent of total revenue and increased two per cent compared to 2013-14. This increase is primarily due to a small duty rate rise for sparkling cider, perry and wine that have high alcohol percentage.

## 2.8 Tobacco duties

For the year ended 31 March	2015 £ bn	2014 £ bn
Cigarettes	8.1	8.4
Hand rolling tobacco	1.1	1.1
Cigars	0.1	0.1
<b>Total</b>	<b>9.3</b>	<b>9.6</b>

The taxable event for tobacco duties is the date of production, date of import or movement of goods out of a duty suspended regime.

Tobacco duties accounted for two per cent of total revenue and decreased three per cent compared to 2013-14, as a result of a continuing decline in the usage of tobacco products.

## 2.9 Other taxes and duties

For the year ended 31 March			
	Note	2015 £ bn	2014 £ bn
Capital Gains Tax*	2.9.1	5.7	3.9
Inheritance Tax*		3.8	3.7
Customs duties		3.2	2.9
Air Passenger Duty		3.2	3.0
Insurance Premium Tax		2.9	3.0
Bank Levy		2.7	2.2
Betting and gaming duties		2.3	2.3
Climate Change Levy	2.9.2	1.8	1.2
Landfill Tax		1.1	1.2
Aggregates Levy		0.4	0.3
Capital taxes - (UK Swiss Agreement)	2.9.3	0.1	0.5
Petroleum Revenue Tax*	2.9.4	0.0	1.1
<b>Total</b>		<b>27.2</b>	<b>25.3</b>

\* Repayments for Capital Gains Tax, Inheritance Tax and Petroleum Revenue Tax are made principally on a cash basis - these are recognised in the period the repayment is made.

Other taxes and duties accounted for five per cent of total revenue and increased eight per cent compared to 2013-14. Significant year-on-year changes are further explained below.

2.9.1 Capital Gains Tax (CGT) increased by 46 per cent, as a result of higher than expected equity, and land and property transaction values in 2013-14 leading to an increase in revenue for 2014-15.

2.9.2 Climate Change Levy (CCL) increased by 50 per cent, due to introduction of the Carbon Price Floor on 1 April 2013. This increased the tax liability of CCL operators who generate electricity by using gas and fossil fuels. This continued to have an impact on tax receipts for 2014-15

2.9.3 Capital Taxes - (UK Swiss Agreement). In October 2011, the UK and Switzerland finalised an agreement on tackling tax evasion. The UK-Swiss Agreement will cover tax liabilities in the years 2003-12 through both a payment for the past charge, and from 2014 onwards payment of a future withholding tax.

The decline in revenue was expected as revenue for current and future withholding tax liabilities would be significantly lower than the past charge element, which related to liabilities in years 2003-12.

2.9.4 Petroleum Revenue Tax (PRT) revenue is £46 million but does not appear in the table because financial information is rounded to the nearest £0.1 billion. PRT is a field-based tax charged on the profits arising from oil and gas production, and seeks to obtain the government share of the extra amount earned from the production (economic rent). It allows a project to rapidly recover its costs, then is taxed at an appropriate rate. This ensures the tax due is paid as early as possible. A significant fall in oil and gas prices combined with unplanned shutdowns and a continuing decline in production from older fields has led to a decrease in production income. There also continues to be a high level of capital expenditure due to maintenance and decommissioning costs.

These factors have contributed to lower profits and in some instances losses which have resulted in repayments to field operators. Revenue decreased by £1.1 billion when compared to 2013-14.

### 3. Other revenue, income and disbursements (additional information)

#### 3.1 National Insurance Contributions

For the year ended 31 March			
	Note	2015 £ bn	2014 £ bn
National Insurance Fund Great Britain (NIF GB)		84.0	84.0
National Insurance Fund Northern Ireland (NIF NI)		1.7	1.6
National Health Services (NHS)		22.3	21.1
<b>Total National Insurance Contributions (NICs)</b>		<b>108.0</b>	<b>106.7</b>
NICs losses	7.2	(0.5)	(0.6)
<b>NICs due to NIF and NHS</b>		<b>107.5</b>	<b>106.1</b>

National Insurance Contributions (NICs) are collected by HMRC on behalf of the National Insurance Funds (NIF) of Great Britain and Northern Ireland, and the Health Services for England, Wales, Scotland and Northern Ireland. NICs collected by Self Assessment was £2.6 billion and collection from other income tax revenue (including PAYE) was £105.4 billion. They are payable to the funds and the health services when received and not when accrued. Some elements are estimated (refer to Note 6 for further information).

National insurance classes 1A, 1B and 3 receipts are recognised in the accounting period in which the contributions are allocated.

NICs accounted for 21 per cent of total revenue and increased one per cent compared to 2013-14. The increase is due to the growth in the economy which has led to higher levels of employment and a subsequent increase in NICs.

#### 3.2 Appropriation of revenue to the Resource Accounts

Appropriations of revenue are made from the Trust Statement to fund tax credit payments which are accounted for within the Resource Accounts.

#### 3.3 Student Loan recoveries

	2015 £ m	2014 £ m
Balance at 1 April	(115)	65
Receipts - included in 'other revenue and income'	1,795	1,490
Payments made to Business Innovation and Skills	(1,540)	(1,670)
Adjustment for prior year estimates	(51)	-
<b>Balance at 31 March - Included in (receivables)/payables</b>	<b>89</b>	<b>(115)</b>

HMRC collects Student Loans on behalf of the Department for Business, Innovation and Skills (BIS). The majority of Student Loans are collected through the PAYE tax system. An element of Student Loans are collected through the Self Assessment tax system, which are accounted for on an estimated basis. A correcting adjustment has been made as previous estimates have differed from actual receipts. The balance at year-end is shown as a receivable or a payable.



### 3.4 Taxation due to or from the Isle of Man

Under the Isle of Man Act 1979, a revenue sharing agreement exists between the UK and the Isle of Man (IoM). As the IoM agreed share was more than the revenue collected and retained by the IoM, this resulted in the UK making payments to the IoM to ensure the IoM received the correct revenue – this will be shown as a disbursement. Where the IoM collect and retain more than the sharing agreement the IoM will make payments to the UK – this will be shown as other revenue and income.

## 4. Receivables and accrued revenue receivable (ARR)

	Receivables as at 31 March 2015 £ bn	Accrued revenue receivable as at 31 March 2015 £ bn	Total as at 31 March 2015 £ bn	Total as at 31 March 2014 £ bn
<b>Non-current assets</b>				
Receivables due after one year:				
Inheritance Tax	0.9	-	0.9	0.8
<b>Totals before impairment</b>	<b>0.9</b>	<b>-</b>	<b>0.9</b>	<b>0.8</b>
Less impairment	-	-	-	-
<b>Total non-current assets</b>	<b>0.9</b>	<b>-</b>	<b>0.9</b>	<b>0.8</b>
<b>Current assets</b>				
Receivables and ARR due within one year:				
Income tax	5.5	30.8	36.3	36.7
Value Added Tax	8.8	28.7	37.5	35.9
Corporation Tax	2.2	11.8	14.0	13.5
National Insurance Contributions	3.3	11.3	14.6	14.9
Other taxes and duties	5.3	7.1	12.4	11.8
<b>Totals before impairment</b>	<b>25.1</b>	<b>89.7</b>	<b>114.8</b>	<b>112.8</b>
Less impairment of receivable (note 7.3)	(8.5)	-	(8.5)	(6.6)
<b>Total current assets</b>	<b>16.6</b>	<b>89.7</b>	<b>106.3</b>	<b>106.2</b>
<b>Total assets</b>	<b>17.5</b>	<b>89.7</b>	<b>107.2</b>	<b>107.0</b>

Receivables represent all taxpayer liabilities that have been established, irrespective of whether due or overdue, for which payments have not been received at the Statement of Financial Position date.

Accrued revenue receivable represents amounts of taxes and duties relating to the financial year that are not yet due or received from taxpayers, where these have not been included in receivables and collection is reasonably certain. A proportion of these amounts have been estimated (see note 6).

In addition to receivables and accrued revenue receivables, HMRC has a number of taxpayer liabilities which have been postponed pending finalisation of enquiries. These items arise predominantly under income tax (PAYE/SA) and Corporation Tax. For most cases the revenue is excluded as it cannot be measured reliably and the probability of an economic flow to HMRC is viewed as low. However to ensure all appropriate liabilities are disclosed HMRC undertakes a review of material postponed Corporation Tax cases and an amount of £0.8 billion (2013-14: £0.7 billion) has been included in accrued revenue receivables.

## 5. Payables, accrued revenue payable and deferred revenue

	Payables as at 31 March 2015 £ bn	Accrued revenue payable as at 31 March 2015 £ bn	Deferred revenue as at 31 March 2015 £ bn	Total as at 31 March 2015 £ bn	Total as at 31 March 2014 £ bn
Value Added Tax	1.8	11.5	-	13.3	12.6
Corporation Tax	9.3	0.6	0.2	10.1	9.6
Income tax	0.1	3.1	-	3.2	2.9
National Insurance Funds and the NHS	3.7	14.6	-	18.3	16.7
Other revenue payables	0.4	-	0.8	1.2	0.7
Payments on account	2.1	-	-	2.1	1.8
<b>Total liabilities</b>	<b>17.4</b>	<b>29.8</b>	<b>1.0</b>	<b>48.2</b>	<b>44.3</b>

Payables are amounts recorded as due by HMRC at the end of the reporting period but payment has not been made. Accrued revenue payable is recognised when:

- amounts due to VAT traders that have an established revenue repayment claim relating to the financial year, but the date the claim is received is after the end of the reporting period
- amounts of receivables and accrued revenue receivable that when received will be passed to a third-party, e.g. National Insurance Contributions due to the National Insurance Funds and National Health Service
- amounts in respect of Corporation Tax, income tax and other small taxes likely to be repayable by HMRC pending finalisation of taxpayer liabilities, and for expected Corporation Tax overpayments.

Deferred revenue includes duties and taxes paid in the current year that relate to future accounting periods. There are no payables which fall due after one year.

### 5.1 Cash and cash equivalents

This amount reflects the net cash and cash equivalents position as at 31 March. The net position includes the cash held in HMRC bank accounts and payments HMRC has authorised to issue out but the money has not cleared through the banking process as at 31 March.

## 6. Accruals measurement and accounting estimates

The nature of tax legislation and our associated systems, mean that some of the accrued revenue receivable figures and some other items are subject to statistical estimation or forecasts. Because of the areas of uncertainty involved, actual outcomes could differ from the estimates used.

The underlying approach to accruals measurement is that revenues from taxation are deemed to accrue evenly over the period for which they are due. Revenues are recognised in the period in which the event that generates the revenue occurs.

Estimates have been made to support the accrued revenue receivable and payable balances where tax returns reporting taxpayer liabilities or associated tax payments are not filed until after the Trust Statement has been published. The estimates are consistent with those prepared for the March 2015 Budget on the basis of the economic assumptions provided by the Office for Budget Responsibility.

## 6.1 Uncertainty around the estimates

Statistical models are used to produce the estimates and these are based on a combination of projections based on the most recent revenue flows and forecasts of economic variables on which future revenue flows depend. The forecasts are based on what HMRC believes to be the relevant inputs. HMRC management believe that the levels of variation are acceptable, with a net uncertainty expected to be some £4 billion, which does not affect significantly the reported position and is less than one per cent of total revenue reported in the Statement of Revenue, Other Income and Expenditure.

This uncertainty is based on a combination of evidence from the performance of the models over previous years and takes into account the changes we've made to the models to reflect March 2015 Budget measures, the judgement of professional departmental economists, and statisticians having substantial experience of tax forecasting. The estimates process for each major tax stream is described in more detail below:

## 6.2 Income tax and National Insurance Class 1 collected under PAYE

Due to late or missing submissions and for receipts relating to prior periods where the split between income tax and NICs cannot be identified, some estimation of PAYE is required.

Estimates are also required to recognise underpayments as receivables or overpayments as payables identified during the end of year reconciliation of individual taxpayer accounts. These amounts have been estimated based upon previous experience of the levels of underpayments and overpayments from previous reconciliations as there are no alternative sources of data to draw from.

## 6.3 Self Assessment income tax and National Insurance Contributions Class 4

Accrued revenue receivable represents accrued tax liabilities for 2014-15 where payment is not yet due at 31 March 2015. The estimation process has three stages:

- (i) Estimation of accrued tax liabilities for 2014-15. Due to the nature of the Self Assessment regime, information from actual Self Assessment returns or associated tax payments relating to 2014-15 are not available at the point of estimation. The March 2015 Budget IT Self Assessment forecast has been revised slightly to incorporate the latest head of duty analysis results (see below for more information); the class 4 NICs forecast is as published at March 2015 Budget, as changes due to the latest head of duty analysis are very small.
- (ii) Deduction from the 2014-15 accrued tax liabilities of relevant payments by 31 March 2015. An estimate of these payments is provided by the 'head of duty analysis', a statistical apportionment of total Self Assessment receipts of income tax, NICs Class 4 and Capital Gains Tax.
- (iii) A further deduction for payments due by 31 March but not made by that date (these are included in the receivable balances). The amounts relate to payments on account due on 31 January. The breakdown of the total between income tax and NICs is made by statistical estimation.

## 6.4 Value Added Tax

A large amount of the VAT accrued revenue receivable and payable is based on actual data and is not therefore subject to estimation uncertainty. It is necessary to estimate a small percentage as some returns relating to the current financial year are not available prior to publication of these accounts. An estimate is produced by calculating the value of these returns last year as a proportion of the total value of the returns in the preceding period last year. Those proportions are then applied to the value of returns for the corresponding period this year.

Such a methodology provides a reliable indication of future accrued revenue receivable and payable, though there remains an element of estimation uncertainty around them. The total estimation uncertainty for all tax streams has been disclosed in note 6.1.

To construct final estimates of accrued revenue receivable and payable, a number of further adjustments need to be made so as to reflect VAT that is accounted for outside the process described above. These adjustments relate to import VAT, repayments made to government departments and officers' assessments of errors in submitted VAT returns. These are based largely on actual return information although some forecast element remains using the methodology described above.

## 6.5 Corporation Tax

Corporation Tax for large onshore companies is paid by four quarterly instalment payments (QIPs). North Sea companies pay their Corporation Tax liabilities in three instalment payments (TIPs). Therefore, separate accrued revenue receivable estimates have been calculated for onshore and North Sea companies.

### *Onshore companies*

Accrued revenue receivable has been estimated where between one and four QIPs for onshore companies have been received using a model that forecasts companies' Corporation Tax liabilities based on the number and value of QIPs received.

For accounting periods where no QIPs have been received, accrued revenue receivable has been estimated based on prior year outturn liabilities at a sectoral level adjusted for forecast growth in Corporation Tax liabilities.

Corporation Tax is assumed to accrue evenly throughout the companies' accounting periods. Assumptions for the proportions of companies' Corporation Tax liabilities that are remitted with each QIP and adjustments for overpayments and late payments of Corporation Tax liabilities are based on historical trends of Corporation Tax liabilities and receipts.

Accrued revenue payable has been estimated for expected overpayments based on historical trends.

### *North Sea companies*

The majority of TIPs relating to 1 January to 31 March are not due in sufficient time for publication of the accounts and are therefore estimated. This estimate is primarily based on prior year outturn liabilities adjusted for forecast growth in North Sea companies' Corporation Tax liabilities.

## 7. Impairment charges

Impairment charges are made up of revenue losses and the movement in the impairment of receivables.

### 7.1 Breakdown of impairment charges

For the year ended 31 March		2015	2014
	Note	£ bn	£ bn
Revenue losses	7.2	4.2	5.1
Increase/(decrease) in impairment of receivables	7.3	1.9	0.4
<b>Total impairment charges</b>		<b>6.1</b>	<b>5.5</b>

### 7.2 Revenue losses

For the year ended	Remissions	Write-offs	Total	Remissions	Write-offs	Total
	31 March	31 March	31 March	31 March	31 March	31 March
	2015	2015	2015	2014	2014	2014
	£ m	£ m	£ m	£ m	£ m	£ m
Income tax	181	868	1,049	378	1,290	1,668
Value Added Tax	10	1,426	1,436	70	1,611	1,681
Corporation Tax	5	580	585	9	431	440
Alcohol duties	3	70	73	4	40	44
Tobacco duties	1	2	3	2	3	5
Capital Gains Tax	8	32	40	14	26	40
National Insurance Contributions	66	396	462	141	538	679
Fines and penalties	91	343	434	15	525	540
Other remissions and write-offs	7	148	155	6	31	37
<b>Total revenue losses</b>	<b>372</b>	<b>3,865</b>	<b>4,237</b>	<b>639</b>	<b>4,495</b>	<b>5,134</b>

Revenue losses are made up of remissions and write-offs. Remissions are debts capable of recovery but HMRC has decided not to pursue the liability on the grounds of value for money. Write-offs are debts that are considered to be irrecoverable because there is no practical means for pursuing the liability.

For certain taxes only a partial split between remissions and write-offs is known. Where information is unavailable the percentage split of the known element is applied to the remainder to calculate a total estimated remission and write off split.

#### Revenue losses – cases more than £10 million (included in revenue losses table)

There were 27 cases (24 cases in 2013-14) where the loss exceeded £10 million, totalling £686 million (£510 million in 2013-14). Specific details are shown below:

There were eight write-offs (four cases in 2013-14) of VAT, interest, surcharge and penalties relating to Missing Trader Intra-Community Fraud (MTIC) more than £10 million each, totalling £158 million (£73 million in 2013-14). All MTIC cases are assessed to establish if there is potential to recover revenue and, where appropriate, proactive insolvency action is initiated.

There were 18 write-offs (20 in 2013-14) relating to insolvency of more than £10 million each. They were for VAT, Customs Duty, Corporation Tax, income tax and Excise Duty including interest, surcharge and penalties totalling £515 million (£437 million in 2013-14).

There was a bulk remission of £13 million for incorrect PAYE repayments/underpayments in respect of 47,547 cases. HMRC recognised this as an official error. The situation was caused by a one-off system error which has been resolved. The likelihood of recovery was low, and it was therefore not considered cost effective to pursue on a value for money basis.

The Governance Statement and the Tax Assurance Commissioner's report sets out the actions HMRC is taking to manage the risk of revenue losses in future years.

## 7.3 Impairment of receivables

For the year ended 31 March	2015 £ bn	2014 £ bn
Balance as at 1 April	6.6	6.2
Increase/(decrease) in impairment of receivables	1.9	0.4
<b>Balance as at 31 March</b>	<b>8.5</b>	<b>6.6</b>

Receivables in the Statement of Financial Position are reported after impairment, which is estimated based on HMRC's analysis of existing receivables and historical trends in debt recovery, losses, discharges, amendments and cancellations. The department assesses the collectability of receivables that are considered individually significant and the remainder are placed into groups of similar receivables, based on risk, and assessed collectively. The impairment of receivables is calculated to provide a fair value of receivables, in effect reducing them to a value that is likely to be collected and providing for non-collectable debt.

Each year HMRC review and enhance the impairments methodology based on the latest management information available to ensure a robust estimation process. This has been partially responsible for the increase in the impairment alongside the expected increase due to the growth in the receivable balance, which includes new VAT and excise assessments issued as a result of targeted compliance activity.

## 8. Provision for liabilities and contingent liabilities

Provisions are recognised when HMRC has a present legal or constructive obligation as a result of a past event, it is probable that HMRC will be required to settle that obligation and an amount can be reliably estimated.

Contingent liabilities are cases where it is probable that HMRC will be required to settle the obligation but is not able to estimate the amount reliably, or where it is only possible, rather than probable that HMRC will be required to settle the obligation. These are not disclosed where disclosure could seriously prejudice the outcome of legal claims against the department.

### Provision for liabilities

	Legal claims £ m	Oil and gas field decommissioning £ m	Total 2014-15 £ m	Total 2013-14 £ m
Balance at 1 April	5,390	3,072	8,462	8,019
Provided in the year	2,064	7,209	9,273	1,881
Provision not required written back	(55)	(2,623)	(2,678)	(996)
Provision utilised in the year	(218)	(189)	(407)	(442)
<b>Balance at 31 March</b>	<b>7,181</b>	<b>7,469</b>	<b>14,650</b>	<b>8,462</b>

## 8.1 Expenditure - movement in provisions

	Legal claims £ m	Oil and gas field decommissioning £ m	Total 2014-15 £ m	Total 2013-14 £ m
Provided in the year	2,064	7,209	9,273	1,881
Provision not required written back	(55)	(2,623)	(2,678)	(996)
<b>Net movement</b>	<b>2,009</b>	<b>4,586</b>	<b>6,595</b>	<b>885</b>

2013-14 oil and gas field decommissioning includes a Corporation Tax element and is for a five year provision covering the period 2014-15 to 2018-19 (see note 8.3.1).

## 8.2 Legal claims

### Provision for liability

HMRC is involved in a number of legal and other disputes which can result in claims by taxpayers against HMRC. It is in the nature of HMRC's business that a number of these matters may be the subject of litigation over several years. The department having taken legal and other specialist advice, has established a provision having regard to the relevant facts and circumstances of each matter in accordance with accounting requirements. The ultimate liability for such matters may vary from the amounts provided and is dependent upon the outcome of litigation proceedings, investigations and possible settlement discussions.

Provisions were reviewed during 2014-15. Of the sum of £5.4 billion provided last year £0.2 billion was paid out during the year and it was identified that £55 million was no longer required. New provisions and changes to existing provisions totalling £2.1 billion have been included, giving a carried forward balance of £7.2 billion - a £1.8 billion increase on last year. The table above shows the total provision we have made for more likely than not outcomes.

### Contingent liabilities

HMRC currently has 24 cases (21 cases in 2013-14) where the maximum potential tax revenue before losses, capital allowances and other reliefs, is more than £100 million. This covers a range of heads of duty, including Corporation Tax, income tax and VAT.

The total meeting the criteria for contingent liabilities is estimated at £35.6 billion (£29.2 billion as at 31 March 2014).

Contingent liabilities have increased by £6.4 billion since 2013-14. Of this increase, £3.2 billion is due to the revision and reclassification of estimates for cases currently in litigation, taking into account court decisions during the year. In addition, new cases have been identified with an estimated value of £3.2 billion.

## 8.3 Consequences of oil and gas field decommissioning on revenues from UK oil and gas exploration and production

The 1975 Oil Taxation Act, as subsequently amended, allows for Petroleum Revenue Tax (PRT) losses arising from the decommissioning of infrastructure associated with UK oil and gas fields subject to PRT, to be carried back indefinitely. As a result losses are carried back to years in which assessable profits chargeable to PRT arise, working backwards until the losses are exhausted.

Decommissioning oil and gas fields is a complex and resource intensive process, where the decision to decommission is affected by various factors, amongst which are improvements in extraction techniques, availability of contractors and market prices. Oil companies estimate the future cost of decommissioning their

fields and this information is aggregated in the Oil and Gas UK Activity Survey data. The long lead in time means that plans for decommissioning activity over the five year period to 2019-20 are largely in place. This period also corresponds with forecasts of tax revenues produced by the Office for Budget Responsibility. However, such data is inherently uncertain given the different approaches companies may take to assessing their costs and the profile of decommissioning activity. Beyond 2019-20 the picture is even less clear, but at today's prices the estimate for the period 2015 to 2041 is £41 billion. The Exchequer share of the liability for this period is estimated at £16 billion. A large part of this relief will not be realised in repayments, as it will be deducted from profits chargeable to tax and will serve to reduce tax liabilities.

### 8.3.1 Provision for decommissioning

We have revised our approach to estimating this provision, taking a longer term view and removing the Corporation Tax (CT) element. The CT losses are not ring-fenced to be used on specific platforms, as they are in PRT and the probability of any repayment being made is much less significant than for PRT. We expect the impact of the allowable losses due to decommissioning costs would be on the assessment of tax through the CT computation, rather than through repayments.

Industry estimates of decommissioning costs are assumed to be the best available, though where provisions are shown in oil company accounts, the considerable level of uncertainty inherent in the cost estimating process is made clear. From the Oil and Gas UK survey reports the total costs of decommissioning for the period 2015-16 to 2019-20 are estimated to be £9 billion and for the period 2020-21 to 2040-41 the estimate is £32 billion, in today's prices. From this information the impact on PRT tax receipts for the two periods is estimated to be a cost to the Exchequer of £1.7 billion and £5.8 billion respectively. The total amount of £7.5 billion (£3.1 billion in 2013-14) is included in the provision for liabilities table. The provision is subject to a considerable level of uncertainty, being calculated using oil and gas survey information, itself an aggregation of industry acknowledged uncertain data. In addition to uncertainties around the cost of decommissioning, the timing of when those costs will be incurred is also uncertain and will be dependent on factors such as oil prices, which will have a bearing on how long a field will be able to generate profit and, therefore, on when it will be decommissioned. The provision utilised in-year of £189 million is the actual Exchequer tax cost for 2014-15 and has been measured by identification of PRT repayments arising from the utilisation of decommissioning losses.

## 9. Certificates of tax deposits

	CTD issues 2014-15 £ m	CTD redemptions 2014-15 £ m	CTD Total 2014-15 £ m	CTD Total 2013-14 £ m
Receipts	867	593	1,460	933
Payments	(868)	(608)	(1,476)	(928)
Net receipts/(payments)	-	-	(16)	5
Balance at 1 April	-	-	-	(5)
<b>Balance at 31 March - Included in (receivables)/payables</b>			<b>(16)</b>	<b>-</b>

Under the Certificate of Tax Deposits (CTD) scheme, HMRC accepts deposits from people liable to UK taxes and other liabilities. Relevant taxes and liabilities can be found on the HMRC website ([www.gov.uk](http://www.gov.uk)). HMRC administers this scheme on behalf of HM Treasury, and the accounts of the National Loans Fund include the principal and accrued interest for all issued CTDs as at 31 March.

Delays in processing between the issue and redemption of CTDs and the transfer of funds to and from the National Loans Fund can result in balances at the year end; these balances are included within receivables or payables in the Statement of Financial Position in the Trust Statement.



## 10. R.N. Limited

R.N. Limited is a registered company that administers, on behalf of HMRC, the holding of charges securing tax debts owed to HMRC. These debts are already fully reflected in the Trust Statement.

R.N. Limited also holds on behalf of HMRC, assets that have been assigned to HMRC in settlement of debts. These are not recognised in the Trust Statement until realised. R.N. Limited's accounts can be viewed at Companies House.

## 11. Third-party assets

The department holds cash and other assets which have been seized in relation to ongoing legal proceedings. These assets do not belong to the department and do not form part of these accounts, although where seized assets are forfeited without legal proceedings, proceeds are recognised as penalty income.

The department also holds euro deposits in relation to traders who are located outside the European Union but who are trading electronically via the internet with EU member states. Neither the department nor the government generally have any beneficial interest in these funds.

## 12. Related party transactions

Due to the nature of HMRC's business, we have a large number of transactions, relating to taxation income, with other government departments and other central government bodies. No Board member, key manager or other related party has undertaken material transactions with the department during the year.

## 13. Events after the reporting period

There are no reportable non-adjusting events after the reporting period. The financial statements were authorised for issue by the Principal Accounting Officer on 16 July 2015.

# Accounts direction given by HM Treasury

## **Accounts direction given by HM Treasury in accordance with Section 2 of the Exchequer and Audit Departments Act 1921.**

1. This direction applies to those government departments listed in appendix 2.
2. The department shall prepare a Trust Statement ("the Statement") for the financial year ended 31 March 2015 for the revenue and other income, as directed by the Treasury, collected by the department as an agent for others, in compliance with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual by HM Treasury ("FReM") which is in force for 2014-15.
3. The Statement shall be prepared, as prescribed in appendix 1, so as to give a true and fair view of (a) the state of affairs relating to the collection and allocation of taxes, licence fees, fines and penalties and other income by the department as agent and of the expenses incurred in the collection of those taxes, licence fees, fines and penalties insofar as they can properly be met from that revenue and other income; (b) the revenue and expenditure; and (c) the cash flows for the year then ended.
4. The statement shall also be prepared so as to provide disclosure of any material expenditure or income that has not been applied to the purposes intended by Parliament or material transactions that have not conformed to the authorities which govern them.
5. When preparing the Statement, the department shall comply with the guidance given in the FReM (Chapter 8). The department shall also agree with HM Treasury the format of the Principal Accounting Officer's Foreword to the Statement, and the supporting notes, and the accounting policies to be adopted, particularly in relation to revenue recognition. Regard shall also be given to all relevant accounting and disclosure requirements in Managing Public Money and other guidance issued by HM Treasury, and to the principles underlying International Financial Reporting Standards.
6. Compliance with the requirements of the FReM will, in all but exceptional circumstances, be necessary for the accounts to give a true and fair view. If, in these exceptional circumstances, compliance with the requirements of the FReM is inconsistent with the requirement to give a true and fair view, the requirements of the FReM should be departed from only to the extent necessary to give a true and fair view. In such cases, informed and unbiased judgement should be used to devise an appropriate alternative treatment which should be consistent with both the economic characteristics of the circumstances concerned and the spirit of the FReM. Any material departure from the FReM should be discussed in the first instance with HM Treasury.
7. The Statement shall be transmitted to the Comptroller and Auditor General for the purpose of his examination and report by a date agreed with the Comptroller and Auditor General and HM Treasury to enable compliance with the administrative deadline for laying the audited accounts before Parliament before the summer recess.
8. The Trust Statement, together with this direction (but with the exception of the related appendices) and the report produced by the Comptroller and Auditor General under section 2 of the Exchequer and Audit Departments Act 1921 shall be laid before Parliament at the same time as the department's Resource Accounts for the year unless the Treasury have agreed that the Trust Statement may be laid at a later date.

Ross Campbell  
Deputy Director, Government Financial Reporting  
Her Majesty's Treasury  
18 December 2014

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# The Certificate and Report of the Comptroller and Auditor General to the House of Commons

I certify that I have audited the financial statements of HM Revenue and Customs for the year ended 31 March 2015 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Statements of Consolidated Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity, and the related notes. I have also audited the Statement of Parliamentary Supply and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

## Respective responsibilities of the Accounting Officer and auditor

As explained more fully in the *Foreword and Principal Accounting Officer's Responsibilities to the financial statements*, the Principal Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the department's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Accounting Officer; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals and that those totals have not been exceeded. The voted Parliamentary control totals are Departmental Expenditure Limits (Resource and Capital), Annually Managed Expenditure (Resource and Capital), Non-Budget (Resource) and Net Cash Requirement. I am also required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

## Basis for qualified opinion on regularity

The Resource Accounts record £29.1 billion of personal tax credits expenditure in 2014-15. As shown in Note 6.3 to the Resource Accounts, the department's latest estimate is that, in 2013-14, error and fraud resulted in overpayments of between £1.1 billion and £1.4 billion (3.9 per cent to 4.9 per cent) of the final award. These overpayments represent amounts which claimants were not entitled to have. Note 6.3 also shows that the department estimates that error led to underpayments of between £0.15 billion and £0.22 billion (0.5 per cent

to 0.8 per cent) of the final award. Where error and fraud result in over or underpayment of personal tax credits, the transactions do not conform with the Tax Credits Act 2002 and related regulations which specify the criteria for entitlement to personal tax credits and the method to be used to calculate the award.

The department currently has no estimate of the total level of error and fraud in the personal tax credits awards made in 2014-15 and therefore no evidence to demonstrate a lower estimate for overpayments and underpayments attributable to error and fraud in 2014-15. As a result, I have been unable to confirm that, in all material respects, personal tax credits awards conform with the authorities which govern them and have been applied for the purposes intended by Parliament.

I have therefore qualified my audit opinion on the regularity of personal tax credits expenditure because of:

- the probable level of overpayments attributable to error and fraud where payments have not been made for the purposes intended by Parliament; and
- the probable level of under and overpayments in personal tax credits expenditure which do not conform with the relevant authorities.

## Qualified opinion on regularity

In my opinion, except for the probable level of error and fraud in personal tax credits expenditure, in all material respects:

- the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2015 and shows that those totals have not been exceeded; and
- the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

## Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the department's affairs as at 31 March 2015 and of its net operating cost for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

## Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and
- the information given in the: *Foreword by Lin Homer*, the 'Performance' section of the Annual Report, the 'How we are structured' section of the Governance Statement, and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

## Report

My Report on HM Revenue and Customs 2014-15 Accounts, paragraphs 5.8 to 5.11, provides further information on the qualification of my audit opinion on the regularity of personal tax credits expenditure.

**Sir Amyas C E Morse**  
**Comptroller and Auditor General**  
National Audit Office  
157-197 Buckingham Palace Road  
Victoria  
London  
SW1W 9SP

16 July 2015

# Statement of Parliamentary Supply

In addition to the primary statements prepared under IFRS, the Government Financial Reporting Manual (*FReM*) requires HM Revenue and Customs to prepare a Statement of Parliamentary Supply (SOPS) and supporting notes to show resource outturn against the Supply Estimate presented to Parliament, in respect of each budgetary control limit.

A full breakdown of the lines of the Estimate which form the voted and non-voted totals below are shown in SOPS note 2.

Parliament also controls our expenditure by further categorising it between Departmental Expenditure Limits (DEL) and Annually Managed Expenditure (AME). DEL spending is tightly controlled by HM Treasury and firm multi-year plans are required whereas AME spending is demand led, more volatile and is not included in DEL controls.

## Summary of resource and capital outturn 2014-15

								2014-15 £m	2013-14 £m
	SOPS note	Voted Estimate	Non- voted Estimate	Total Estimate	Voted outturn	Non- voted outturn	Total outturn	Voted variance: saving	Total outturn
<b>Departmental Expenditure Limit</b>									
- Resource	2.1	3,216.3	302.1	3,518.4	3,135.2	328.9	3,464.1	81.1	3,645.4
- Capital	2.2	249.6	-	249.6	231.7	-	231.7	17.9	218.1
<b>Annually Managed Expenditure</b>									
- Resource	2.1	12,118.7	32,502.9	44,621.6	11,810.8	31,120.5	42,931.3	307.9	42,574.3
- Capital	2.2	1.0	-	1.0	-	-	-	1.0	0.2
<b>Total budget</b>		<b>15,585.6</b>	<b>32,805.0</b>	<b>48,390.6</b>	<b>15,177.7</b>	<b>31,449.4</b>	<b>46,627.1</b>	<b>407.9</b>	<b>46,438.0</b>
<b>Non-budget</b>									
- Resource	2.1	4,720.0	-	4,720.0	4,720.0	-	4,720.0	-	-
- Capital	2.2	-	-	-	-	-	-	-	-
<b>Total</b>		<b>20,305.6</b>	<b>32,805.0</b>	<b>53,110.6</b>	<b>19,897.7</b>	<b>31,449.4</b>	<b>51,347.1</b>	<b>407.9</b>	<b>46,438.0</b>
<b>Of which:</b>									
Total resource	2.1	20,055.0	32,805.0	52,860.0	19,666.0	31,449.4	51,115.4	389.0	46,219.7
Total capital	2.2	250.6	-	250.6	231.7	-	231.7	18.9	218.3
<b>Total</b>		<b>20,305.6</b>	<b>32,805.0</b>	<b>53,110.6</b>	<b>19,897.7</b>	<b>31,449.4</b>	<b>51,347.1</b>	<b>407.9</b>	<b>46,438.0</b>

### Net cash requirement 2014-15

SOPS note

			2014-15 £m	2013-14 £m
	Estimate	Outturn	Variance: saving	Outturn
4	<b>19,990.7</b>	<b>19,718.1</b>	<b>272.6</b>	<b>14,852.2</b>

### Administration costs 2014-15

			2014-15 £m	2013-14 £m
	Estimate	Outturn	Variance: saving	Outturn
3.2	<b>832.6</b>	<b>797.0</b>	<b>35.6</b>	<b>864.2</b>

Figures in the areas outlined in bold are voted totals subject to Parliamentary control. In addition, although not a separate voted limit, any breach of the administration budget will also result in an excess vote.

Explanations of material variances between the Estimate and outturn are provided in SOPS note 2 on page 130.

The notes on pages 125 to 133 and 138 to 176 form part of these accounts.

# Notes to the departmental Resource Accounts (Statement of Parliamentary Supply)

## SOPS 1. Statement of accounting policies

The Statement of Parliamentary Supply and supporting notes have been prepared in accordance with the 2014-15 Government Financial Reporting Manual (*FReM*) issued by HM Treasury. The Statement of Parliamentary Supply accounting policies contained in the *FReM* are consistent with the requirements set out in the 2014-15 Consolidated Budgeting Guidance and Supply Estimates Guidance Manual.

### SOPS 1.1 Accounting convention

The Statement of Parliamentary Supply and related notes are presented consistently with Treasury budget control and Supply Estimates. The aggregates across government are measured using National Accounts, prepared in accordance with the internationally agreed framework 'European System of Accounts' (ESA10). ESA10 is in turn consistent with the System of National Accounts (SNA93), which is prepared under the auspices of the United Nations.

The budgeting system, and the consequential presentation of Supply Estimates and the Statement of Parliamentary Supply and related notes, have different objectives to IFRS-based accounts. The system supports the achievement of macro-economic stability by ensuring that public expenditure is controlled, with relevant Parliamentary authority, in support of the government's fiscal framework. The system provides incentives to departments to manage spending well so as to provide high quality public services that offer value for money to the taxpayer.

The government's objectives for fiscal policy are set out in the Charter for Budget Responsibility. These are to ensure sustainable public finances that support confidence in the economy, promote intergenerational fairness, and ensure the effectiveness of wider government policy. In addition these objectives support and improve the effectiveness of monetary policy in stabilising economic fluctuations.

### SOPS 1.2 Comparison with IFRS-based accounts

Many transactions are treated in the same way in National Accounts and IFRS-based accounts, but there are a number of differences as described below. A reconciliation of the department's outturn as recorded in the Statement of Parliamentary Supply compared to the IFRS-based Consolidated Statement of Comprehensive Net Expenditure is provided in SOPS note 3.1.

#### SOPS 1.2.1 PFI and other service concession arrangements

The National Accounts basis for recognising service concession arrangements is broadly similar to UK-GAAP, applying a risk-based test to determine the financial reporting. IFRS-based recognition of service concession arrangements (IFRIC 12) is determined using control tests, which can result in a different on/off Statement of Financial Position treatment. With the introduction of IFRS accounting, properties that the department sold to private sector contractors and subsequently leased back under a PFI contract were capitalised as finance leases under IFRIC 12. However, these properties remain off the Statement of Financial Position for Estimate and budgeting and are treated as resource expenditure within the Statement of Parliamentary Supply.



As described in note 1.6.2, the department has capitalised both its short-term leases with third-party private landlords, which Mapeley manages on its behalf and its short-term leases held directly with third-party private landlords under IAS 17 *Leases* where the relevant conditions are met. These properties are on the Statement of Financial Position for accounting, Estimate and budgeting. The property, 100 Parliament Street, was included on the Statement of Financial Position prior to IFRS and as a result is also still included on the Statement of Financial Position for accounting, Estimate and budgeting. The difference in the Statement of Comprehensive Net Expenditure and Statement of Parliamentary Supply accounting treatment described in this paragraph can be seen as the IFRS asset costs adjustment in SOPS note 3.

As described in note 1.6.3 IT assets, IT non-current assets of our IT suppliers used in the delivery of the PPP contract have been capitalised as finance leases under IFRIC 12. These assets are however off Statement of Financial Position for Estimate and budgeting and are treated as resource expenditure within the Statement of Parliamentary Supply.

### **SOPS 1.2.2 Provisions – Administration and Programme expenditure**

Provisions recognised in IFRS-based accounts are not recognised as expenditure for National Accounts purposes until the actual payment of cash (or accrual liability) is recognised. To meet the requirements of both resource accounting and National Accounts, additional data entries are made in the Statement of Parliamentary Supply across AME and DEL control totals, which do not affect the Statement of Comprehensive Net Expenditure. As the Administration control total is a sub-category of DEL, Administration and Programme expenditure reported in the Statement of Parliamentary Supply will differ from that reported in the IFRS-based accounts.

## **SOPS 2. Net outturn**

The department requests funding from Parliament through the Supply Estimates process. This is a request to Parliament to fund our expenditure. The department is required to ensure that its expenditure remains within the voted limits set by Parliament and detailed below is how we performed against each line of the Estimate.

Voted expenditure includes the costs of running the department as well as payments to individuals for social benefits, payments in lieu of tax relief and certain rates payments made by the Valuation Office Agency. The department also makes payments to external parties which are not subject to the vote system. This non-voted expenditure mainly relates to personal tax credits, other reliefs including certain corporation tax credits and our costs in respect of the National Insurance Fund. Additionally for this year the department has been required to make non-budget payments to top up the National Insurance Fund.

The following tables record our actual outturn against the Estimate for DEL and AME, voted and non-voted, limits set by Parliament for each line of the Estimate. The tables analyse both resource and capital expenditure and are further summarised in the Statement of Parliamentary Supply.

## SOPS 2.1 Analysis of net resource outturn by section

	2014-15 £m										2013-14 £m
	Outturn							Estimate net total	Outturn total compared to Estimate net total saving/ (excess)	Outturn total compared to Estimate net total, adjusted for virements	Total outturn
	Administration			Programme			Total				
	Gross	Income	Net	Gross	Income	Net					
	Spending in Departmental Expenditure Limit										
Voted:											
A HMRC											
Administration	801.9	(95.3)	706.6	2,454.0	(54.0)	2,400.0	3,106.6	3,177.6	71.0	71.0	3,292.2
B VOA											
Administration	-	-	-	190.7	(193.1)	(2.4)	(2.4)	-	2.4	2.4	(2.1)
C Utilised provisions	18.8	-	18.8	12.2	-	12.2	31.0	38.7	7.7	7.7	33.2
Total voted	820.7	(95.3)	725.4	2,656.9	(247.1)	2,409.8	3,135.2	3,216.3	81.1	81.1	3,323.3
Non-voted:											
D National											
Insurance Fund	71.6	-	71.6	257.3	-	257.3	328.9	302.1	(26.8)	(26.8)	322.1
Total non-voted	71.6	-	71.6	257.3	-	257.3	328.9	302.1	(26.8)	(26.8)	322.1
Total spending in Departmental Expenditure Limit	892.3	(95.3)	797.0	2,914.2	(247.1)	2,667.1	3,464.1	3,518.4	54.3	54.3	3,645.4

## SOPS 2.1 Analysis of net resource outturn by section (continued)

											2014-15 £m	2013-14 £m
	Outturn							Estimate net total	Outturn total compared to Estimate net total saving/ (excess)	Outturn total compared to Estimate net total, adjusted for virements	Total outturn	
	Administration			Programme			Total					
	Gross	Income	Net	Gross	Income	Net						
<b>Spending in Annually Managed Expenditure Voted:</b>												
E Social benefits and grants	-	-	-	11,602.0	-	11,602.0	11,602.0	11,834.7	232.7	232.7	11,492.1	
F Providing payments in lieu of tax relief to certain bodies	-	-	-	99.7	-	99.7	99.7	98.1	(1.6)	0.4	76.4	
G Filing incentive payments	-	-	-	-	-	-	-	-	-	-	-	
H HMRC Administration	-	-	-	70.6	-	70.6	70.6	145.0	74.4	62.4	24.6	
I Payments to add capacity	-	-	-	2.7	-	2.7	2.7	8.0	5.3	5.3	-	
J VOA - payments of rates to local authorities on behalf of certain bodies	-	-	-	70.0	(4.1)	65.9	65.9	72.6	6.7	6.7	60.1	
K VOA Administration	-	-	-	1.0	-	1.0	1.0	-	(1.0)	-	0.8	
L Utilised provisions	-	-	-	(31.1)	-	(31.1)	(31.1)	(39.7)	(8.6)	0.4	(33.4)	
Total voted	-	-	-	11,814.9	(4.1)	11,810.8	11,810.8	12,118.7	307.9	307.9	11,620.6	
<b>Non-voted:</b>												
M Personal tax credits	-	-	-	29,123.2	-	29,123.2	29,123.2	30,492.0	1,368.8	1,368.8	29,329.2	
N Other reliefs and allowances	-	-	-	1,997.3	-	1,997.3	1,997.3	2,010.9	13.6	13.6	1,624.5	
Total non-voted	-	-	-	31,120.5	-	31,120.5	31,120.5	32,502.9	1,382.4	1,382.4	30,953.7	
<b>Total spending in Annually Managed Expenditure</b>												
	-	-	-	42,935.4	(4.1)	42,931.3	42,931.3	44,621.6	1,690.3	1,690.3	42,574.3	
<b>Non-budget expenditure Voted</b>												
O Payments to National Insurance Fund	-	-	-	4,720.0	-	4,720.0	4,720.0	4,720.0	-	-	-	
<b>Total non-budget spending</b>	-	-	-	4,720.0	-	4,720.0	4,720.0	4,720.0	-	-	-	
Total voted	820.7	(95.3)	725.4	19,191.8	(251.2)	18,940.6	19,666.0	20,055.0	389.0	389.0	14,943.9	
Total non-voted	71.6	-	71.6	31,377.8	-	31,377.8	31,449.4	32,805.0	1,355.6	1,355.6	31,275.8	
<b>Total</b>	<b>892.3</b>	<b>(95.3)</b>	<b>797.0</b>	<b>50,569.6</b>	<b>(251.2)</b>	<b>50,318.4</b>	<b>51,115.4</b>	<b>52,860.0</b>	<b>1,744.6</b>	<b>1,744.6</b>	<b>46,219.7</b>	

## SOPS 2.2 Analysis of net capital outturn by section

	2014-15 £m						2013-14 £m
	Outturn			Estimate net total	Outturn total compared to Estimate net total	Outturn total compared to Estimate net total, adjusted for virements	Total outturn
	Gross	Income	Net total				
<b>Spending in Departmental Expenditure Limit</b>							
<b>Voted:</b>							
A HMRC Administration	230.0	(6.0)	224.0	240.6	16.6	16.6	211.0
B VOA Administration	7.9	(0.2)	7.7	9.0	1.3	1.3	7.1
C Utilised provisions	-	-	-	-	-	-	-
Total voted	237.9	(6.2)	231.7	249.6	17.9	17.9	218.1
<b>Non-voted:</b>							
D National Insurance Fund	-	-	-	-	-	-	-
Total non-voted	-	-	-	-	-	-	-
<b>Total spending in Departmental Expenditure Limit</b>	<b>237.9</b>	<b>(6.2)</b>	<b>231.7</b>	<b>249.6</b>	<b>17.9</b>	<b>17.9</b>	<b>218.1</b>
<b>Spending in Annually Managed Expenditure</b>							
<b>Voted:</b>							
E Social benefits and grants	-	-	-	1.0	1.0	1.0	0.2
F Providing payments in lieu of tax relief to certain bodies	-	-	-	-	-	-	-
G Filing incentive payments	-	-	-	-	-	-	-
H HMRC Administration	-	-	-	-	-	-	-
I Payments to add capacity	-	-	-	-	-	-	-
J VOA - payments of rates to local authorities on behalf of certain bodies	-	-	-	-	-	-	-
K VOA Administration	-	-	-	-	-	-	-
L Utilised provisions	-	-	-	-	-	-	-
Total voted	-	-	-	1.0	1.0	1.0	0.2
<b>Non-voted:</b>							
M Personal tax credits	-	-	-	-	-	-	-
N Other reliefs and allowances	-	-	-	-	-	-	-
Total non-voted	-	-	-	-	-	-	-
<b>Total spending in Annually Managed Expenditure</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1.0</b>	<b>1.0</b>	<b>1.0</b>	<b>0.2</b>
<b>Non-budget expenditure</b>							
<b>Voted</b>							
O Payments to National Insurance Fund	-	-	-	-	-	-	-
Total non-budget spending	-	-	-	-	-	-	-
<b>Total spending</b>							
Total voted	237.9	(6.2)	231.7	250.6	18.9	18.9	218.3
Total non-voted	-	-	-	-	-	-	-
<b>Total</b>	<b>237.9</b>	<b>(6.2)</b>	<b>231.7</b>	<b>250.6</b>	<b>18.9</b>	<b>18.9</b>	<b>218.3</b>

The total resource outturn for the year was £51,185.1 million, £1,674.9 million (3.2 per cent) below the Estimate. The total capital outturn for the year was £231.7 million, £18.9 million (7.5 per cent) below the Estimate. Explanations of material variances between the Estimate and outturn are provided below.

### **Resource Departmental Expenditure Limit (DEL)**

B VOA Administration - outturn was a £2.4 million credit against a net £1,000 Estimate required by the Supply Estimates manual. This represents a small surplus from operating income.

C Utilised provisions - outturn was £7.7 million (19.9 per cent) less than the Estimate. Provisions are inherently unpredictable in terms of amount paid and the timing of settlements. HMRC have an established process in place to regularly review and monitor provisions. The underutilisation is driven by the unpredictable nature of, in particular, legal settlements against the department.

D National Insurance Fund - outturn was £26.8 million (8.9 per cent) more than the Estimate. HMRC undertook significant assurance work to ensure expenditure was accurately quantified and wholly appropriate to National Insurance work. This resulted in increased costs due to reviews of activity undertaken and inclusion of National Insurance work that had not previously been identified.

### **Resource Annually Managed Expenditure (AME)**

F Providing payments in lieu of tax relief to certain bodies - outturn was £1.6 million (1.6 per cent) more than the Estimate. This is due to an adjustment for prior-year gift aid claims.

H HMRC Administration - outturn was £74.4 million (51.3 per cent) less than the Estimate. This reflects changes in business planning.

K VOA Administration - outturn was £1.0 million more than the Estimate. This relates to provisions which are inherently unpredictable and consist of several legal cases and dilapidation claims.

L Utilised provisions - outturn was £8.6 million (21.7 per cent) less than the Estimate. Provisions are inherently unpredictable in terms of amount paid and the timing of settlements. HMRC have an established process in place to regularly review and monitor provisions. The underutilisation is driven by the unpredictable nature of, in particular, legal settlements against the department.

M Personal tax credits - outturn was £1,368.8 million (4.5 per cent) less than the Estimate. This is because payments are driven by entitlement and demand and fluctuate throughout the year, as well as an increase in debt recovery rates.

## SOPS 3. Reconciliation of outturn to net operating cost and against Administration budget

### SOPS 3.1 Reconciliation of net resource outturn to net operating cost

This note reconciles the net resource outturn from SOPS note 2.1 to the net operating cost in the Statement of Comprehensive Net Expenditure (SoCNE). Reconciling items are treated differently between the Statement of Parliamentary Supply (SOPS) and the SoCNE and these are explained in further detail in the SOPS statement of accounting policies note 1.2.

#### Reconciliation of net resource outturn to net operating cost

	SOPS note	2014-15 £m Outturn	2013-14 £m Outturn
Total resource outturn in the Statement of Parliamentary Supply			
Budget	2.1	46,395.4	46,219.7
Non-budget - additional payments to the National Insurance Fund	2.1	4,720.0	-
		<b>51,115.4</b>	<b>46,219.7</b>
Add: Capital spend - Child Trust Fund	2.2	-	0.2
IFRS asset costs		3.0	9.6
		<b>3.0</b>	<b>9.8</b>
Less: Income payable to the Consolidated Fund		(2.2)	(0.9)
		<b>(2.2)</b>	<b>(0.9)</b>
<b>Net operating costs in Consolidated Statement of Comprehensive Net Expenditure</b>		<b>51,116.2</b>	<b>46,228.6</b>

### SOPS 3.2 Outturn against final Administration budget and Administration net operating cost

This note reports the net Administration costs outturn and the Administration budget from the Statement of Parliamentary Supply. It provides a reconciliation of the net Administration costs outturn to the net Administration costs in the SoCNE. The reconciling items relate to PFI contracts and government accounting for provisions and these are explained in further detail in the SOPS statement of accounting policies note 1.2.

#### Outturn against final Administration budget and Administration net operating cost

	2014-15 £m	2013-14 £m
Estimate - Administration costs limit	<b>832.6</b>	<b>880.3</b>
Outturn - gross Administration costs	892.3	932.7
Outturn - gross income relating to Administration costs	(95.3)	(68.5)
Outturn - net Administration costs	<b>797.0</b>	<b>864.2</b>
Reconciliation to the Statement of Comprehensive Net Expenditure		
Adjustments:		
provisions utilised (transfer from Programme)	(18.8)	(26.2)
Administration IFRS asset costs	24.7	28.3
Consolidation adjustments	1.9	1.8
Administration income payable to the Consolidated Fund	(1.7)	-
<b>Net Administration costs in the Consolidated Statement of Comprehensive Net Expenditure</b>	<b>803.1</b>	<b>868.1</b>

## SOPS 4. Reconciliation of net resource outturn to net cash requirement

This note reconciles the net resource outturn to the net cash requirement in the Statement of Parliamentary Supply, showing the adjustments for non cash items, movements in the Statement of Financial Position and other adjustments which include funding other than from the Consolidated Fund.

### Reconciliation of net resource outturn to net cash requirement

	SOPS note	Estimate £m	Outturn £m	Outturn compared to Estimate: saving/(excess) £m
<b>Resource outturn</b>	2.1	52,860.0	51,115.4	1,744.6
<b>Capital outturn</b>	2.2	250.6	231.7	18.9
<b>Accruals to cash adjustments:</b>				
<i>Adjustments to remove non-cash items:</i>				
Depreciation and amortisation		(254.7)	(275.8)	21.1
New provisions and adjustments to previous provisions		(145.0)	(67.4)	(77.6)
Other non-cash items		(2.3)	(11.5)	9.2
<i>Adjustments to reflect movements in working balances:</i>				
Increase/(decrease) in inventories		-	0.1	(0.1)
Increase/(decrease) in receivables		(64.8)	529.7	(594.5)
(Increase)/decrease in payables		112.2	(124.9)	237.1
Use of provisions		39.7	31.1	8.6
<b>Removal of non-voted budget items</b>				
Other adjustments <sup>1</sup>		(32,805.0)	(31,710.3)	(1,094.7)
<b>Net cash requirement</b>		<b>19,990.7</b>	<b>19,718.1</b>	<b>272.6</b>

<sup>1</sup> This primarily includes funding from the Trust Statement in respect of tax credits, funding from the National Insurance Fund in respect of costs of administering and collecting National Insurance contributions and adjustments for IFRS assets.

Explanations of material variances between the Estimate and outturn are provided below.

New provisions and adjustments to previous provisions - varied by £77.6 million from the Estimate. This reflects changes in business planning.

Receivables - varied by £594.5 million from the Estimate, largely due to an increase in personal tax credit receivables of £470.5 million.

Payables - varied by £237.1 million from the Estimate, largely due to an increase in corporation tax relief payables of £294.3 million.

Other adjustments - varied by £1,094.7 million, largely due to £1,368.8 million reduced expenditure on personal tax credits because payments are driven by entitlement and demand and fluctuate throughout the year, as well as an increase in debt recovery rates.

## SOPS 5. Income payable to the Consolidated Fund

### SOPS 5.1 Analysis of income payable to the Consolidated Fund

In addition to income retained by the department, the following income is payable to the Consolidated Fund (*cash receipts being shown in italics*). This consists of income types that government rules do not allow the department to keep for its own use.

#### Analysis of income payable to the Consolidated Fund

	Outturn 2014-15 £m		Outturn 2013-14 £m	
	Income	Receipts	Income	Receipts
Income outside the ambit of the Estimate	(2.2)	<i>(2.2)</i>	(0.9)	<i>(0.9)</i>
Excess cash surrenderable to the Consolidated Fund	-	-	-	-
<b>Total amount payable to the Consolidated Fund</b>	<b>(2.2)</b>	<b><i>(2.2)</i></b>	<b>(0.9)</b>	<b><i>(0.9)</i></b>

### SOPS 5.2 Consolidated Fund income

Consolidated Fund income shown in SOPS note 5.1 above does not include any amounts collected by the department where it was acting as agent of the Consolidated Fund rather than as principal. Full details of income collected as agent for the Consolidated Fund are in the department's Trust Statement, see pages 98 to 119.



# Consolidated Statement of Comprehensive Net Expenditure

for the year ended 31 March 2015

This account summarises the expenditure and income generated and consumed on an accruals basis. It also includes other comprehensive income and expenditure, which include changes to the values of non-current assets and other financial instruments that cannot yet be recognised as income or expenditure.

## Consolidated Statement of Comprehensive Net Expenditure

			2014-15 £m		2013-14 £m
	Note	Core department	Core department and agency	Core department	Core department and agency
<b>Administration costs</b>					
Staff costs	3	312.6	312.6	309.7	309.7
Other costs	4	585.7	585.6	625.0	625.0
Income	7	(97.0)	(95.1)	(68.5)	(66.6)
		<b>801.3</b>	<b>803.1</b>	<b>866.2</b>	<b>868.1</b>
<b>Programme expenditure</b>					
Staff costs	3	1,726.3	1,863.1	1,819.4	1,956.8
Other costs	5	43,858.7	43,970.7	43,541.7	43,649.4
Additional payments to the National Insurance Fund	5	4,720.0	4,720.0	-	-
Income	7	(54.5)	(240.7)	(57.6)	(245.7)
		<b>50,250.5</b>	<b>50,313.1</b>	<b>45,303.5</b>	<b>45,360.5</b>
<b>Net operating costs for the year ended 31 March</b>		<b>51,051.8</b>	<b>51,116.2</b>	<b>46,169.7</b>	<b>46,228.6</b>
Total expenditure		51,203.3	51,452.0	46,295.8	46,540.9
Total income		(151.5)	(335.8)	(126.1)	(312.3)
<b>Net operating costs for the year ended 31 March</b>		<b>51,051.8</b>	<b>51,116.2</b>	<b>46,169.7</b>	<b>46,228.6</b>
<b>Other comprehensive net expenditure</b>					
<b>Items that will not be reclassified to net operating costs:</b>					
Net (gain)/loss on:					
- revaluation of property, plant and equipment		(94.5)	(94.9)	-	-
- revaluation of intangibles		(26.4)	(26.8)	(17.8)	(18.1)
<b>Total comprehensive net expenditure for the year ended 31 March</b>		<b>50,930.9</b>	<b>50,994.5</b>	<b>46,151.9</b>	<b>46,210.5</b>

The notes on pages 138 to 176 form part of these accounts.

# Consolidated Statement of Financial Position

as at 31 March 2015

This statement presents the financial position of the department. It comprises three main components: assets owned or controlled; liabilities owed to other bodies; and equity, the remaining value of the entity.

## Consolidated Statement of Financial Position

		2014-15 £m Core department and agency	2013-14 £m Core department and agency
Note	Core department		
<b>Non-current assets:</b>			
Property, plant and equipment	8	520.2	455.5
Intangible assets	9	1,184.7	1,172.6
Financial assets	12,13	-	-
Receivables	16	1,740.6	1,467.5
<b>Total non-current assets</b>		<b>3,445.5</b>	<b>3,095.6</b>
<b>Current assets:</b>			
Inventories	14	-	-
Trade and other receivables	16	1,314.3	1,049.4
Financial assets	12,13	-	-
Cash and cash equivalents	15	6.8	4.5
<b>Total current assets</b>		<b>1,321.1</b>	<b>1,053.9</b>
<b>Total assets</b>		<b>4,766.6</b>	<b>4,149.5</b>
<b>Current liabilities:</b>			
Trade and other payables	17	(2,800.7)	(2,682.5)
Provisions	18	(100.1)	(78.9)
<b>Total current liabilities</b>		<b>(2,900.8)</b>	<b>(2,761.4)</b>
<b>Non-current assets plus/less net current assets/liabilities</b>		<b>1,865.8</b>	<b>1,388.1</b>
<b>Non-current liabilities:</b>			
Provisions	18	(50.9)	(35.6)
Pension liability	19	-	-
Other payables	17	(311.1)	(334.9)
Financial liabilities	12	-	-
<b>Total non-current liabilities</b>		<b>(362.0)</b>	<b>(370.5)</b>
<b>Total assets less liabilities</b>		<b>1,503.8</b>	<b>1,017.6</b>
<b>Taxpayers' equity and other reserves:</b>			
General fund		1,304.2	894.1
Revaluation reserve		199.6	123.5
Pension reserve		-	-
<b>Total equity</b>		<b>1,503.8</b>	<b>994.4</b>

**Lin Homer**

Principal Accounting Officer

15 July 2015

The notes on pages 138 to 176 form part of these accounts.

# Consolidated Statement of Cash Flows

for the year ended 31 March 2015

The Statement of Cash Flows shows the changes in cash and cash equivalents of the department during the reporting period. The statement shows how the department generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of service costs and the extent to which these operations are funded by way of income from the recipients of services provided by the department. Investing activities represent the extent to which cash inflows and outflows have been made for resources which are intended to contribute to the department's future public service delivery. Cash flows arising from financing activities include Parliamentary Supply and other cash flows.

## Consolidated Statement of Cash Flows

	Note	2014-15 £m	2013-14 £m
<b>Cash flows from operating activities</b>			
Net operating cost	SOPS 3.1	(51,116.2)	(46,228.6)
Adjustments for non-cash transactions	4,5	354.7	300.1
(Increase)/decrease in trade and other receivables		(529.7)	(401.6)
<i>less movements in receivables relating to items not passing through the Statement of Comprehensive Net Expenditure</i>		-	-
(Increase)/decrease in inventories	14	(0.1)	(0.2)
Increase/(decrease) in trade and other payables		95.0	711.1
<i>less movements in payables relating to items not passing through the Statement of Comprehensive Net Expenditure</i>		29.9	19.1
Use of provisions	18	(31.1)	(33.4)
<b>Net cash outflow from operating activities</b>		<b>(51,197.5)</b>	<b>(45,633.5)</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	8	(40.3)	(38.5)
Purchase of intangible assets	9	(197.5)	(181.8)
Proceeds of disposal of property, plant and equipment		0.6	0.2
Proceeds of disposal of intangible assets		-	-
<b>Net cash outflow from investing activities</b>		<b>(237.2)</b>	<b>(220.1)</b>
<b>Cash flows from financing activities</b>			
From the Consolidated Fund (Supply)- current year		19,719.5	14,850.4
From the Consolidated Fund (Supply)- prior year		-	-
From the Consolidated Fund (non-Supply)		-	-
From the Trust Statement		31,432.8	30,678.0
From the National Insurance Fund		319.6	357.0
Capital element of payments in respect of finance leases and on-Statement of Financial Position PFI contracts		(33.6)	(32.7)
<b>Net financing</b>		<b>51,438.3</b>	<b>45,852.7</b>
<b>Net increase/(decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund</b>		<b>3.6</b>	<b>(0.9)</b>
Payments of amounts due to the Consolidated Fund		(0.5)	(0.9)
<b>Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund</b>		<b>3.1</b>	<b>(1.8)</b>
<b>Cash and cash equivalents at the beginning of the period</b>	15	<b>22.6</b>	<b>24.4</b>
<b>Cash and cash equivalents at the end of the period</b>	15	<b>25.7</b>	<b>22.6</b>

The notes on pages 138 to 176 form part of these accounts.

# Consolidated Statement of Changes in Taxpayers' Equity

for the year ended 31 March 2015

This statement shows the movement in the year on the different reserves held by the department, analysed into General Fund, revaluation and pension reserves. The General Fund represents the total assets less liabilities of the department, to the extent that it is not represented by other reserves and financing items. The revaluation reserve reflects the change in asset values that have not been recognised as income or expenditure.

## Consolidated Statement of Changes in Taxpayers' Equity

	Note	Core department				Core department and agency			
		General Fund	Revaluation reserve <sup>1</sup>	Pension reserve	Total reserves	General Fund	Revaluation reserve <sup>2</sup>	Pension reserve	Total reserves
		£m	£m	£m	£m	£m	£m	£m	£m
<b>Balance at 31 March 2013</b>		<b>1,240.6</b>	<b>130.3</b>	<b>-</b>	<b>1,370.9</b>	<b>1,253.7</b>	<b>131.7</b>	<b>(33.0)</b>	<b>1,352.4</b>
Net Parliamentary funding - drawn down		14,788.0	-	-	14,788.0	14,850.4	-	-	14,850.4
Net Parliamentary funding - deemed		11.9	-	-	11.9	24.3	-	-	24.3
Funding from Trust Statement <sup>3</sup>		30,678.0	-	-	30,678.0	30,678.0	-	-	30,678.0
National Insurance Fund		324.1	-	-	324.1	324.1	-	-	324.1
Supply (payable)/receivable adjustment		(4.4)	-	-	(4.4)	(22.5)	-	-	(22.5)
CFERs payable to the Consolidated Fund <sup>4</sup>	SOPS 5	(0.9)	-	-	(0.9)	(0.9)	-	-	(0.9)
Comprehensive net expenditure for the year		(46,169.7)	17.8	-	(46,151.9)	(46,228.6)	18.1	-	(46,210.5)
<b>Non-cash adjustments</b>									
Non-cash charges - auditor's remuneration	4,5	1.9	-	-	1.9	2.0	-	-	2.0
<b>Movements in reserves</b>									
Transfer between reserves		24.6	(24.6)	-	-	26.9	(25.1)	(1.8)	-
Pension reserve actuarial (losses)/gains		-	-	-	-	-	-	(2.9)	(2.9)
<b>Balance at 31 March 2014</b>		<b>894.1</b>	<b>123.5</b>	<b>-</b>	<b>1,017.6</b>	<b>907.4</b>	<b>124.7</b>	<b>(37.7)</b>	<b>994.4</b>
Net Parliamentary funding - drawn down		19,654.8	-	-	19,654.8	19,719.5	-	-	19,719.5
Net Parliamentary funding - deemed		4.4	-	-	4.4	22.5	-	-	22.5
Funding from Trust Statement <sup>3</sup>		31,432.8	-	-	31,432.8	31,432.8	-	-	31,432.8
National Insurance Fund		330.5	-	-	330.5	330.5	-	-	330.5
Supply (payable)/receivable adjustment		(5.0)	-	-	(5.0)	(23.9)	-	-	(23.9)
CFERs payable to the Consolidated Fund <sup>4</sup>	SOPS 5	(2.2)	-	-	(2.2)	(2.2)	-	-	(2.2)
Comprehensive net expenditure for the year		(51,051.8)	120.9	-	(50,930.9)	(51,116.2)	121.7	-	(50,994.5)
<b>Non-cash adjustments</b>									
Non-cash charges - auditor's remuneration	4,5	1.8	-	-	1.8	1.9	-	-	1.9
<b>Movements in reserves</b>									
Transfer between reserves		44.8	(44.8)	-	-	47.0	(45.4)	(1.6)	-
Pension reserve actuarial (losses)/gains		-	-	-	-	-	-	(17.4)	(17.4)
Contributions to LGPS pension fund by DWP		-	-	-	-	-	-	48.0	48.0
<b>Balance at 31 March 2015</b>		<b>1,304.2</b>	<b>199.6</b>	<b>-</b>	<b>1,503.8</b>	<b>1,319.3</b>	<b>201.0</b>	<b>(8.7)</b>	<b>1,511.6</b>

<sup>1</sup> The 31 March 2015 core department revaluation reserve balance comprised £73.2 million in relation to intangible assets (31 March 2014 £67.7 million, 1 April 2013 £74.5 million).

<sup>2</sup> The 31 March 2015 consolidated revaluation reserve balance comprised £74.2 million in relation to intangible assets (31 March 2014 £68.9 million, 1 April 2013 £75.7 million).

<sup>3</sup> Personal tax credits and corporation tax reliefs are funded out of tax receipts from the Trust Statement, where these payments are shown as disbursements. Please see the Trust Statement, page 101

<sup>4</sup> This does not include amounts in the department's Trust Statement.

The notes on pages 138 to 176 form part of these accounts.

# Notes to the departmental Resource Accounts

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Notes to the financial statements provide additional information required by statute and accounting standards to explain a particular feature of the financial statements. The notes which follow will also provide explanations and additional disclosure to assist readers' understanding and interpretation of the financial statements.

## 1. Statement of accounting policies

### 1.1 Basis of accounting

These financial statements have been prepared in accordance with the 2014-15 *Government Financial Reporting Manual (FReM)* issued by HM Treasury. The accounting policies contained in the *FReM* apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. The Resource Account is prepared on a going concern basis.

Where the *FReM* permits a choice of accounting policy, the one which is judged to be most appropriate to the particular circumstances of HM Revenue and Customs for the purpose of giving a true and fair view has been selected. The particular policies adopted by us are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

In addition to the primary statements prepared under IFRS, the *FReM* also requires the department to prepare the Statement of Parliamentary Supply and supporting notes which show outturn against Estimate in terms of the net resource requirement and the net cash requirement.

### 1.2 Accounting convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of property, plant and equipment, intangible assets and certain financial assets and liabilities.

### 1.3 Basis of consolidation

These accounts comprise a consolidation of the core department and departmental Agency (Valuation Office Agency) which fall within the departmental boundary as defined in the *FReM* and make up the 'Departmental Group'. Transactions between the core department and the Valuation Office Agency (VOA) included in the consolidation are eliminated.

### 1.4 Tax credits

#### 1.4.1 Personal tax credits

Personal tax credits expenditure is recognised in the financial year in which claims are assessed and awards authorised. Authorisation is the point at which the obligation to pay personal tax credits arises; payments are provisional until entitlement is finalised after the financial year end. Expenditure recognised during the financial year (1 April to 31 March) relates to provisional awards for the current award year (6 April to 5 April) and adjustments in respect of an estimate of the finalisation occurring following the year end. The department's statisticians provide a range for the likely outcome of the finalisations and the mid-point of this range has been included as a receivable in the Account.

Where under or overpayments are identified, either during the award year or subsequently, adjustments are made to expenditure. Receivables and payables are recognised as appropriate. Correcting payments are made in respect of underpayments, however if a customer has an existing receivable balance the underpayment is offset against the receivable. Overpayments are treated as other receivables and the department seeks to recover these from future personal tax credits awards or through direct repayments. Further details relating to the accounting for personal tax credits receivables are provided at note 1.16 and note 6.

#### 1.4.2 Corporation tax reliefs

The value of corporation tax reliefs (see note 6.4) is estimated, based on the most recent data available. The basis of the estimation is, where available, derived from claims recorded on companies' returns for their accounting period which ended in the relevant HMRC financial year or based on other appropriate forecasting methodology. The filing requirements for companies are such that these returns are not due until 12 months after the accounting period end and consequently historic claims are utilised to project forward to the current year taking into account forecast growth rates and planned changes in relevant tax policy and rates.

### 1.5 Child Benefit

Child Benefit payments are accounted for from the time a claim for Child Benefit is approved.

Where under or overpayments are identified, adjustments are made to expenditure. Where possible, overpayments are recovered from future benefit entitlements. Receivables which are deemed irrecoverable are written-off in accordance with the department's normal remission policy, and recorded as losses or remissions as appropriate.

### 1.6 Property, plant and equipment

#### 1.6.1 General

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses, in accordance with IAS 16 *Property, Plant and Equipment*. A £5,000 capitalisation threshold applies to all property, plant and equipment except for furniture, vehicles and IT hardware, which are capitalised regardless of cost and accommodation refurbishments which are capitalised once costs exceed £150,000. Assets capitalised under finance leases are recorded at the lower of fair value and the present value of the minimum lease payments, at the inception of the contract, in accordance with IAS 17 *Leases*.

On initial recognition assets are measured at cost including any costs such as installation directly attributable to bringing them into working condition. Assets under construction are recorded at cost. Non-property assets are valued on a depreciated historical cost basis as a proxy for fair value had indices been applied, as they are of low value with short lives.

#### 1.6.2 Property assets

Where substantially all risks and rewards of ownership of a leased asset are borne by the department, the asset is recognised and recorded at the lower of fair value and the present value of the minimum lease payments, at the inception of the lease. The interest element of the finance lease payment is charged to expenditure over the period of the lease at a constant rate in relation to the balance outstanding.

Private Finance Initiative (PFI) transactions have been accounted for in accordance with IFRIC 12 *Service Concession Arrangements*, and where the department has control within the contract and a material residual interest, the property is recognised as a non-current asset and the liability to pay for it is accounted for as a

finance lease. Contract payments are apportioned between a Consolidated Statement of Comprehensive Net Expenditure service charge and a Consolidated Statement of Financial Position finance lease liability.

The majority of the freehold and leasehold property assets occupied by HMRC were acquired from the predecessor departments by Mapeley STEPS Contractor Ltd in March 2001 under a 20 year PFI contract (see note 11.3). These assets have been capitalised as finance leases under IFRIC 12. The buildings only have been treated as finance leases and the related land has been treated as operating leases. The department has also capitalised other PFI property interests as finance leases being service concession arrangements under IFRIC 12. The department has capitalised both its short-term leases with third-party private landlords which Mapeley manages on its behalf, and its short-term leases held directly with third-party private landlords under IAS 17 where the relevant conditions are met.

Property assets have been stated at fair value using professional valuation on a rolling five year programme, all assets will be professionally revalued within this time period.

### **1.6.3 IT assets**

The IT non-current assets recognised by our IT partners and used in providing the IT service to the department have been capitalised as finance leases under IFRIC 12 and are disclosed at the lower of fair value and the present value of the minimum lease payments, at the inception of the contract. It is not possible to separate these assets between the core department and the Valuation Office Agency as they are used in common to deliver the service. These joint assets are held by the core department and are treated as an operating lease by the Valuation Office Agency. Whilst consolidated figures will report the correct aggregate position this difference in approach is to be noted. Where related figures are reported separately for the core department and the Valuation Office Agency, there is no material impact on figures reported.

### **1.6.4 Tangible assets under construction**

Assets under construction are separately reported in note 8. Costs are accumulated until the asset is available for use whereupon it is transferred to the relevant asset class and depreciation commences.

## **1.7 Intangible assets**

### **1.7.1 Developed computer software**

Computer software that has been developed by the department and its IT service partners, and for which the department has ownership rights has been capitalised. This capitalisation includes the staff costs for developing, integrating and testing IT software in the development of the programs. Annually where appropriate, indices are applied to developed computer software which have not been formally valued during the year.

### **1.7.2 Intangible assets under construction**

Intangible assets under construction relate to software development and are separately reported in note 9. Costs are accumulated until the asset is available for use whereupon it is transferred to the relevant asset class and amortisation commences.

## 1.8 Depreciation

Non-current assets are depreciated at rates calculated to write them down to estimated residual values on a straight-line basis over their estimated useful lives. Asset lives are normally in the following ranges:

### 1.8.1

Asset category - property, plant and equipment	Estimated useful life
Land	Not depreciated
Freehold buildings	50 years
Leased serviced accommodation	Period of the lease
Leased IT assets	Period of the lease
Accommodation refurbishments	Period of the lease
Office equipment	5 to 20 years
Computer equipment	5 to 7 years
Vehicles	5 to 8 years
Furniture and fittings	15 years
Scientific aids	3 to 10 years

### 1.8.2

Asset category - intangible assets	Estimated useful life
Developed computer software	10 years unless known to be otherwise
Software licences	Period of the licence
Website development costs	10 years unless known to be otherwise

## 1.9 Administration and Programme expenditure

The Statement of Comprehensive Net Expenditure is analysed between Administration and Programme, income and expenditure. The classification of expenditure and income as Administration or as Programme follows the definition agreed with HM Treasury. Definitions of Administration and Programme are included in the glossary.

## 1.10 Pensions

### 1.10.1 Principal Civil Service Pension Scheme

The defined benefit scheme within the Principal Civil Service Pension Scheme (PCSPS) is unfunded and is contributory. The department recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS.

### 1.10.2 Local Government Pension Scheme

A number of the Valuation Office Agency employees are members of the Local Government Pension Scheme. Further information can be found within the Valuation Office Agency accounts (HC 143) that can be viewed at [www.gov.uk/government/organisations/valuation-office-agency](http://www.gov.uk/government/organisations/valuation-office-agency).



## 1.11 Provisions

Under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, the department provides for legal or constructive obligations which are of uncertain timing or amount at the date of the Consolidated Statement of Financial Position, on the basis of the best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is significant, the estimated risk-adjusted cash flows are discounted using the real rates set by HM Treasury.

## 1.12 Early departure costs

The department is required to meet the additional cost of benefits beyond the normal PCSPS benefits in respect of employees who have taken early departure or retirement under the Civil Service Compensation Scheme. The department has made provision in full for early retirement costs. The estimated risk-adjusted cash flows are discounted at 1.3 per cent as set by HM Treasury (2013-14: 1.8 per cent).

## 1.13 Contingent liabilities

In addition to contingent liabilities disclosed in accordance with IAS 37, the department discloses for Parliamentary reporting and accountability purposes certain statutory and non-statutory contingent liabilities where the likelihood of a transfer of economic benefit is remote, but which have been reported to Parliament in accordance with the requirements of *Managing Public Money*.

Where the time value of money is material, contingent liabilities which are required to be disclosed under IAS 37 are stated at discounted amounts and the amount reported to Parliament separately noted. Contingent liabilities that are not required to be disclosed by IAS 37 are stated at the amounts reported to Parliament.

## 1.14 Value Added Tax (VAT)

Most of the activities of the department are outside the scope of VAT. A proportion of the activities of the department will attract VAT, and output VAT will apply in these circumstances. The department also has recoverable and non-recoverable elements for input tax on purchases. Some purchase VAT on a restricted number of services is recovered under Section 41 of the VAT Act 1994 and in accordance with the HM Treasury 'Contracting-out Direction'. Section 41 is intended to remove any disincentive to government departments of contracting-out activities performed 'in-house' where there is a sound basis for doing so. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of non-current assets. Income and expenditure is otherwise shown net of VAT.

## 1.15 Impending application of newly issued accounting standards not yet effective

New and revised standards and interpretations have been issued but are not yet effective, and have not therefore been adopted in this account. We expect that the following new standard and *FReM* changes may affect the Resource Accounts if they are adopted by the Financial Reporting Manual, after further consultation:

- IFRS 9 Financial Instruments, effective 1 January 2018 (not yet EU adopted). IFRS 9 addresses classification, measurement and impairment of financial assets and is still subject to analysis and consideration by HM Treasury with a view to include in the 2018-19 *FReM*

- IFRS 13 Fair Value Measurement, effective 1 January 2013 (EU adopted). IFRS 13 provides consistent guidance on fair value measurement for all relevant balances and transactions covered by IFRS. Although IFRS 13 is applied without adaptation, IAS 16 and IAS 38 have been adapted and interpreted for the public sector context to limit the circumstances in which a valuation is prepared under IFRS 13. For central government, the implementation date is expected to be during 2015-16
- IAS 16 and IAS 38 Clarification of acceptable methods of depreciation and amortisation (amendment), effective 1 January 2016 (not yet EU adopted). This amendment prohibits revenue-based depreciation methods and generally presumes that such methods are an inappropriate basis for amortising intangible assets. HM Treasury will review the implications of these changes nearer to the EU adoption date with a view to include in the 2016-17 *FReM*
- IAS 1 Disclosure Initiative (amendment), effective 1 January 2016 (not yet EU adopted). These amendments encourage professional judgement to be used in determining what information to disclose in financial statements and where and in what order information is presented in the financial disclosures. HM Treasury will review the implications of this amendment nearer to the EU adoption date with a view to include in the 2016-17 *FReM*
- IAS 17 Leases (replacement), the IASB plans to issue the new standard before the end of 2015. The current proposals include the elimination of the current operating lease categorisation for nearly all leases except short-term and small value assets. Instead, assets and liabilities will be recognised on a 'right of use' basis. HM Treasury has continued to analyse this process including the project update and will review further once there is a final Standard
- IAS 36 'Impairment of assets' on recoverable amount disclosures (amendment), effective 1 January 2014 (EU adopted). This amendment modifies some of the disclosure requirements regarding measurement of the recoverable amount of impaired assets. To be considered by HM Treasury with the expectation that it will be applied when IFRS 13 is introduced and any adaptations or interpretations included in the 2015-16 *FReM*.

## 1.16 Critical accounting judgements and key sources of estimation

The preparation of financial statements in accordance with IFRS requires the use of certain accounting estimates. It also requires management to exercise judgement in the process of applying the department's accounting policies.

The areas that involve a higher degree of judgement or complexity, or where the assumptions and estimates are significant to the Resource Accounts, are as follows:

### Personal tax credits expenditure

Personal tax credits consist of Working Tax Credits and Child Tax Credits. HMRC statisticians provide receivable and payable balances based on data from tax credits systems to move personal tax credits to an accruals accounting basis. A range for the estimate of the results of the current year finalisation exercise is also provided. This estimate is based on a model used to forecast debt and factors in a number of assumptions including the expected effects of new policy. It is therefore subject to uncertainty and the estimate disclosed in note 6.2 represents the mid-point of the range (see note 1.4.1). Estimates for the split of Working Tax Credits and Child Tax Credits and the apportionment of costs to negative tax and payments of entitlement are also provided. The apportionments are estimated by modelling the tax credits systems and financial data (see note 6).

## **Corporation tax reliefs**

As stated in note 1.4.2, corporation tax reliefs are estimated by the department's statisticians. The models are based on a combination of projections utilising the most recent forecasts of economic variables on which future expenditure flows depend. Due to the areas of uncertainty involved, there will inevitably be differences between the estimated forecasts and actual future outturns. These differences arise because of the need to make judgements on areas of uncertainty and are not indicative of deficiencies in the models (see note 6.4).

## **Impairment of receivables**

Impairment loss is measured as the difference between the carrying amount and the present value of estimated future cash flows, the calculation of which differs depending on the type of receivable. The following receivables balances have been impaired: personal tax credits, Child Benefit, law costs, and other receivables (see note 16).

The impairment of personal tax credits receivables is estimated by using a model that tracks historic recoveries. The impairment rates are derived for different receivables category types, taking into account recent, actual recovery rates for each category. These rates are then applied to the gross carrying value of receivables for each category to provide an estimate of the recoverable amount. This ensures that assets are carried at no more than their fair value (i.e. their expected recoverable amount).

Relatively minor adjustments in the estimates can have a significant impact on reported figures. The maximum impact of a one per cent change in the recoverability estimate would be an increase or decrease of £69 million of the impairment.

The impairment of Child Benefit receivables is calculated using recovery rates by aged debt bands. The percentages have been derived by comparing the outstanding balance with the original value of the overpayment debt in each aged debt band. Following this process through each of the aged debt bands provides the value of the Child Benefit impairment required.

## **Provisions and contingent liabilities**

The department undertakes a quarterly review of provisions and contingent liabilities. These are estimated by appropriate business areas based on the likelihood of a liability materialising.

## 2. Statement of operating costs by operating segment

This note shows how current expenditure is apportioned against the main areas of business activity.

Each segment relates to a business activity reported to the Chief Executive and the Board in a document called the Financial Pack which contains relevant management information. This covers expenditure and income and is used by the Board to make decisions.

### 2.1 Expenditure and income by reportable segment

	2014-15			2013-14		
	Gross expenditure	Income	Net expenditure	Gross expenditure	Income	Net expenditure
<b>Reportable segment</b>						
Business Tax	203.0	(2.4)	200.6	157.6	(1.8)	155.8
Personal Tax	543.7	(12.9)	530.8	680.2	(10.1)	670.1
Enforcement and Compliance	1,018.0	(30.8)	987.2	1,068.6	(31.6)	1,037.0
Benefits and Credits Delivery	154.7	(0.5)	154.2	153.0	-	153.0
Central Tax and Strategy	63.4	(1.0)	62.4	42.5	(1.0)	41.5
Chief Finance Officer Group	382.4	(23.3)	359.1	430.0	(22.3)	407.7
Chief Digital and Information Officer Group	853.1	(28.4)	824.7	846.9	(27.2)	819.7
Chief People Officer Group	130.8	(1.5)	129.3	185.1	(26.1)	159.0
Legal	59.9	(4.6)	55.3	49.2	(3.5)	45.7
HMRC Central Budgets	44.0	(1.4)	42.6	56.9	(1.5)	55.4
Change Investment funding	118.1	(0.1)	118.0	100.3	-	100.3
HMRC Transformation <sup>1</sup>	4.0	-	4.0	-	-	-
Civil Service Resourcing <sup>1</sup>	42.0	(42.2)	(0.2)	-	-	-
<b>Total</b>	<b>3,617.1</b>	<b>(149.1)</b>	<b>3,468.0</b>	<b>3,770.3</b>	<b>(125.1)</b>	<b>3,645.2</b>

<sup>1</sup> These segments were introduced in 2014-15. The activities undertaken by Civil Service Resourcing and HMRC Transformation were previously reported under Chief People Officer Group and Benefits and Credits respectively.

## 2.2 Reconciliation between operating segments and Consolidated Statement of Comprehensive Net Expenditure

Information on all other net expenditure is included in the table below. This information is reported to the Board, however as it is centrally managed it is reported in a different format than the reportable segments in the management accounts which compares budgeted spend to full year forecast spend at the segment level.

### Reconciliation between operating segments and Consolidated Statement of Comprehensive Net Expenditure

	2014-15 £m	2013-14 £m
<b>Total net expenditure reported for operating segments</b>	<b>3,468.0</b>	<b>3,645.2</b>
Valuation Office Agency	(1.4)	(1.3)
Payments in lieu of tax relief	97.6	74.0
Payments of Local Authority Rates	65.9	60.1
Child Benefit and Child Trust Fund	11,602.0	11,492.1
Personal tax credits	29,123.2	29,329.2
Corporation tax reliefs	1,988.8	1,615.4
Other income tax reliefs	8.6	9.5
IFRS elements not included in the management accounts	1.6	9.5
Remaining reconciling items	41.9	(5.1)
Non-budget voted NIF	4,720.0	-
<b>Total net expenditure per the Consolidated Statement of Comprehensive Net Expenditure</b>	<b>51,116.2</b>	<b>46,228.6</b>

### 3. Staff numbers and related costs

The department consists entirely of officials as it does not pay the salary of the minister who has responsibility for HM Revenue and Customs (HMRC). This is paid out of central funds and can be found in the resource accounts of HM Treasury.

#### 3.1 Average number of persons employed

The average number of whole-time equivalent persons employed during the year was as follows:

	2014-15 Number			2013-14 Number
	Permanently employed staff	Others	Total	Total
Core department <sup>1</sup>	57,405	1,292	58,697	63,010
Valuation Office Agency	3,346	74	3,420	3,511
Staff engaged on capital projects	105	-	105	51
<b>Total</b>	<b>60,856</b>	<b>1,366</b>	<b>62,222</b>	<b>66,572</b>

<sup>1</sup> This includes staff working on Civil Service Resourcing of 624 permanently employed staff and ten within the 'others' category.

#### 3.2 Staff costs

The costs of persons employed during the year were as follows:

	2014-15 £m			2013-14 £m
	Permanently employed staff	Others	Total	Total
Wages and salaries	1,715.4	27.8	1,743.2	1,816.9
Social security costs	122.3	1.4	123.7	128.2
Other pension costs	312.2	2.6	314.8	324.9
<b>Sub total</b>	<b>2,149.9</b>	<b>31.8</b>	<b>2,181.7</b>	<b>2,270.0</b>
Less recoveries in respect of outward secondments	(4.2)	-	(4.2)	(2.3)
<b>Total net costs<sup>2</sup></b>	<b>2,145.7</b>	<b>31.8</b>	<b>2,177.5</b>	<b>2,267.7</b>

	Charged to Administration budgets	Charged to Programme budgets	Charged to capital budgets	Total	Total
Of which:					
Core department	310.9	1,723.9	5.9	2,040.7	2,130.3
Valuation Office Agency	-	136.8	-	136.8	137.4
<b>Total net costs</b>	<b>310.9</b>	<b>1,860.7</b>	<b>5.9</b>	<b>2,177.5</b>	<b>2,267.7</b>

<sup>2</sup> In the Consolidated Statement of Comprehensive Net Expenditure staff costs do not include recoveries in respect of secondments, which are included as income, or the amount charged to capital.

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but HMRC is unable to identify its share of the underlying assets and liabilities. The Scheme Actuary valued the scheme as at 31 March 2012. You can find details in the resource accounts of the Cabinet Office: Civil Superannuation ([www.civilservicepensionscheme.org.uk](http://www.civilservicepensionscheme.org.uk)).

For 2014-15, employers' contributions of £312,564,213 were payable to the PCSPS (2013-14: £323,163,855) at one of four rates in the range 16.7 per cent to 24.3 per cent of pensionable earnings, based on salary bands. The Scheme Actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2014-15 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £750,731 (2013-14: £730,863) were paid to one or more of the panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from three per cent to 12.5 per cent of pensionable earnings. Employers also match employee contributions up to three per cent of pensionable earnings. In addition, employer contributions of £55,822, 0.8 per cent of pensionable pay (2013-14: £52,760, 0.8 per cent of pensionable pay), were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service or ill-health retirement of these employees.

A number of the Valuation Office Agency's employees are members of the Local Government Pension Scheme. Contributions into this scheme for 2014-15 were £1,373,468 (2013-14: £961,429). Further information can be found within the Valuation Office Agency accounts (HC 143) that can be viewed at [www.gov.uk/government/organisations/valuation-office-agency](http://www.gov.uk/government/organisations/valuation-office-agency).

Contributions due to the partnership pension providers at the reporting period date were £135,678. Contributions prepaid at that date were nil.

The Remuneration Report (see page 81) provides details of the pension benefits for the members of the Executive Committee.

107 individuals (2013-14: 137 individuals) retired early on ill-health grounds; the total additional accrued pension liabilities in the year amounted to £147,568 (2013-14: £192,497).

### 3.3 Reporting of Civil Service and other compensation schemes – exit packages

#### Exit packages 2014-15

Exit package cost band	Core department			Core department and agency		
	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band (total cost)	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band (total cost)
<£10,000	-	103	103	-	103	103
£10,000 - £25,000	4	490	494	10	491	501
£25,000 - £50,000	1	672	673	1	673	674
£50,000 - £100,000	-	98	98	-	100	100
£100,000 - £150,000	-	-	-	-	-	-
£150,000 - £200,000	-	-	-	-	-	-
£200,000+	-	-	-	-	-	-
<b>Total number of exit packages by type</b>	<b>5</b>	<b>1,363</b>	<b>1,368</b>	<b>11</b>	<b>1,367</b>	<b>1,378</b>
<b>Total resource cost</b>	<b>£91,128</b>	<b>£39,079,062</b>	<b>£39,170,190</b>	<b>£191,262</b>	<b>£39,290,555</b>	<b>£39,481,817</b>

#### Exit packages 2013-14

Exit package cost band	Core department			Core department and agency		
	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band (total cost)	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band (total cost)
<£10,000	2	83	85	2	83	85
£10,000 - £25,000	11	713	724	16	715	731
£25,000 - £50,000	-	1,117	1,117	-	1,119	1,119
£50,000 - £100,000	-	201	201	-	202	202
£100,000 - £150,000	-	18	18	-	18	18
£150,000 - £200,000	-	3	3	-	3	3
£200,000+	-	1	1	-	1	1
<b>Total number of exit packages by type</b>	<b>13</b>	<b>2,136</b>	<b>2,149</b>	<b>18</b>	<b>2,141</b>	<b>2,159</b>
<b>Total resource cost</b>	<b>£159,844</b>	<b>£68,415,187</b>	<b>£68,575,031</b>	<b>£251,844</b>	<b>£68,564,187</b>	<b>£68,816,031</b>

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972. Exit costs are accounted for in full in the year in which the obligation becomes binding on the department. Where the department has agreed early retirements, the additional costs are met by the department and not by the Civil Service pension scheme. The ill-health retirement costs are met by the pension scheme and are not included in the table.

The numbers included in the table above include departures of staff who are members of the Local Government Pension Scheme. Their compensation arrangements are outside the scope of the Civil Service Compensation Scheme. The cost of their early retirements reflects the cost of providing any lump sum due on retirement together with the cost associated with the increase in future liability to pay pension.



## 4. Other Administration costs

	2014-15 £m		2013-14 £m	
	Core department	Core department and agency	Core department	Core department and agency
<b>Rentals under operating leases</b>				
Hire of plant and machinery	0.3	0.3	0.2	0.2
Other operating leases	9.0	9.0	9.8	9.8
	9.3	9.3	10.0	10.0
<b>Interest charges</b>				
Accommodation interest charges	35.2	35.2	37.4	37.4
	35.2	35.2	37.4	37.4
<b>Service charges</b>				
IT PPP contract payments	204.0	204.0	224.9	224.9
Accommodation PFI and non-PFI contract payments	68.6	68.6	88.8	88.8
Indexation of liability on PFI deals	2.4	2.4	2.4	2.4
	275.0	275.0	316.1	316.1
<b>Other expenditure</b>				
Travel, subsistence and hospitality	11.0	11.0	11.5	11.5
Accommodation expenses	25.1	25.1	21.7	21.7
Staff-related costs	6.9	6.9	4.6	4.6
Printing, postage, stationery and office supplies	8.1	8.1	8.1	8.1
Telephone expenses	19.4	19.4	29.4	29.4
IT services and consumables	33.6	33.6	27.9	27.9
Legal costs <sup>1</sup>	2.1	2.1	(1.3)	(1.3)
Consultancy	0.6	0.6	0.8	0.8
Contracted out services	22.7	22.6	20.9	20.9
Publicity	7.3	7.3	4.8	4.8
Bank charges	10.6	10.6	10.7	10.7
Other miscellaneous expenditure	20.1	20.1	13.5	13.5
	167.5	167.4	152.6	152.6
<b>Non-cash items</b>				
Depreciation	48.6	48.6	55.8	55.8
Amortisation	48.0	48.0	48.3	48.3
(Profit)/Loss on disposal of non-current assets	0.3	0.3	2.6	2.6
Net revaluation loss	-	-	-	-
Net loss on impairment of non-current assets	-	-	0.3	0.3
Auditor's remuneration and expenses	1.8	1.8	1.9	1.9
	98.7	98.7	108.9	108.9
<b>Total</b>	<b>585.7</b>	<b>585.6</b>	<b>625.0</b>	<b>625.0</b>

<sup>1</sup> In 2013-14 there was a credit following a reduction in the impairment provision for law cost receivables.

## 5. Programme costs

			2014-15 £m		2013-14 £m
	Note	Core department	Core department and agency	Core department	Core department and agency
<b>Tax credits</b>					
Personal tax credits	6	29,123.2	29,123.2	29,329.2	29,329.2
Corporation tax reliefs	6	1,988.8	1,988.8	1,615.4	1,615.4
		31,112.0	31,112.0	30,944.6	30,944.6
<b>Child Benefit</b>					
Child Benefit <sup>1</sup>		11,602.0	11,602.0	11,494.4	11,494.4
Guardians Allowance (Funded from NIF)		2.1	2.1	2.0	2.0
		11,604.1	11,604.1	11,496.4	11,496.4
<b>Payments in lieu of tax relief</b>					
Life Assurance Premium Relief, MIRAS		8.6	8.6	9.5	9.5
Transitional payments to charities		42.6	42.6	19.0	19.0
Stakeholder pensions		55.0	55.0	55.0	55.0
		106.2	106.2	83.5	83.5
<b>Payments of Local Authority Rates</b>					
Payments of Local Authority Rates (POLAR)		-	70.0	-	63.8
		-	70.0	-	63.8
<b>Rentals under operating leases</b>					
Hire of plant and machinery		-	0.1	0.1	0.1
Other operating leases		25.0	25.0	24.4	24.6
		25.0	25.1	24.5	24.7
<b>Interest charges</b>					
IT PPP interest charges		3.8	3.8	4.5	4.5
Accommodation interest charges		-	-	-	-
		3.8	3.8	4.5	4.5
<b>Service charges</b>					
IT PPP contract payments		287.4	295.6	287.1	295.9
Accommodation PFI and non-PFI contract payments		33.0	39.4	41.4	50.1
Indexation of liability on PFI deals		-	-	-	-
		320.4	335.0	328.5	346.0

Continued

## 5. Programme costs (continued)

		2014-15 £m		2013-14 £m
	Note	Core department and agency	Core department	Core department and agency
<b>Other Programme costs</b>				
Additional payments to the National Insurance Fund <sup>2</sup>	4,720.0	4,720.0	-	-
Travel, subsistence and hospitality	41.7	46.6	37.1	42.7
Accommodation expenses	69.5	78.7	75.7	85.4
Staff-related costs	0.2	0.4	0.2	0.8
Printing, postage, stationery and office supplies	58.8	60.7	59.2	61.0
Telephone expenses	41.3	42.8	26.6	28.4
IT services and consumables	5.2	7.3	0.3	1.7
Legal and Investigation	43.0	43.9	37.9	38.5
Consultancy	2.2	2.2	0.5	0.5
Payments to add capacity	2.7	2.7	-	-
Contracted out services	19.8	20.8	17.9	18.6
Publicity	3.2	3.3	2.6	2.7
Post Office services	11.6	11.6	12.5	12.5
Bank charges	10.0	10.0	8.9	8.9
Shipbuilders' Relief	1.2	1.2	1.0	1.0
Enforcement costs	19.6	19.6	23.6	23.6
Business Link Payments	-	-	-	-
NIF other government department collection service	56.3	56.3	58.5	58.5
Early severance schemes	31.8	31.8	85.7	85.8
Other Programme expenditure	25.3	18.6	31.2	24.1
		5,163.4	479.4	494.7
<b>Non-cash items</b>				
Depreciation	18.0	21.1	10.5	13.7
Amortisation	152.9	158.1	147.9	153.0
(Profit)/Loss on disposal of non-current assets	1.3	2.1	(0.7)	(0.7)
Net revaluation loss/(gain)	(0.4)	(0.4)	0.1	0.1
Net loss/(profit) on impairment of non-current assets	5.5	6.0	3.1	3.1
Auditor's remuneration and expenses	-	0.1	-	0.1
Other pension finance costs	-	1.6	-	1.7
Provision provided for in-year	18			
Amounts provided for early departure costs	1.0	1.2	2.7	3.0
Borrowing costs (unwinding of discount) on provisions	18 0.6	0.6	1.2	1.3
Child Trust Fund	-	-	(2.4)	(2.4)
Other provisions	64.9	65.6	17.9	18.3
		243.8	180.3	191.2
<b>Total</b>		<b>48,578.7</b>	<b>43,541.7</b>	<b>43,649.4</b>

<sup>1</sup> Child Benefit expenditure includes amounts paid to higher rate taxpayers earning greater than £50,000 per annum. In accordance with government policy, it is estimated that £450 million (2013-14: £600 million) will be recovered via future income tax charges arising from payments of Child Benefit to those earning more than £50,000 in 2014-15. These income tax charges are accounted for in the Trust Statement.

<sup>2</sup> Top-up payments were made to the National Insurance Fund as a result of the government convention that the fund will not be allowed to fall below one sixth of the annual benefit expenditure.

## 6. Tax credits

Since 2011-12 both personal tax credits expenditure and certain corporation tax reliefs are reported in these Resource Accounts. Tax credits can contain an element that is in excess of the tax liability, which is treated as a payment of entitlement. There may also be an element that is treated as negative taxation which is when the extent of the relief is less than or equal to the recipient's tax liability. Under National Accounts, credits which are not integral to the tax system should be treated as public expenditure on social benefits.

### 6.1 Analysis of personal tax credits expenditure

Personal tax credits consist of Child Tax Credit and Working Tax Credit. Background about the operation of personal tax credits can be found at [www.gov.uk/government/organisations/hm-revenue-customs](http://www.gov.uk/government/organisations/hm-revenue-customs).

Awards are initially assessed and paid throughout the year on a provisional basis, based on claimants' assessments of their personal circumstances, and then adjusted after the end of each award year, once claimants' actual circumstances are known. Finalisation is the process by which claimants confirm their actual income and other circumstances for the previous award year. This process finalises the award for the award year that has ended and where the payments made do not match the revised entitlement based on the final information provided, this will give rise to under or overpayments which are accounted for as soon as identified. Finalisation is not complete until after the Account has been published and consequently there is uncertainty around the level of adjustments likely to arise. Finalisation also forms the basis for the provisional award for the current year.

#### Analysis of personal tax credits expenditure

	2014-15 £m			2013-14 £m		
	Child Tax Credit	Working Tax Credit	Total tax credit	Child Tax Credit	Working Tax Credit	Total tax credits
Tax credits treated as negative taxation	1,947.4	532.1	2,479.5	2,046.8	563.0	2,609.8
Tax credits treated as payments of entitlement	20,816.4	5,687.5	26,503.9	20,525.3	5,645.6	26,170.9
	<b>22,763.8</b>	<b>6,219.6</b>	<b>28,983.4</b>	<b>22,572.1</b>	<b>6,208.6</b>	<b>28,780.7</b>
Movement in impairment for receivables	(16.7)	(14.1)	(30.8)	313.5	60.2	373.7
Remissions/write-offs <sup>1</sup>	117.6	53.0	170.6	127.2	47.6	174.8
<b>Total tax credits</b>	<b>22,864.7</b>	<b>6,258.5</b>	<b>29,123.2</b>	<b>23,012.8</b>	<b>6,316.4</b>	<b>29,329.2</b>

<sup>1</sup> Following review, in 2014-15 remissions of £39.7 million have been classified as expenditure as they relate to adjustments to entitlement. The remissions for 2013-14 include £68.8 million for this category.

Please see note 1.16 for the estimation techniques used to determine the values for negative taxation and the payments of entitlement and how these are apportioned between Child Tax Credit and Working Tax Credit.

## 6.2 Personal tax credits receivables

Where under or overpayments are identified, either during the award year or subsequently, adjustments are made to expenditure. Overpayments are treated as other receivables and the department seeks to recover these from future personal tax credits awards or through direct repayment.

HMRC statisticians provide a range for the estimate of the results of the current year finalisation exercise. It is therefore subject to uncertainty and the estimate disclosed represents the mid-point of the range.

### Personal tax credits receivables

	Note	2014-15 £m	2013-14 £m
<b>Receivables as at 1 April</b>		<b>6,485.8</b>	<b>5,652.7</b>
Adjustment to prior year finalisation estimate		(141.3)	(206.7)
Estimated overpayment of awards prior to finalisation <sup>2</sup>		850.0	975.0
Overpayments identified from change of circumstances in-year		932.6	1,161.0
Recoveries made		(1,031.0)	(921.4)
Remissions/write-offs		(170.6)	(174.8)
<b>Receivables as at 31 March</b>		<b>6,925.5</b>	<b>6,485.8</b>
Provision for impairment for receivables		(4,065.0)	(4,095.8)
<b>Net</b>	16	<b>2,860.5</b>	<b>2,390.0</b>
Of which:			
Amounts falling due within one year		1,119.9	922.5
Amounts falling due after more than one year		1,740.6	1,467.5
<b>Total</b>		<b>2,860.5</b>	<b>2,390.0</b>

<sup>2</sup> The range of the estimate is £650 million to £1,050 million (2013-14: £750 million to £1,200 million).

## 6.3 Personal tax credits error and fraud

HMRC measures the overall level of error and fraud by investigating a random sample of finalised awards, although because of the design of the tax credits scheme this cannot be completed until after claimants have finalised their awards for the preceding year. Some claimants, such as those taxpayers included within Self Assessment, may not finalise their awards for the preceding year until 31 January.

In June 2015, HMRC completed its testing on finalised awards for 2013-14, based on a random sample of some 3,640 enquiries. As a result, HMRC estimates that error and fraud resulted in overpayments of between £1.12 billion and £1.41 billion (3.9 per cent to 4.9 per cent of the final award by value) being paid to claimants to which they were not entitled. In addition, HMRC estimates that error resulted in underpayments to claimants of between £0.15 billion and £0.22 billion (0.5 per cent to 0.8 per cent of the final award by value) to which they were entitled.

## 6.4 Corporation tax reliefs

Certain corporation tax reliefs are reported in these Resource Accounts as Annually Managed Expenditure (AME). This treatment has been agreed with HM Treasury and relates to reliefs where there is (or could be) a payable element that is in excess of any negative tax, in which case both the payable element and the negative tax element are reported in these Resource Accounts as detailed in the table below. Where a relief is integral to the tax system and is purely negative tax it remains in the Trust Statement.

### Corporation tax reliefs

	2014-15 £m			2013-14 £m		
	Negative taxation	Payments of entitlement	Total	Negative taxation	Payments of entitlement	Total
Research and development tax credits - Large Companies "Above the Line" (ATL)	306.5	502.9	809.4	264.1	451.1	715.2
Research and development tax credits - Small and Medium Enterprises	390.4	348.0	738.4	319.9	232.6	552.5
Film Tax Relief	-	257.4	257.4	-	287.0	287.0
Video Games Tax Relief <sup>3</sup>	-	35.6	35.6	-	-	-
High-end TV Tax Relief	-	91.9	91.9	-	14.8	14.8
Animation Tax Relief	-	7.3	7.3	-	12.3	12.3
Theatre Tax Relief <sup>3</sup>	-	21.4	21.4	-	-	-
Land Remediation Relief	22.4	3.0	25.4	25.9	5.1	31.0
Vaccine Research Relief	2.0	-	2.0	2.6	-	2.6
Enhanced Capital Allowance	-	-	-	-	-	-
<b>Total</b>	<b>721.3</b>	<b>1,267.5</b>	<b>1,988.8</b>	<b>612.5</b>	<b>1,002.9</b>	<b>1,615.4</b>

<sup>3</sup> These reliefs were introduced in 2014-15.

## 7. Income

### 7.1 Operating income

Operating income is income which relates directly to the operating activities of the department. It principally comprises fees and charges to other government departments, agencies, non-departmental public bodies and external customers for services provided on a full-cost basis. It includes not only income allowed to be retained by the department but also any operating income which is required to be paid to the Consolidated Fund. VOA services relate to income generated by the agency for the provision of valuations and property advice required to support taxation and benefits. Operating income is stated net of VAT.

#### Operating income

	2014-15 £m		2013-14 £m	
	Core department	Core department and agency	Core department	Core department and agency
Administration services	(87.3)	(85.1)	(66.9)	(65.0)
Banking services	(16.2)	(16.2)	(15.6)	(15.6)
Other income types	(19.9)	(22.4)	(20.7)	(22.6)
Subscriptions and fees	(19.1)	(19.1)	(16.7)	(16.6)
IT and telephony charges	(9.0)	(9.0)	(6.2)	(6.2)
VOA services	-	(184.0)	-	(186.3)
	<b>(151.5)</b>	<b>(335.8)</b>	<b>(126.1)</b>	<b>(312.3)</b>
Of which:				
Administration income	(97.0)	(95.1)	(68.5)	(66.6)
Programme income	(54.5)	(240.7)	(57.6)	(245.7)
<b>Total</b>	<b>(151.5)</b>	<b>(335.8)</b>	<b>(126.1)</b>	<b>(312.3)</b>

## 7.2 Analysis of income where full cost exceeds £1 million

Of total operating income received, the following relates to services provided to external and public sector customers where full cost exceeds £1.0 million. In each case the financial objective is to recover the full costs of the service. This information is only provided for fees and charges purposes, and not for IFRS 8 purposes.

### Analysis of income where full cost exceeds £1 million

	2014-15 £m			2013-14 £m		
	Income	Full cost	Surplus/ (deficit)	Income	Full cost	Surplus/ (deficit)
<b>Fees and charges raised by the Valuation Office Agency (VOA)</b>						
Non-Domestic Rates and Council Tax	(150.9)	150.4	0.5	(153.1)	152.3	0.8
Statutory Valuation Team	(11.2)	10.7	0.5	(11.9)	11.9	-
Property Services	(16.0)	15.7	0.3	(16.0)	16.1	(0.1)
Local Housing Allowance and Fair Rents	(15.0)	14.9	0.1	(15.0)	14.7	0.3
<b>Fees and charges raised by the core department</b>						
International Assistance <sup>1</sup>	-	-	-	(0.4)	0.7	(0.3)
Anti-Money Laundering Regime	(8.7)	8.2	0.5	(7.6)	7.4	0.2
Bank charges via GBS	(15.8)	13.8	2.0	(15.3)	13.7	1.6
National Minimum Wage	(8.8)	8.8	-	(7.3)	7.3	-
Collection of Student Loans	(6.6)	6.6	-	(4.7)	5.7	(1.0)
DWP Welfare Reform Agenda	(2.3)	2.3	-	(2.4)	2.4	-
Services provided to VOA	(3.3)	3.2	0.1	(3.3)	3.3	-
UK Border Agency	(19.9)	19.9	-	(20.6)	20.6	-
The Child Maintenance Service	-	-	-	(0.5)	0.5	-
Civil Service Resourcing <sup>2</sup>	(42.2)	42.0	0.2	(25.2)	24.0	1.2
Accommodation recharges	(4.5)	4.5	-	(5.0)	5.6	(0.6)
Single Tier Pension Reform	(4.1)	4.1	-	(3.2)	3.2	-
Scotland Act Implementation <sup>3</sup>	(2.5)	2.5	-	(1.0)	1.0	-
Statutory Shared Parental Pay and Leave	(1.1)	1.2	(0.1)	-	-	-
<b>Total</b>	<b>(312.9)</b>	<b>308.8</b>	<b>4.1</b>	<b>(292.5)</b>	<b>290.4</b>	<b>2.1</b>

<sup>1</sup> For this service it is not the financial objective to recover the full costs.

<sup>2</sup> Civil Service Resourcing (CSR), which HMRC 'hosts' on behalf of the Civil Service, is the professional resourcing and talent management service for the Civil Service, administering a centralised process across the end to end scope of resourcing activities including recruitment, redeployment and the Civil Service fast stream. CSR is expected to expand significantly over the course of the upcoming financial years as it takes on the responsibility for all fast stream recruitment.

<sup>3</sup> The Scotland Act 2012 gives the Scottish Parliament the power to set a rate of income tax from 2016-17 onwards. This tax will be accounted for within HMRC's Trust Statement. HMRC has incurred costs in establishing systems to identify these costs which are included in the Resource Accounts. Implementation income covers recovery of charges from the Scottish Government in respect of additional costs incurred by HMRC of £1.7 million Scottish Rate of Income Tax (SRIT), £0.6 million Stamp Duty Land Tax and £0.2 million Scotland Programme Office. The SRIT element of the income consists of £779 thousand staff costs, £746 thousand IT costs and £218 thousand other costs. The cumulative total of SRIT income since 2013-14 is £2.5 million.



## 8. Property, plant and equipment

	Land <sup>1</sup> £m	Buildings <sup>1</sup> £m	Accommodation refurbishments <sup>1</sup> £m	Office and computer equipment £m	Vehicles £m	Furniture and fittings £m	Assets under construction £m	Scientific Aids £m	Total £m
<b>Cost or valuation</b>									
At 1 April 2014	28.9	467.6	164.7	283.4	19.2	52.0	23.1	6.1	1,045.0
Additions	-	-	-	10.7	2.5	4.2	30.0	0.1	47.5
Disposals	-	(26.9)	(3.5)	(43.5)	(1.4)	(7.3)	-	(0.7)	(83.3)
Impairments	-	-	-	-	-	-	-	-	-
Reclassifications	-	-	2.6	38.3	-	0.8	(41.7)	-	-
Revaluations <sup>2</sup>	21.1	83.0	-	-	-	-	-	-	104.1
<b>At 31 March 2015</b>	<b>50.0</b>	<b>523.7</b>	<b>163.8</b>	<b>288.9</b>	<b>20.3</b>	<b>49.7</b>	<b>11.4</b>	<b>5.5</b>	<b>1,113.3</b>
<b>Depreciation</b>									
At 1 April 2014	-	(235.3)	(89.5)	(217.1)	(9.5)	(25.9)	-	(3.4)	(580.7)
Charged in-year	-	(19.9)	(12.8)	(30.1)	(2.3)	(3.4)	-	(1.2)	(69.7)
Disposals	-	22.3	3.5	42.5	1.2	5.8	-	0.7	76.0
Impairments	-	-	-	-	-	-	-	-	-
Reclassifications	-	-	-	-	-	-	-	-	-
Revaluations <sup>2</sup>	-	(8.8)	-	-	-	-	-	-	(8.8)
<b>At 31 March 2015</b>	<b>-</b>	<b>(241.7)</b>	<b>(98.8)</b>	<b>(204.7)</b>	<b>(10.6)</b>	<b>(23.5)</b>	<b>-</b>	<b>(3.9)</b>	<b>(583.2)</b>
<b>Carrying amount at 31 March 2014</b>	<b>28.9</b>	<b>232.3</b>	<b>75.2</b>	<b>66.3</b>	<b>9.7</b>	<b>26.1</b>	<b>23.1</b>	<b>2.7</b>	<b>464.3</b>
<b>Carrying amount at 31 March 2015</b>	<b>50.0</b>	<b>282.0</b>	<b>65.0</b>	<b>84.2</b>	<b>9.7</b>	<b>26.2</b>	<b>11.4</b>	<b>1.6</b>	<b>530.1</b>
<b>The assets are financed as follows:</b>									
Owned	50.0	-	65.0	63.8	9.7	26.2	11.4	1.6	227.7
Finance leased	-	-	-	20.4	-	-	-	-	20.4
On-Statement of Financial Position PFI contracts	-	282.0	-	-	-	-	-	-	282.0
<b>Carrying amount at 31 March 2015</b>	<b>50.0</b>	<b>282.0</b>	<b>65.0</b>	<b>84.2</b>	<b>9.7</b>	<b>26.2</b>	<b>11.4</b>	<b>1.6</b>	<b>530.1</b>
<b>Of the total:</b>									
Core department	50.0	281.5	63.0	80.9	9.7	23.7	9.8	1.6	520.2
Valuation Office Agency	-	0.5	2.0	3.3	-	2.5	1.6	-	9.9
<b>Carrying amount at 31 March 2015</b>	<b>50.0</b>	<b>282.0</b>	<b>65.0</b>	<b>84.2</b>	<b>9.7</b>	<b>26.2</b>	<b>11.4</b>	<b>1.6</b>	<b>530.1</b>

Continued

## 8. Property, plant and equipment (continued)

	Land <sup>1</sup> £m	Buildings <sup>1</sup> £m	Accommodation refurbishments <sup>1</sup> £m	Office and computer equipment £m	Vehicles £m	Furniture and fittings £m	Assets under construction £m	Scientific Aids £m	Total £m
<b>Cost or valuation</b>									
At 1 April 2013	28.9	496.8	162.1	275.8	14.4	55.0	22.9	6.3	1,062.2
Additions	-	-	-	18.8	4.9	1.8	26.2	0.7	52.4
Disposals	-	(29.2)	(11.9)	(22.5)	(0.1)	(4.7)	-	(0.7)	(69.1)
Impairments	-	-	-	(0.1)	-	(0.3)	-	-	(0.4)
Reclassifications	-	-	14.5	11.4	-	0.3	(26.0)	(0.2)	-
Revaluations <sup>2</sup>	-	-	-	-	-	(0.1)	-	-	(0.1)
<b>At 31 March 2014</b>	<b>28.9</b>	<b>467.6</b>	<b>164.7</b>	<b>283.4</b>	<b>19.2</b>	<b>52.0</b>	<b>23.1</b>	<b>6.1</b>	<b>1,045.0</b>
<b>Depreciation</b>									
At 1 April 2013	-	(243.9)	(87.4)	(209.5)	(7.7)	(26.1)	-	(2.7)	(577.3)
Charged in-year	-	(19.9)	(12.9)	(29.7)	(1.9)	(3.6)	-	(1.5)	(69.5)
Disposals	-	28.5	10.8	22.1	0.1	3.8	-	0.8	66.1
Impairments	-	-	-	-	-	-	-	-	-
Reclassifications	-	-	-	-	-	-	-	-	-
Revaluations <sup>2</sup>	-	-	-	-	-	-	-	-	-
<b>At 31 March 2014</b>	<b>-</b>	<b>(235.3)</b>	<b>(89.5)</b>	<b>(217.1)</b>	<b>(9.5)</b>	<b>(25.9)</b>	<b>-</b>	<b>(3.4)</b>	<b>(580.7)</b>
<b>Carrying amount at 31 March 2013</b>	<b>28.9</b>	<b>252.9</b>	<b>74.7</b>	<b>66.3</b>	<b>6.7</b>	<b>28.9</b>	<b>22.9</b>	<b>3.6</b>	<b>484.9</b>
<b>Carrying amount at 31 March 2014</b>	<b>28.9</b>	<b>232.3</b>	<b>75.2</b>	<b>66.3</b>	<b>9.7</b>	<b>26.1</b>	<b>23.1</b>	<b>2.7</b>	<b>464.3</b>
<b>The assets are financed as follows:</b>									
Owned	28.9	-	75.2	38.6	9.7	26.1	23.1	2.7	204.3
Finance leased	-	-	-	27.7	-	-	-	-	27.7
On-Statement of Financial Position PFI contracts	-	232.3	-	-	-	-	-	-	232.3
<b>Carrying amount at 31 March 2014</b>	<b>28.9</b>	<b>232.3</b>	<b>75.2</b>	<b>66.3</b>	<b>9.7</b>	<b>26.1</b>	<b>23.1</b>	<b>2.7</b>	<b>464.3</b>
<b>Of the total:</b>									
Core department	28.9	232.1	73.5	63.6	9.7	23.8	21.2	2.7	455.5
Valuation Office Agency	-	0.2	1.7	2.7	-	2.3	1.9	-	8.8
<b>Carrying amount at 31 March 2014</b>	<b>28.9</b>	<b>232.3</b>	<b>75.2</b>	<b>66.3</b>	<b>9.7</b>	<b>26.1</b>	<b>23.1</b>	<b>2.7</b>	<b>464.3</b>

<sup>1</sup> See note 1.6.2 for the accounting policy for property assets.

<sup>2</sup> See notes 1.2 and 1.6 for the accounting policy regarding revaluation of property, plant and equipment.

### Property revaluation

A full valuation was undertaken in March 2015 on the basis of existing use. Valuations were performed by the Valuation Office Agency, an executive agency of HM Revenue and Customs, whose services include providing valuation and estate surveying services to government departments.

## 9. Intangible assets

	Licences £m	Software £m	Website development £m	Assets under construction £m	Total £m
<b>Cost or valuation</b>					
At 1 April 2014	32.4	2,595.9	6.5	160.2	2,795.0
Additions	1.2	-	-	196.8	198.0
Disposals	(0.1)	(11.7)	-	(0.5)	(12.3)
Impairments	-	(28.2)	-	-	(28.2)
Reclassifications	-	181.9	2.6	(184.5)	-
Revaluation <sup>1</sup>	-	69.6	-	-	69.6
<b>At 31 March 2015</b>	<b>33.5</b>	<b>2,807.5</b>	<b>9.1</b>	<b>172.0</b>	<b>3,022.1</b>
<b>Amortisation</b>					
At 1 April 2014	(25.7)	(1,575.2)	(1.3)	-	(1,602.2)
Charged in-year	(3.5)	(201.4)	(1.2)	-	(206.1)
Disposals	0.1	9.6	-	-	9.7
Impairments	-	22.1	-	-	22.1
Reclassifications	-	-	-	-	-
Revaluation <sup>1</sup>	-	(42.7)	-	-	(42.7)
<b>At 31 March 2015</b>	<b>(29.1)</b>	<b>(1,787.6)</b>	<b>(2.5)</b>	<b>-</b>	<b>(1,819.2)</b>
<b>Carrying amount at 31 March 2014</b>	<b>6.7</b>	<b>1,020.7</b>	<b>5.2</b>	<b>160.2</b>	<b>1,192.8</b>
<b>Carrying amount at 31 March 2015</b>	<b>4.4</b>	<b>1,019.9</b>	<b>6.6</b>	<b>172.0</b>	<b>1,202.9</b>
<b>The assets are financed as follows:</b>					
Owned	3.6	1,019.9	6.6	172.0	1,202.1
Finance leased	-	-	-	-	-
On-Statement of Financial Position PFI contracts	0.8	-	-	-	0.8
<b>Carrying amount at 31 March 2015</b>	<b>4.4</b>	<b>1,019.9</b>	<b>6.6</b>	<b>172.0</b>	<b>1,202.9</b>
<b>Of the total:</b>					
Core department	4.4	1,005.0	6.6	168.7	1,184.7
Valuation Office Agency	-	14.9	-	3.3	18.2
<b>Carrying amount at 31 March 2015</b>	<b>4.4</b>	<b>1,019.9</b>	<b>6.6</b>	<b>172.0</b>	<b>1,202.9</b>

Continued

## 9. Intangible assets (continued)

	Licences £m	Software £m	Website development £m	Assets under construction £m	Total £m
<b>Cost or valuation</b>					
At 1 April 2013	34.7	2,476.6	5.0	143.5	2,659.8
Additions	3.1	0.4	-	181.2	184.7
Disposals	(6.4)	(78.4)	-	-	(84.8)
Impairments	-	(3.0)	-	-	(3.0)
Reclassifications	1.0	162.0	1.5	(164.5)	-
Revaluation <sup>1</sup>	-	38.3	-	-	38.3
<b>At 31 March 2014</b>	<b>32.4</b>	<b>2,595.9</b>	<b>6.5</b>	<b>160.2</b>	<b>2,795.0</b>
<b>Amortisation</b>					
At 1 April 2013	(28.2)	(1,436.1)	(0.6)	-	(1,464.9)
Charged in-year	(3.9)	(196.7)	(0.7)	-	(201.3)
Disposals	6.4	77.8	-	-	84.2
Impairments	-	-	-	-	-
Reclassifications	-	-	-	-	-
Revaluation <sup>1</sup>	-	(20.2)	-	-	(20.2)
<b>At 31 March 2014</b>	<b>(25.7)</b>	<b>(1,575.2)</b>	<b>(1.3)</b>	<b>-</b>	<b>(1,602.2)</b>
<b>Carrying amount at 31 March 2013</b>	<b>6.5</b>	<b>1,040.5</b>	<b>4.4</b>	<b>143.5</b>	<b>1,194.9</b>
<b>Carrying amount at 31 March 2014</b>	<b>6.7</b>	<b>1,020.7</b>	<b>5.2</b>	<b>160.2</b>	<b>1,192.8</b>
<b>The assets are financed as follows:</b>					
Owned	4.8	1,020.6	5.2	160.2	1,190.8
Finance leased	-	-	-	-	-
On-Statement of Financial Position PFI contracts	1.9	0.1	-	-	2.0
<b>Carrying amount at 31 March 2014</b>	<b>6.7</b>	<b>1,020.7</b>	<b>5.2</b>	<b>160.2</b>	<b>1,192.8</b>
<b>Of the total:</b>					
Core department	6.7	1,004.6	5.2	156.1	1,172.6
Valuation Office Agency	-	16.1	-	4.1	20.2
<b>Carrying amount at 31 March 2014</b>	<b>6.7</b>	<b>1,020.7</b>	<b>5.2</b>	<b>160.2</b>	<b>1,192.8</b>

<sup>1</sup> See notes 1.2 and 1.7 for the accounting policy regarding revaluation of intangible assets.

## 10. Impairments

The department has incurred the following impairments to non-current assets during the financial year.

	Note	Impairment taken through the revaluation reserve		Impairment charged to the Consolidated Statement of Comprehensive Net Expenditure	
		Core department	Core department and agency £m	Core department	Core department and agency £m
Property, plant and equipment	8	-	-	-	-
Intangible assets	9	-	-	5.5	6.1
<b>Impairment charged for the year ended 31 March 2015</b>		-	-	<b>5.5</b>	<b>6.1</b>

	Note	£m		£m	
		Core department	Core department and agency	Core department	Core department and agency
Property, plant and equipment	8	-	-	-	-
Intangible assets	9	-	-	3.4	3.4
<b>Impairment charged for the year ended 31 March 2014</b>		-	-	<b>3.4</b>	<b>3.4</b>

## 11. Capital and other commitments

### 11.1 Capital commitments

The majority of capital commitments relate to the future cost of the development work raised under the IT service contract with the department's IT suppliers.

#### Contracted capital commitments at 31 March not otherwise included in these financial statements

	2014-15 £m		2013-14 £m	
	Core department	Core department and agency	Core department	Core department and agency
Property, plant and equipment	0.6	0.9	2.7	3.6
Intangible assets	41.6	41.8	118.8	118.8
	<b>42.2</b>	<b>42.7</b>	<b>121.5</b>	<b>122.4</b>

### 11.2 Commitments under leases

#### 11.2.1 Operating leases

Total future minimum lease payments under operating leases are given in the table below. The buildings payments relate to property leased by Mapeley from third-party landlords on behalf of the department; property leased by the department direct from private landlords and the minor occupation of other government department buildings. The property leases vary in length and the department has no right of purchase at the end of the contract but would re-negotiate leases where continued occupation is desired. The properties have been assessed against IAS 17 *Leases* and determined as operating leases and therefore the associated commitments have been recorded in this note.

The other commitments relate to a number of IT and vehicle leasing contracts. They include a contract with Inchcape Fleet Solutions (IFS) for the fleet management including service, maintenance and repair of motor vehicles over a four year period with a renewal option of a further two years. IFS also provide 61 per cent of the department's leased vehicles under this contract. There are no purchase options within the lease agreements. There are options to both informally and formally extend each lease agreement. There are no specific escalation clauses relating to the lease agreements. The remaining vehicles leased by the department are provided by other lease companies (Alphabet, Arnold Clark and Lex Autolease) via CCS Framework or CCS Fleet Portal, again there are no purchase options within the lease agreements but there are options to informally and formally extend each of the lease agreements. The payment of these lease costs to other lease companies go via IFS, our fleet management supplier.

## Obligations under operating leases

		2014-15 £m		2013-14 £m
	Core department	Core department and agency	Core department	Core department and agency
<b>Land and buildings</b>				
Not later than one year	86.7	95.4	98.3	108.3
Later than one year and not later than five years	321.9	328.9	379.4	390.4
Later than five years	118.4	118.5	224.5	224.9
	<b>527.0</b>	<b>542.8</b>	<b>702.2</b>	<b>723.6</b>
<b>Other</b>				
Not later than one year	7.1	7.2	9.0	9.1
Later than one year and not later than five years	9.7	9.8	1.4	1.4
Later than five years	-	-	-	-
	<b>16.8</b>	<b>17.0</b>	<b>10.4</b>	<b>10.5</b>

### 11.2.2 Finance leases

The following commitments are in respect of assets that have been brought onto the department's Consolidated Statement of Financial Position (SoFP) under IAS 17. Total finance lease charges are given in the table below. The buildings payments relate to property leased by Mapeley from third-party landlords on behalf of the department and property leased by the department direct from private landlords. The department does provide services for some contracts which are treated as finance leases. The property leases vary in length and the department has no right of purchase at the end of the contract but would re-negotiate leases where continued occupation is desired.

## Obligations under finance leases

		2014-15 £m		2013-14 £m
	Core department	Core department and agency	Core department	Core department and agency
<b>Buildings</b>				
Not later than one year	3.0	3.0	3.9	3.9
Later than one year and not later than five years	11.8	11.8	15.6	15.6
Later than five years	4.5	4.5	9.0	9.0
	<b>19.3</b>	<b>19.3</b>	<b>28.5</b>	<b>28.5</b>
Less interest element	(5.1)	(5.1)	(7.8)	(7.8)
Present value of obligations	<b>14.2</b>	<b>14.2</b>	<b>20.7</b>	<b>20.7</b>

### 11.2.3 Finance leases – Consolidated Statement of Comprehensive Net Expenditure – future commitments

#### Finance lease payments to which the department is committed

	2014-15 £m		2013-14 £m	
	Core department	Core department and agency	Core department	Core department and agency
<b>Buildings</b>				
Not later than one year	6.2	6.2	5.4	5.4
Later than one year and not later than five years	20.8	20.8	19.7	19.7
Later than five years	6.2	6.2	7.4	7.4
	<b>33.2</b>	<b>33.2</b>	<b>32.5</b>	<b>32.5</b>

## 11.3 Commitments under PFI and other service concession arrangements

### 11.3.1 Off-Statement of Financial Position

The department has no off-Statement of Financial Position PFI contracts.

### 11.3.2 On-Statement of Financial Position

The following commitments are in respect of assets that have been brought onto the department's Statement of Financial Position (SoFP) under IAS 17 and IFRIC 12 *Service Concession Arrangements*. They comprise commitments relating to the STEPS contract (Mapeley-owned) freehold and historic leasehold properties, Newcastle Estates Partnership (NEP) held with DWP, the building known as 100 Parliament Street and one further property PFI arrangement with contractors. They also include commitments for IT assets owned by Capgemini and Fujitsu to deliver the IT service contract.

The STEPS contract is subjected to annual RPI movements and adjustments for index efficiencies. There is no automatic right of renewal for the STEPS contract at the expiry of the agreement on 2 April 2021; but the contract provides for new market lease terms to be agreed if required, giving the department continued rights of occupation in HMRC's former freehold and historic leasehold estate beyond contract expiry. Options for termination of the contract include default (without compensation) and termination for convenience (with compensation).

The NEP contract is subject to an annual uplift in January in relation to the Availability Charge (i.e. rent) and a further annual uplift relating to the Condition Payment (service charge) in April. While there is a phased building specific expiry arrangement concluding October 2029, the contract contains options to extend the occupancy of buildings which can be exercised three years before the expiry of building occupancy agreements via negotiation with the landlord. There are a number of options to terminate the contract which include voluntary termination giving 12 months notice with compensation, termination for Force Majeure, termination for default without compensation and finally contractor insolvency.

The IT contract was originally for a ten year period commencing on 1 July 2004. The contract incorporated an option to extend it up to a further eight years. In 2007 the department exercised the option to extend it for a further three years to 30 June 2017 in return for achieving certain pricing reductions.

On 19 December 2014 the department agreed the novation of the original ASPIRE contract into three separate IT contracts directly with suppliers (Capgemini, Fujitsu and Accenture) with effect from 1 January 2015, with no further extension.

The substance of each contract is that the department has a finance lease and that payments comprise two elements – finance lease charges and service charges.



## Details of the imputed finance lease charges

		2014-15 £m		2013-14 £m
	Core department	Core department and agency	Core department	Core department and agency
Rentals due within one year	56.0	56.1	62.0	62.0
Rentals due later than one year and not later than five years	190.8	191.0	198.3	198.6
Rentals due later than five years	384.1	384.1	427.2	427.3
	<b>630.9</b>	<b>631.2</b>	<b>687.5</b>	<b>687.9</b>
Less interest element	(310.8)	(311.0)	(348.4)	(348.6)
Present value of obligations	<b>320.1</b>	<b>320.2</b>	<b>339.1</b>	<b>339.3</b>

## Details of the minimum service charge

		2014-15 £m		2013-14 £m
	Core department	Core department and agency	Core department	Core department and agency
Service charge due within one year	489.7	489.7	528.2	528.3
Service charge due later than one year and not later than five years	819.9	820.0	1,219.3	1,219.4
Service charge due later than five years	428.6	428.7	524.9	525.0
<b>Total</b>	<b>1,738.2</b>	<b>1,738.4</b>	<b>2,272.4</b>	<b>2,272.7</b>

### 11.3.3 Charge to the Consolidated Statement of Comprehensive Net Expenditure and future commitments

The total amount charged in the Consolidated Statement of Comprehensive Net Expenditure in respect of on-Statement of Financial Position PFI and other service concession arrangement transactions (there were no off-Statement of Financial Position transactions) was £610.0 million<sup>1</sup> (2013-14: £662.1 million) and the payments to which the department is committed are detailed in the table below.

<sup>1</sup> This amount is included within the figures reported in note 4 and note 5 as PPP and PFI service charges.

## Payments under PFI and other service concession arrangements to which the department is committed

		2014-15 £m		2013-14 £m
	Core department	Core department and agency	Core department	Core department and agency
Not later than one year	524.2	524.3	565.2	565.3
Later than one year and not later than five years	932.4	932.6	1,342.8	1,343.0
Later than five years	592.5	592.5	712.9	713.0
	<b>2,049.1</b>	<b>2,049.4</b>	<b>2,620.9</b>	<b>2,621.3</b>

## 11.4 Other financial commitments

During 2014-15 the department had no non-cancellable contracts (which are not leases, PFI contracts or other service concession arrangements).

## 12. Financial instruments

A financial instrument is a contractual obligation which gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The department's financial instruments are not complex and it has no equity instruments.

The following disclosures are made to allow users of the department's financial statements to evaluate the nature and extent of risks arising from financial instruments to which the department is exposed at the reporting date.

The risks considered are credit risk (the risk of default by a counter-party receivable), liquidity risk (the risk that the department will not be able to discharge its financial obligations) and market risk (the risk of loss from fluctuations in market prices).

As the cash requirements of the department are largely met through the Estimates process, financial instruments play a more limited role in creating and managing risk than would apply to a non-public sector body of a similar size. The majority of financial instruments relate to contracts to buy non-financial items in line with the department's expected purchase and usage requirements and the department is therefore exposed to little credit or market risk. The department does not face a liquidity risk as its operations, including benefits payments, are financed by the Exchequer.

The department holds no collateral or other credit enhancement in respect of its financial assets. A review has been conducted of all its material contracts and has concluded that there are no separable material embedded derivatives which require disclosure.

The value of financial assets and financial liabilities carried at amortised cost is deemed to be a reasonable approximation of their fair value. In respect of receivables and payables, these have not been discounted to present value as it has been concluded that the effect would not be material. When considering personal tax credits, there is also fundamental uncertainty in the estimate of future inflows which would make any such discounting insufficiently reliable. Further information in relation to receivables and payables can be seen in notes 16 and 17. Personal tax credits can be seen in more detail in note 6. Assumptions on the recoverability of receivable balances are reviewed on an annual basis and appropriate adjustments for impairment are made.

## 13. Investments in other public sector bodies

The department holds no loans, public dividend capital or other interests in public bodies outside the departmental boundary.

## 14. Inventories

The value of the inventories at 31 March 2015 was £2.3 million (31 March 2014: £2.2 million) and relates entirely to the Valuation Office Agency. Full details can be found within the Valuation Office Agency account that can be viewed at [www.gov.uk/government/organisations/valuation-office-agency](http://www.gov.uk/government/organisations/valuation-office-agency).

## 15. Cash and cash equivalents

Cash and bank balances relate to the administering of the department and programme expenditure, but exclude all tax and duty revenues collected. The latter are included in the department's Trust Statement. Cash and cash equivalents comprise cash in hand and current balances, which are readily convertible to known amounts of cash and which are subject to insignificant changes in value.

### Cash and cash equivalents

	2014-15 £m		2013-14 £m	
	Core department	Core department and agency	Core department	Core department and agency
Balance 1 April	4.5	22.6	12.0	24.4
Net change in cash and cash equivalent balances	2.3	3.1	(7.5)	(1.8)
<b>Balance at 31 March</b>	<b>6.8</b>	<b>25.7</b>	<b>4.5</b>	<b>22.6</b>
Of which balances were held at:				
Government Banking Service	5.8	24.7	3.6	21.7
Commercial banks and cash in hand	1.0	1.0	0.9	0.9
<b>Balance at 31 March</b>	<b>6.8</b>	<b>25.7</b>	<b>4.5</b>	<b>22.6</b>

## 16. Trade receivables, financial and other assets

### 16.1 Receivables analysis

	2014-15 £m		2013-14 £m	
	Core department	Core department and agency	Core department	Core department and agency
<b>Amounts falling due within one year:</b>				
Trade receivables	-	5.6	-	5.2
Deposits and advances	25.0	23.2	21.7	20.3
Value Added Tax	16.6	16.6	17.3	17.3
Other receivables - excluding Child Benefit and tax credits <sup>1</sup>	6.9	7.6	5.1	4.8
Other receivables - Child Benefit <sup>2</sup>	21.6	21.6	26.8	26.8
Other receivables - personal tax credits <sup>3</sup>	1,119.9	1,119.9	922.5	922.5
Prepayments and accrued income - excluding Child Benefit and tax credits	56.1	57.6	20.3	21.4
Prepayments - Child Benefit	68.2	68.2	35.7	35.7
	<b>1,314.3</b>	<b>1,320.3</b>	<b>1,049.4</b>	<b>1,054.0</b>
<b>Amounts falling due after more than one year:</b>				
Trade receivables	-	-	-	-
Other receivables - personal tax credits <sup>3</sup>	1,740.6	1,740.6	1,467.5	1,467.5
	<b>1,740.6</b>	<b>1,740.6</b>	<b>1,467.5</b>	<b>1,467.5</b>

<sup>1</sup> This figure is net of provision for impairment amounting to core: £16.2 million, consolidated: £16.5 million (2013-14: core: £17.5 million, consolidated: £17.8 million).

<sup>2</sup> This figure is net of provision for impairment amounting to core: £19.8 million (2013-14: core: £13.0 million).

<sup>3</sup> This figure is net of provision for impairment amounting to core: £4,065.0 million (2013-14: core: £4,095.8 million) (see note 6).

### 16.2 Intra-government balances

	Amounts falling due within one year		Amounts falling due after more than one year	
	2014-15 £m	2013-14 £m	2014-15 £m	2013-14 £m
Balances with other central government bodies	72.1	36.2	-	-
Balances with local authorities	8.2	37.7	-	-
Balances with NHS bodies	3.3	0.7	-	-
Balances with public corporations and trading funds	0.2	-	-	-
<i>Subtotal: intra-government balances</i>	83.8	74.6	-	-
Balances with bodies external to government	1,236.5	979.4	1,740.6	1,467.5
Total receivable at 31 March	<b>1,320.3</b>	<b>1,054.0</b>	<b>1,740.6</b>	<b>1,467.5</b>

## 17. Trade payables and other current liabilities

The department is committed to the prompt payment of invoices. Payment is regarded as late if made outside the agreed terms, or, where no terms were agreed, beyond 30 days after receipt of goods and valid invoice. The department paid 99.9 per cent (2013-14: 99.7 per cent) of supplier invoices within 30 days.

The department aims to pay invoices within five days of receipt of goods and valid invoice. The department paid 94.8 per cent (2013-14: 93.8 per cent) of supplier invoices within five days. The legal requirement remains at 30 days.

In 2014-15 interest paid under the Late Payment of Commercial Debts (Interest) Act 1988 was £24 (2013-14: £11).

The department's figures included above for prompt payment of invoices are not subject to audit.

### 17.1 Payables analysis

#### Trade payables and other current liabilities

		2014-15 £m		2013-14 £m
	Core department	Core department and agency	Core department	Core department and agency
<b>Amounts falling due within one year:</b>				
Other taxation and social security	(37.6)	(37.6)	(39.1)	(39.1)
Trade payables	(56.9)	(57.0)	(51.9)	(53.9)
Other payables - excluding Child Benefit and tax credits	(0.8)	(0.8)	(2.2)	(2.2)
Other payables - Child Benefit	(8.7)	(8.7)	(14.3)	(14.3)
Other payables - personal tax credits	(653.5)	(653.5)	(791.6)	(791.6)
Accruals and deferred income excluding Child Benefit and tax credits	(395.1)	(413.0)	(390.1)	(407.4)
Accruals - Child Benefit	(173.8)	(173.8)	(208.8)	(208.8)
Accruals - corporation tax reliefs	(1,444.3)	(1,444.3)	(1,150.0)	(1,150.0)
IT PPP payables	(9.8)	(9.8)	(17.4)	(17.4)
Accommodation PFI payables	(11.6)	(11.7)	(10.4)	(10.4)
Accommodation non-PFI payables	(1.8)	(1.8)	(2.2)	(2.2)
Amounts issued from the Consolidated Fund for Supply but not spent at year end	(5.0)	(23.9)	(4.4)	(22.5)
Consolidated Fund Extra Receipts due to be paid to the Consolidated Fund				
received	(1.8)	(1.8)	(0.1)	(0.1)
receivable	-	-	-	-
	<b>(2,800.7)</b>	<b>(2,837.7)</b>	<b>(2,682.5)</b>	<b>(2,719.9)</b>
<b>Amounts falling due after more than one year:</b>				
IT PPP payables	(13.6)	(13.7)	(20.2)	(20.3)
Accommodation PFI payables	(285.0)	(285.0)	(296.2)	(296.2)
Accommodation non-PFI payables	(12.5)	(12.5)	(18.5)	(18.5)
	<b>(311.1)</b>	<b>(311.2)</b>	<b>(334.9)</b>	<b>(335.0)</b>

## 17.2 Intra-government balances

	Amounts falling due within one year		Amounts falling due after more than one year	
	2014-15 £m	2013-14 £m	2014-15 £m	2013-14 £m
Balances with other central government bodies	(120.7)	(102.5)	-	-
Balances with local authorities	(6.8)	-	-	-
Balances with NHS bodies	(0.2)	-	-	-
Balances with public corporations and trading funds	(7.7)	(4.6)	-	-
<i>Subtotal: intra-government balances</i>	<i>(135.4)</i>	<i>(107.1)</i>	<i>-</i>	<i>-</i>
Balances with bodies external to government	(2,702.3)	(2,612.8)	(311.2)	(335.0)
<b>Total payable at 31 March</b>	<b>(2,837.7)</b>	<b>(2,719.9)</b>	<b>(311.2)</b>	<b>(335.0)</b>

## 18. Provisions for liabilities and charges

Provisions are recognised when HMRC has a present legal or constructive obligation as a result of a past event, it is probable that HMRC will be required to settle that obligation and an amount has been reliably estimated.

### Provisions for liabilities and charges

	2014-15 £m		2013-14 £m	
	Core department	Core department and agency	Core department	Core department and agency
<b>Balance at 1 April</b>	<b>(114.5)</b>	<b>(116.4)</b>	<b>(126.3)</b>	<b>(129.6)</b>
Provided in the year	(85.1)	(86.4)	(36.0)	(36.8)
Provisions not required written back	19.2	19.6	17.9	17.9
Provisions utilised in the year	30.0	31.1	31.1	33.4
Borrowing costs (unwinding of discounts)	(0.6)	(0.6)	(1.2)	(1.3)
<b>Balance at 31 March</b>	<b>(151.0)</b>	<b>(152.7)</b>	<b>(114.5)</b>	<b>(116.4)</b>

## 18.1 Analysis of expected timing of discounted flows

		2014-15 £m Core department and agency	2013-14 £m Core department and agency
Not later than one year	(100.1)	(101.2)	(78.9)
Later than one year and not later than five years	(49.5)	(50.1)	(35.0)
Later than five years	(1.4)	(1.4)	(0.6)
<b>Balance at 31 March</b>	<b>(151.0)</b>	<b>(152.7)</b>	<b>(114.5)</b>

	Early departure costs £m	Child Trust Fund £m	Legal claims £m	Accommodation costs £m	Other £m	Total £m
Not later than one year	(13.3)	(1.0)	(72.5)	(0.8)	(13.6)	(101.2)
Later than one year and not later than five years	(15.4)	-	(5.2)	(0.1)	(29.4)	(50.1)
Later than five years	-	-	(1.2)	-	(0.2)	(1.4)
<b>Balance at 31 March</b>	<b>(28.7)</b>	<b>(1.0)</b>	<b>(78.9)</b>	<b>(0.9)</b>	<b>(43.2)</b>	<b>(152.7)</b>

## 18.2 Early departure costs

The department meets the additional costs of benefits beyond the normal PCSPS benefits in respect of employees who retire early by paying the required amounts monthly to the PCSPS paying agent over the period between the early departure date and normal retirement date. The department has provided for this in full at the point when the early retirement programme became binding by establishing a provision for the estimated payments, discounting by the HM Treasury discount rate of 1.3 per cent in real terms, and updated annually to reflect the unwinding of the discount.

## 18.3 Child Trust Fund

Child Trust Fund (CTF) endowments; eligibility to which ceased on 3 January 2011, provided assistance with the funding on long-term individual savings and investment accounts provided by approved financial institutions. A provision of £1.0 million was retained in 2013-14 for general CTF payments amounts forecast to become payable in respect of children qualifying for CTF endowments. Utilisations in 2014-15 total £10.8 thousand (2013-14: £0.2 million).

## 18.4 Legal claims

A provision of £78.9 million (2013-14: £62.6 million) has been made for costs relating to various legal claims against the department. The provision reflects all known claims, in excess of the de minimis limit for reporting of £0.1 million, where legal advice indicates that it is probable that the claim will be successful and the amount of the claim can be reliably estimated. Legal claims which may succeed but are less likely to do so or cannot be estimated reliably are disclosed as contingent liabilities in note 20.

## 18.5 Accommodation costs

A provision of £0.9 million has been made (2013-14: £0.7 million) for buildings related claims giving rise to probable liabilities under tenancy agreements and for personal injury claims relating to HMRC estate where the amount of the claims can be reliably estimated. Claims, which may succeed but are less likely to do so or cannot be estimated reliably are disclosed as contingent liabilities in note 20.

## 18.6 Other

Provisions relating to various other claims against the department amount to £43.2 million (2013-14: £5.8 million). The increase from 2013-14 is predominantly due to £29.8 million for potential future payscale and progression payments and £4.2 million pertaining to potential costs of introducing the Tax Free Childcare benefit.

## 19. Pension liability

The Valuation Office Agency merged with The Rent Service on 1 April 2009, taking on staff who are members of the Local Government Pension Scheme. The pension assets and liabilities, part of the Local Government Pension Scheme are reflected in the Consolidated Statement of Financial Position (see page 135).

Further information can be found within the Valuation Office Agency accounts (HC 143) that can be viewed at [www.gov.uk/government/organisations/valuation-office-agency](http://www.gov.uk/government/organisations/valuation-office-agency).

## 20. Contingent liabilities

Contingent liabilities are possible obligations that arise from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within HMRC's control. An example is legal action where the department may need to pay legal costs if it loses the case. These are not disclosed where disclosure could seriously prejudice the outcome of legal claims against the department.

The department has the following quantifiable contingent liabilities:

Shipbuilders' Relief - a contingent liability of £19.5 million (2013-14: £18.9 million) exists for potential future claims against the department. This relief is disclosed as a contingent liability as when a contract to build a vessel is signed it creates a possible obligation that will only be satisfied if two future events occur.

Legal claims - a contingent liability of £68.1 million (2013-14: £60.1 million) exists for costs that may be awarded should various legal cases in which HMRC is involved be determined against the department. The contingent liability covers all such cases where the outcome is unknown or cannot be estimated reliably.

Guaranteed costs - possible liability where appointed liquidators have been guaranteed payment of their costs with a view to recovery of outstanding tax liabilities £0.8 million, 81 cases (2013-14: £1.0 million, 94 cases).

Other - the department has a further number of contingent liabilities amounting to £10.0 million (2013-14: £6.6 million).

In addition to contingent liabilities reported within the meaning of IAS 37, the department also reports liabilities for which the likelihood of a transfer of economic benefit in settlement is too remote to meet the definition of a contingent liability.



*Managing Public Money* requires that the full potential costs of such contracts be reported to Parliament. These costs are reproduced in the table below.

## Indemnities

	1 April 2014 £m	Increase in year £m	Liabilities crystallised in year £m	Obligation expired in year £m	31 March 2015 £m	Amount reported to Parliament by departmental minute £m
Indemnities	8.0	2.0	-	(2.1)	7.9	-

The department has not entered into any guarantees of costs agreements, issued any letters of comfort, nor entered into any unquantifiable contingent liabilities.

## 21. Losses and special payments

### 21.1 Losses statement

	Core department		2014-15 Core department and agency		Core department		2013-14 Core department and agency	
	cases	£m	cases	£m	cases	£m	cases	£m
Losses are made up of:								
Personal tax credits remissions <sup>1</sup>	1,853,328	120.5	1,853,328	120.5	2,451,742	136.2	2,451,742	136.2
Personal tax credits write-offs	47,584	50.0	47,584	50.0	29,101	38.6	29,101	38.6
Child Benefit irrecoverable overpayments	37,743	13.0	37,743	13.0	38,659	10.6	38,659	10.6
Law costs remissions	4,005	(0.1)	4,005	(0.1)	14,478	1.4	14,478	1.4
Others	1,086	0.5	1,114	0.5	982	1.7	1,016	1.8
<b>Total</b>	<b>1,943,746</b>	<b>183.9</b>	<b>1,943,774</b>	<b>183.9</b>	<b>2,534,962</b>	<b>188.5</b>	<b>2,534,996</b>	<b>188.6</b>

<sup>1</sup> Following review, in 2014-15 remissions of £39.7 million have been classified as expenditure as they relate to adjustments to entitlement. The remissions for 2013-14 include £68.8 million for this category.

### Details of cases more than £300,000

There were no individual cases of more than £300 thousand in 2014-15.

#### Personal tax credits

There was one exercise conducted during 2014-15 which resulted in £39.6 million being remitted/written-off. The remaining £130.9 million was remitted/written-off as a result of our business as usual processing activity.

#### Child Benefit

The £13.0 million remitted/written-off was as a result of our business as usual processing activity.

## 21.2 Special payments

In HMRC special payments include compensation and ex-gratia payments in respect of personal injury, damage to property and those which result from the department's redress policy. For further details of what constitutes a special payment please see the HM Treasury guidance in *Managing Public Money Annex 4.13*.

### Special payments

	2014-15				2013-14			
	Core department		Core department and agency		Core department		Core department and agency	
	cases	£m	cases	£m	cases	£m	cases	£m
Payments and accruals	26,018	5.1	26,100	5.2	21,805	3.7	21,865	3.8

### Details of cases more than £300,000

There were no individual cases of more than £300 thousand in 2014-15.

## 21.3 Severance payments

Severance payments are paid under certain circumstances to employees, contractors and others outside of normal statutory or contractual requirements when leaving employment in the public service whether they resign, are dismissed or reach an agreed termination of contract. For 2014-15 the department made seven payments totalling £87 thousand in respect of severance cases. The highest payment was for £33 thousand and the lowest payment for £2 thousand, the average payment was for £12 thousand.

## 22. Related-party transactions

The department is the parent of the Valuation Office Agency. This body is regarded as a related-party with which the department has had various material transactions during the year.

The Valuation Office Agency has had a significant number of material transactions with other government departments. Most of these transactions have been with the Department for Communities and Local Government, the Department for Work and Pensions and the Welsh Government.

In addition, the department has had a small number of transactions with other government departments and other central government bodies.

No Board member, key manager or other related parties has undertaken any material transactions with the department during the year.

## 23. Entities within the departmental boundary

The Valuation Office Agency, a supply-financed agency, was the only entity within the departmental boundary during 2014-15; there were no non-departmental public bodies within the departmental boundary.

The Annual Report and Accounts of the Valuation Office Agency are published separately and can be viewed at [www.gov.uk/government/organisations/valuation-office-agency](http://www.gov.uk/government/organisations/valuation-office-agency)

## 24. Events after the reporting period date

There are no reportable non-adjusting events after the reporting period. The financial statements were authorised for issue by the Principal Accounting Officer on 16 July 2015.

## Glossary

# Glossary to the Financial Statements

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**Accrued Revenue Payable (ARP)** – there are three distinct types of ARP. These comprise:

- amounts due to traders that have an established revenue repayment claim relating to the financial year, but the date the claim is received is after the end of the reporting period
- amounts of receivables and accrued revenue receivable that will, when received, be passed to a third-party, for example national insurance contributions due to the National Insurance Funds and National Health Services
- amounts in respect of Corporation Tax and income tax likely to be repayable by the department pending finalisation of taxpayer liabilities.

**Accrued Revenue Receivable (ARR)** – ARR represents taxes and duties relating to the financial year that are not yet due or received from taxpayers, where these have not been included in receivables.

**Administration costs** – these relate to the internal administration costs of running the department, for example human resources, finance, estates management, and includes both costs and associated operating income.

**Amortisation** – this is the method of spreading the cost of a non-current intangible asset over its useful life.

**Annually Managed Expenditure (AME)** – departments are allocated a separate annually managed spending limit called AME which has a shorter term view than the DEL limit. AME is more volatile than DEL expenditure and therefore is more difficult to explain or control as it is spent on programmes which are demand-led – such as tax credits or Child Benefit.

**CFER** – Consolidated Fund Extra Receipts. This is income which the department is not entitled to retain and it is passed over to HM Treasury.

**Consolidated Fund** – the Consolidated Fund is the government's general bank account at the Bank of England. Payments from this account must be authorised in advance by the House of Commons.

**Consolidated Statement of Cash Flows (CSocF)** – a statement that reports the cash flows during the financial year from operating, investing and financing activities.

**Consolidated Statement of Changes in Taxpayers' Equity (CSocTE)** – a statement which explains the movements in the department and departmental group's net assets between the start and end of a financial year.

**Consolidated Statement of Comprehensive Net Expenditure (CSocNE)** – this is the performance statement, the equivalent of the 'Profit and Loss' Account and Statement of Total Recognised Gains and Losses. It reports a summary of the departmental group's expenditure and income for the financial year, along with its gains and losses.

**Consolidated Statement of Financial Position (CSocFP)** – previously known as the Balance Sheet, it provides a snapshot of the assets, liabilities and reserves of the group as at the end of the reporting period.

**Contingent liabilities** – contingent liabilities are possible obligations that arise from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the department's control. An example is legal action where the department may need to pay legal costs if it loses the case. These details are not disclosed if doing so could seriously prejudice the outcome of legal claims against the department.

**Current assets** – a current asset is cash, or any other asset that will be turning to cash or a cash equivalent, within one year from the department's reporting date.

**Current liabilities** – a current liability is an obligation that is due within one year of the department's reporting date.

**Deferred revenue** – this includes duties and taxes paid in the current year that relate to future accounting periods.

**Departmental Expenditure Limits (DEL)** – this is the spending budget that is allocated to and spent by government departments. This amount, and how it is split between government departments, is set at Spending Reviews. It is normally categorised as capital DEL and resource DEL. Departmental expenditure includes the running of the services and the everyday cost of resources such as staff. The DEL limit is tightly controlled by HM Treasury. A department's expenditure is deemed to be DEL unless HM Treasury has specified otherwise.

**Depreciation** – this is the method of spreading the cost of a non-current tangible asset over its useful life.

**Excess Vote** – if a department breached either the total resource-based estimates or the cash limits this will result in an Excess Vote.

**Finalisation** – this is the process, occurring after the financial year end, by which personal tax credit claimants confirm their actual income and other circumstances for the previous award year. The award is finalised for the award year that has ended and appropriate adjustments for under or overpayments of personal tax credits are made.

**Force Majeure** – a common clause in contracts that essentially frees both parties from liability or obligation when an extraordinary event or circumstance beyond the control of the parties, or an event described by the legal term 'act of god'.

**FReM** – Financial Reporting Manual. This is the HM Treasury technical accounting guide to the preparation of financial statements for government.

**IAS** – International Accounting Standard.

**IFRIC** – the IFRS Interpretations Committee (IFRIC) develop guidance on appropriate accounting treatment of particular issues. They are approved by the International Accounting Standards Board (IASB).

**IFRS** – International Financial Reporting Standards. The Financial Statements of Government adopted IFRS from 2009-10 as the basis for preparation of their accounts which were previously prepared under UK- based Generally Accepted Accounting Principles (UK GAAP).

**Impairment of Receivables** – (formerly known as 'Provision for Doubtful Debt' [PDD]) – The process of reducing receivables to a fair value that is likely to be collected.

**Indemnities** – indemnities will be ordered by the court, on behalf of the insolvency practitioner or solicitors, in case the department has incorrectly wound up a viable business. These indemnities are unlimited, although we calculate a likely value for reporting purposes. The calculation is based on the likely amount that a business could be awarded in proceedings and the likelihood of a successful claim for that amount being made. The indemnity will be in place until the case is settled and the liquidation confirmed.

**Intangible** – intangible assets are non-physical assets, for example, developed computer software and website development costs.

**Losses** – losses are made up of remissions and write-offs. Remission is the process used to identify and separate receivables which the department has decided not to pursue, for example on the grounds of value for money. Write-offs are receivables that are considered to be irrecoverable, for example because there is no practical means for pursuing them.

**Managing Public Money** – this is a HM Treasury publication which gives guidance on how to handle public funds.

**Negative tax** – this occurs where the amount of tax credit to be paid out is less than or equal to the recipient's tax liability.

**Net cash requirement** – the amount of funding that the department is entitled to draw down from the Consolidated Fund.

**Non-current assets** – an asset that is not likely to turn to cash or cash equivalent within one year of the department's reporting date.

**Non-current liabilities** – a liability not due to be paid within one year of the department's reporting date.

**Non-voted expenditure** – expenditure which is not subject to annual Parliamentary approval and mainly relates to tax credits and costs in respect of the National Insurance Fund.

**Payables** – (formerly known as 'Creditors') – payables are amounts recognised as owing by the department at the end of the reporting period but payment has not been made.

**Payments of entitlement** – this is the element of a relief which is in excess of the recipient's tax liability.

**PFI** – Private Finance Initiative (PFI) is a way of creating 'public-private partnerships' by funding public infrastructure projects with private capital.

**Programme costs** – these relate to the costs incurred in the delivery of front line services such as the parts of the department which interact directly with our external customers. In addition it includes the payments made for tax credits, Child Benefit and other disbursements by the department. All expenditure and associated operating income for the Valuation Office Agency is treated as Programme.

**Provisions for liabilities** – provisions are recognised when the department has a present legal or constructive obligation as a result of a past event, it is probable that the department will be required to settle that obligation and an amount has been reliably estimated.

**Receivables** – (formerly known as 'debtors') – receivables represent all amounts recognised as owing to the department at the end of the reporting period but payment has not been received. A proportion of the receivable balance relates to revenue that is not yet overdue for payment.

**Receivable Days** – the average number of days it takes to receive payment. The department calculates Receivable Days as, 'total receivables/total revenue x 365 days'.

**Resource Accounts** – the financial statements which report the cost of running the department and include payments of tax credits, Child Benefit and other reliefs.

**Statement of Parliamentary Supply (SoPS)** – this is the primary parliamentary accountability statement and is unique to central government financial reporting. It reports the total outturn (how much has been spent) for the departmental group compared with the amounts approved by Parliament in the Estimate, in the various categories of expenditure.

**Supply Estimates process** – this is the means by which a government department seeks funds from Parliament and authority is given for departmental expenditure each year.

**Suspended debt** – a suspended debt is an indirect tax, penalty or surcharge that is under challenge, dispute or appeal. The value is currently included in the receivables but excluded from the debt balance as currently no recovery action can be taken.

**Tax debt** – Debt Management and Banking calculates and reports monthly the department's debt balance which consists of debts that are overdue or where recovery action can be taken at this time. This provides key operational information for the management of overdue, recoverable debt. This differs to the debt reported in the Financial Statements which is termed 'Receivables' and is defined earlier in this glossary.

**Trust Statement** – the financial statements which report the revenues, expenditure, assets and liabilities related to taxes and duties collected by the department.

**UK GAAP** – the generally accepted accounting principles in the UK which are the body of accounting standards and guidance published by the Financial Reporting Council.

**Voted expenditure** – monies voted to the department by Parliament to cover our expenditure, following the submission of our Estimates. Parliament votes annually on each government department's future expenditure.





National Audit Office

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HM Revenue & Customs 2014-15 Accounts

# Report by the Comptroller and Auditor General

This Report is published alongside the 2014-15 Accounts  
of HM Revenue & Customs

16 July 2015

Issued under Section 2 of the Exchequer and  
Audit Departments Act 1921

Sir Amyas Morse KCB  
Comptroller and Auditor General  
National Audit Office

16 July 2015

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This report provides the findings and overall conclusion of work conducted under section 2 of the Exchequer and Audit Departments Act 1921, by which the Comptroller and Auditor General must consider the adequacy of the systems to assess, collect and allocate tax revenues.

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# Coverage of this report

HMRC corporate document	Coverage of this report
Trust Statement	<p>HM Revenue &amp; Customs (HMRC) will collect £517.7 billion tax revenues for 2014-15. We cover this in <b>Part One</b>.</p> <p>Under the Exchequer and Audit Departments Act 1921 the Comptroller and Auditor General (C&amp;AG) must certify whether the Trust Statement is true and fair, and whether HMRC has used the income and expenditure for the purposes Parliament intended.</p> <p>The C&amp;AG has concluded that:</p> <ul style="list-style-type: none"> <li>the figures in the Trust Statement are true and fair; and</li> <li>HMRC has used income and expenditure for purposes Parliament intended.</li> </ul> <p>The 1921 Act also requires the C&amp;AG to consider whether HMRC's revenue systems to collect taxes are adequate. We found that HMRC's revenue systems are adequate subject to the observations in this report and our other reports to Parliament (<b>Parts Two to Four</b>).</p>
Resource Accounts	<p>The annual cost of running HMRC was £3.1 billion in 2014-15. HMRC paid £42.8 billion in benefits, including £29.1 billion of personal tax credits payments.</p> <p>Under the Government Resources and Accounts Act 2000 the C&amp;AG must certify whether HMRC's Resource Accounts are true and fair, and whether HMRC has used the income and expenditure for the purposes Parliament intended.</p> <p>The C&amp;AG:</p> <ul style="list-style-type: none"> <li>found the Resource Accounts are true and fair; however,</li> <li>has found material levels of error and fraud in tax credits expenditure (<b>Part Five</b>).</li> </ul>
Annual Report	<p>HMRC reported £26.6 billion compliance yield in 2014-15.</p> <p>HMRC asked us to review its compliance yield data in 2014-15, after our audit last year uncovered a significant error in the baseline HMRC used for agreeing targets with HM Treasury.</p> <p>Our conclusions about compliance yield are in <b>Part Three</b>.</p>

We review whether HMRC is getting value-for-money. We report our findings to Parliament under section 6 and section 9 of the National Audit Act 1983. We refer to recent value-for-money work throughout this report.

# Summary

## 2014-15 accounts

### This report

**1** This report is our commentary on HM Revenue & Customs' (HMRC's) performance in 2014-15. We report findings from all our statutory audits of HMRC this year including its financial statements, the adequacy of its revenue collection systems and the value for money it achieved from its spending. Each audit comes under different legislation (see Coverage of this report, opposite).

**2** Our audit of HMRC covers most of the tax revenues the government raises, and the benefits HMRC pays out. HMRC raised £517.7 billion of tax revenues this year (some 80% of total revenues raised by government) and paid out £42.8 billion in benefits – approximately one-fifth of the total the government paid. The annual cost of running HMRC, which is the second largest government department in terms of staff numbers, was £3.1 billion in 2014-15.

**3** Each year we choose parts of HMRC's business to report on in more detail. Last year's report considered: how it allocates resources to different types of compliance work, and measures and reports the success of such work; progress in collecting taxes under the Swiss Tax Agreement; and work to reduce tax debt owed.

**4** This year's report is in five parts:

- Part One is an analysis of **tax revenues and spending in 2014-15** and commentary on the trends, based mainly on figures in HMRC's financial statements.
- Part Two describes **how HMRC estimates the tax gap** and identifies and assesses the scale of the **risks to tax collection**.
- Part Three considers the robustness of **HMRC's estimate of compliance yield**, one of its key performance measures. HMRC asked us to review the measure after our work last year identified a significant error.
- Part Four looks forwards at HMRC's **strategy to improve tax administration**.
- Part Five gives an update on **progress in managing fraud, error and debt from personal tax credits**, and explains the basis of Comptroller and Auditor General's (C&AG's) qualification of the Resource Accounts.

## Summary findings

**5** HMRC aims to get the highest compliance with tax law possible while being efficient and maintaining public confidence in the tax system. HMRC must choose where to focus its resources. It must balance the need for efficient systems that help willing taxpayers, with activities to encourage and, where necessary, enforce compliance with tax law.

**6** HMRC's strategy over the past five years has been to reduce costs, while increasing its compliance work to secure additional revenues. Its settlement with HM Treasury at the 2010 Spending Review included a £917 million reinvestment of its efficiency savings in compliance work to generate additional revenues of £7 billion per year by 2014-15.

### Tax revenues and spending in 2014-15

**7** The Trust Statement reports that HMRC will collect £517.7 billion of tax revenues for 2014-15, an increase of £11.9 billion (2.4%) on 2013-14, building on a 6.3% increase in 2013-14. HMRC records revenues in the Trust Statement on an accruals basis – actual cash receipts were £514.4 billion (£492.6 billion in 2013-14).

**8** HMRC has reduced tax losses (mainly taxes written off where there is no practical way to collect them) to £4.2 billion, below £5 billion for the first time in a number of years. HMRC also reduced the balance of tax debt (taxes that are overdue and outstanding at 31 March 2015) to £13.0 billion (£13.3 billion at 31 March 2014), paragraphs 1.10 to 1.11 and 1.14 to 1.17.

**9** HMRC needed to increase by one-third the amount it set aside for its legal claims provision (where taxpayers are disputing HMRC's assessments through litigation) to £7.2 billion, and to increase by 22% the amount it disclosed as contingent liabilities (possible liabilities from cases currently in litigation), from £29.2 billion at 31 March 2014 to £35.6 billion at 31 March 2015, paragraphs 1.12 to 1.13.

### Spending

**10** While HMRC has collected more tax revenue this year, and paid out more in benefits and credits, it has reduced its administration expenditure from £3.3 billion to £3.1 billion (6% decrease). It has continued to improve its ratio of '*Revenue collected per £1 of Administrative expenditure*' from £153.64 in 2013-14 to £166.95 in 2014-15, paragraph 1.18.

### HMRC's assessment of the tax gap and tax risk

**11** HMRC faces risks to collecting tax efficiently – ranging from honest mistakes to large-scale criminal attacks. HMRC estimates how much tax it does not collect (the 'tax gap'), while identifying ongoing risks to revenue and their relative scale ('tax at risk'), and measuring how effective its response is.

**12 Between 2005-06 and 2012-13, HMRC estimates that the tax gap fell as a proportion of the tax due from 8.5% to 6.8%.** HMRC estimated the tax gap was £34 billion in 2012-13, a slight increase from its 2011-12 estimate of £33 billion (6.6% of the tax due). Income taxes (41%) and VAT (36%) are the taxes which account for most of the tax gap, while the largest share by customer group comes from small and medium-sized enterprises (44%), paragraph 2.5.

**13 We consider HMRC's estimate of the tax gap to be a useful indicator of the scale and nature of non-compliance with the tax rules, and of HMRC's long-term performance.** Estimating the tax gap is not an exact science, however: there is a significant time-lag, and the nature of the tax gap makes it inherently difficult to measure. The International Monetary Fund has concluded that HMRC produces one of the most comprehensive studies of the tax gap available internationally, but made some recommendations for how HMRC's methodology could be strengthened, paragraphs 2.6 to 2.11.

**14 HMRC is seeking to strengthen the links between the tax gap and its understanding of tax risk and of the effectiveness of its compliance interventions.** HMRC has identified 54 strategic risks to revenue with a potential impact of £48 billion, and estimates that its compliance action to mitigate these risks saved at least £14 billion in 2013-14. But compliance yields in relation to these risks are highly variable. More systematic and deep analysis is needed to understand whether levels of yield are related to the inherent nature of the risks or the effect of HMRC interventions. As HMRC deploys new techniques, such as increasing its mass messaging to nudge taxpayers in the right direction, it needs to develop a suitable range of measures to understand their effectiveness, paragraphs 2.17 to 2.25.

**15** In the next few years, we will report how well HMRC uses its analysis of tax risks to decide how to use its resources. We will assess how well HMRC identifies and tackles different forms of tax evasion and criminal attack.

## Estimating compliance yield

**16** Compliance yield measures the effectiveness of HMRC's enforcement and compliance activities. It is one of its main performance indicators, and is used to agree targets with HM Treasury for spending on compliance work. The 2010 Spending Review set HMRC's funding and delivery commitments until 2014-15. As part of this, HMRC committed to make efficiency savings while doing more compliance work to secure additional revenues. HMRC estimates compliance yield to give management information about how its compliance business is performing. Almost half of its staff now does compliance work.

**17** HMRC has continued to develop how it measures its yield from compliance activities over the 2010 Spending Review period to reflect the impact of its wide range of existing and new compliance work. It has progressively adapted the measure to reflect changes in its compliance activities and has improved the evidence base to support its estimates of the impact of these activities. As it has evolved the measure, HMRC has taken a prudent approach, collecting relevant evidence before making changes and reducing its estimates appropriately where there is uncertainty.

**18 HMRC's estimate of compliance yield performance increased to £26.6 billion in 2014-15, up 11 per cent from 2013-14.** As we reported in 2013-14, it is a complex hybrid of measures which are designed to reflect the breadth of HMRC's compliance activities. Because each component of compliance yield covers a different type of activity, they are calculated in different ways and cover different time periods. The breadth of the measure expanded in 2014-15 and it has historically varied from year to year. Caution is therefore needed when making year on year comparisons. In 2014-15, the measure changed to reflect that (paragraphs 3.10 to 3.11, 3.18 to 3.19 and 3.22):

- HMRC added a new type of yield to its measure in 2014-15, an estimate of revenues it expects to receive under accelerated payments legislation, totalling £768 million (including some £200 million estimated to arise as a result of changes in taxpayer behaviour). It also included a significant amount of yield (£576 million) from a long-running compliance project it had chosen to exclude from the previous year's total. The effect of these changes is to increase compliance yield by £1.3 billion in 2014-15: this equates to 48% of the reported increase in yield between 2013-14 and 2014-15. HMRC's reported compliance yield in the absence of these changes would have been £25.2 billion (2013-14: £23.9 billion).
- Accelerated payments legislation brings in payments up front from tax avoidance cases before the case is settled. HMRC reports the cash amounts it has received and repaid under this scheme as yield during the year. In adopting this simple approach, HMRC makes no adjustment in year for the possibility that cash received in individual cases may have to be repaid in future years, or for the possibility that the final award to HMRC may be higher than the cash already received. Although HMRC is confident that these two issues may offset each other in a particular financial year, as amounts received under the scheme are recognised up front, HMRC's current treatment may lead to its annually reported performance being distorted. HMRC will keep the assumptions supporting its approach to scoring this yield under review.

**19 As a performance measure, the yield provides a reasonable proxy for assessing the impact of individual interventions and to support decisions to be made by HMRC in allocating resources.** The methodology supporting the yield is adequate and our work has provided evidence that HMRC has effective processes in place for collating data and ensuring its quality. HMRC has quality assurance processes. Where these processes uncover errors and weak documentation, HMRC works to address these (paragraphs 3.24 to 3.25).



**20 As a published measure of HMRC's performance, there remains a risk that readers might still reasonably conclude that the compliance yield is the amount of cash generated each year arising from HMRC's enforcement and compliance activities.** HMRC continues to improve the accuracy, clarity and transparency of how it reports compliance yield in its Annual Report and has made improvements in 2014-15 to help the reader interpret its reported performance. However, the measure was not designed to track the amounts HMRC reports as yield to the benefits the Exchequer received in the current year and a significant element of the yield calculation relies on estimates of current and future benefits. Given these factors, it is important that the reader is clearer that the yield is not a cash figure and the inclusion of ranges around the estimated elements of yield would help to achieve this (paragraphs 3.21 to 3.23).

**21** The next Spending Review provides an opportunity for HMRC to rethink its approach to reporting compliance yield. Building on the work we have undertaken this year, together with recommendations we and the Committee of Public Accounts made last year, **we recommend that HMRC:**

- Takes forward last year's recommendation made by the Committee of Public Accounts that it should be more transparent about its compliance yield estimates in its external reporting. HMRC should continue to publish more detail about how it calculates yield, and should be clearer about how much it has actually collected in cash terms and explain how uncertainty affects its estimates.
- Strengthens its evidence base to support the discount factor it applies to its cash collected category of yield.
- Makes its methods for calculating yield consistent across categories. As for the cash collected category, HMRC should consider whether its existing assumptions supporting the scoring of accelerated payments remain relevant; and develop a way to score the tax collected in future years which is consistent between its future revenue benefit and product and process yield categories.
- Aims to maintain a comparable measure of compliance yield over time and, where this is not appropriate, it continues to report clearly the impact of any changes it makes to its method in its key accountability statements to Parliament.

## Strategy to improve tax administration

**22 HMRC launched a high-level strategy to transform the tax system in July 2014.** In the March 2015 Budget, the Chancellor announced the “end of the tax return” for millions of customers. HMRC is working on its plans to roll out digital tax services based on customers’ needs, and how it will measure its performance, paragraph 4.10.

**23 HMRC plans to provide modern, personalised online services for customers, making better use of its data and helping customers to get things right first time.** HMRC is aiming to give every taxpayer and every business an online tax account to access all their tax information in one place. The tax account will include information HMRC holds and will check information automatically as the customer enters it. Customer support will be through several channels, such as web-chats, text messages and email, paragraphs 4.11 to 4.12.

**24 The 2015 spending round will make detailed decisions about funding for tax administration beyond 2015-16, and how HMRC will measure its performance.** HMRC must decide how to measure and capture the benefits expected from its transformation. It recognises its current performance measures will be insufficient to measure the impact of its transformation on customers or additional revenues. Strong performance measures will be an important accountability tool for Parliament and taxpayers as HMRC fundamentally changes how it provides services, paragraph 4.14.

**25 HMRC’s transformation plans are ambitious and have significant delivery risk.** The transformation will be complex, and more radical than HMRC’s previous change programmes. HMRC already has an ambitious timescale to phase out the tax return starting in 2016, and this is just one part of its transformation plans. HMRC will need to balance ambition with realism about its critical assumptions and contingency planning. It also has to manage significant operational change while it changes how it procures and manages its IT (including digital) services. Implementation problems are inevitable and HMRC will need commitment and resilience if it is not to be deflected from the delivery of its strategic vision, paragraph 4.16.

## Progress reducing tax credits fraud and error

**26 The C&AG has qualified his regularity audit opinion on the 2014-15 Resource Accounts because of material levels of fraud and error in the payments of personal tax credits.** HMRC’s central estimate of fraud and error in 2013-14 is £1.26 billion, which represents 4.4% of finalised entitlement. This is the most recent estimate of fraud and error available. HMRC has reduced fraud and error from 8.1% in 2010-11 to the lowest level since tax credits were introduced in 2003-04, paragraphs 5.5 and 5.9.

**27 The personal tax credits balance of overpayments rose in 2014-15, from £6.5 billion at 1 April 2014 to £6.9 billion at 31 March 2015.**

In-year recoveries increased from £815 million in 2013-14 to £967 million in 2014-15.<sup>1</sup> In 2014-15, HMRC employed a private sector company to collect tax credits debts so it could re-deploy resource to collect other debts, paragraphs 5.22 to 5.25.

**28 HMRC's recent reduction in fraud and error is encouraging and it is conducting further analysis to fully understand the reasons for all of the reductions.**

In June 2015, HMRC revised the 2012-13 estimate for fraud and error overpayments from 7.0% to 5.3%. HMRC's latest estimate for 2013-14 confirms the downward trend has continued. This decline suggests that HMRC's initiatives to tackle specific fraud and error risks have had an impact. For example, it has worked with credit reference agencies to increase the number of checks and used new data to address the undeclared partner risk. It is also using data on claimants' earnings from its real-time information system to provide better information on household income. HMRC has not yet had time to assess the reasons for reductions more fully and is planning to conduct further analysis, paragraph 5.6.

**29 HMRC has extended its approach to addressing fraud and error.**

It began a project with a private sector contractor to increase the number of compliance interventions it undertakes. It is also seeking to stop overpayments occurring by introducing new obligations for claimants to provide more information. Its approach has delivered sustained reductions for most main risk types. HMRC must continue to find innovative ways to tackle remaining losses, fully understanding the causes and the extent to which further reductions are achievable for each risk type, paragraphs 5.12 to 5.21.

**30 HMRC will continue to address tax credits fraud and error alongside managing the transition to Universal Credit, where it will need to work closely with the Department for Work and Pensions (DWP). Child Benefit expenditure will take on more prominence in the Resource Accounts as tax credits payments start to decrease. We recommend that HMRC:**

- Undertakes an exercise to further evaluate how the 2012-13 revision has affected each risk type, and conducts more detailed analysis to track how operational activities are delivering reductions by risk type. Such analysis will inform operational decisions on the prioritisation of fraud and error activities.
- Ensures that it maintains proportionate controls and interventions on tax credits during the transition to Universal Credit, paragraphs 5.26 to 5.29.
- Undertakes additional analysis of the underlying causes and entry points of fraud and error on Child Benefit to better target its controls at these risk areas, and establish whether they have sufficient information from claimants to support its assessment of entitlement and eligibility, paragraphs 5.31 to 5.33.

<sup>1</sup> The figures quoted here for recovery do not align directly with the figures disclosed in Note 6.2 of the 2014-15 Resource Accounts. The recovery target captures only cash collected and the value of time to pay arrangements. The Resource Accounts figures also include other adjustments to the receivables balance.

## Summary of findings from our value-for-money work

**31** We published two value-for-money reports on HMRC in 2014-15 – on its Aspire contract and its management of tax reliefs – and reviewed its response to our, and the Committee of Public Accounts', recommendations over the life of the last Parliament.

### Review of recommendations

**32** The Committee of Public Accounts made taxation a key area of focus during the last Parliament. In February 2015, we reviewed HMRC's response to our and the Committee's recommendations since 2010 and found that HMRC had accepted and implemented most recommendations. We concluded that HMRC engages strongly with the accountability process and robustly implements those recommendations it has accepted. We also found that HMRC had made good progress against its strategic objectives and in many of the areas of the Committee's focus, but that a lot remained to be done to raise the quality of customer service to an acceptable level.

### Aspire contract

**33** HMRC managed its Aspire contract well (for outsourcing most of its technology projects and services since 2004). We praised HMRC's strong track record in introducing new technology and providing continuity of its core systems that are essential to collecting tax revenue. However, we identified that the phasing out of Aspire presented significant risks to HMRC's technology strategy if it cannot build commercial and technical capability before contract end in 2017. In January 2015 the Committee of Public Accounts said that HMRC had made little progress in defining its needs and appeared not to appreciate the scale of the challenge. In March 2015, HMRC told the Committee it had set up direct commercial relationships with each of the major companies, Capgemini, Fujitsu and Accenture, who were previously part of the Aspire consortium. This was helping with some early transition work and controlling ICT costs. However, HMRC had not had formal sign-off of its business case for replacing Aspire.

### Tax reliefs

**34** We found that some types of tax relief require proactive management, especially those that have specific policy objectives. Tax reliefs perform many functions, but have common features and similar risks. HMRC accepts that it bears responsibility for evaluating whether tax reliefs are meeting their aims and for assessing their costs and benefits. We found some good practice, but also inconsistency and fragmentation in how HMRC administers reliefs, with poor information-sharing on risks, costs and benefits. We recommended that HMRC should develop a method to identify groups of similar reliefs and identify what level of administration is appropriate for each type. We have seen signs of a more specific and focused approach emerging. An example is the specialist unit set up to administer patent box relief, which is developing new ways to monitor risk and respond quickly to deviations in the relief's use. We have encouraged HMRC to move forward on this, developing techniques to apply to each tax relief in a way that is proportionate to risk.

## Conclusion

**35** HMRC has ambitious plans to modernise tax administration in the coming five years as it embarks on its third major change programme since its creation in 2005. Over the last Parliament, HMRC met its strategic objectives to increase compliance yield and save costs. It made less progress in improving customer service, which still falls well below the standards customers should expect. Overall, HMRC has managed the risks to its core functions well and balanced this carefully with opportunities to harness new technology and data to enhance its business. We consider HMRC as among the strongest government departments for managerial competence and its capability to make changes. However, it must manage significant challenges as it makes its next transformation. We will report on HMRC's progress as the programme unfolds.

**36** HMRC is now making detailed cost and delivery plans for the next five years, and will agree the funding and performance levels it will be accountable for during the next spending round. HMRC must improve its performance measures and how it reports its performance publicly. Measures must be broad enough to reflect the objectives and progress of its transformation programme, and robust and consistent enough to be comparable over time. It should also ensure its public statements on performance are fair, balanced and understandable, clarifying any areas of uncertainty when reporting figures. These considerations should be prominent as HMRC agrees new performance measures as part of the 2015 Spending Review.

**37** In fulfilling our statutory duties under the Exchequer and Audit Act 1921, while recognising that no tax collection system can ensure that everyone meets their tax obligations, we conclude that in 2014-15 HMRC had framed adequate regulations and procedures to secure an effective check on the assessment, collection and proper allocation of revenue, and that they are being duly carried out. This assurance is subject to the observations on specific aspects of the administration of taxes in this report and our other reports to Parliament.

# Part One

## Financial performance in 2014-15

**1.1** This Part provides a brief commentary on HM Revenue & Customs' (HMRC's) financial performance in 2014-15.

### Tax revenues

**1.2** The revenue HMRC reports in the Trust Statement for 2014-15 was £517.7 billion (£505.8 billion in 2013-14) (**Figure 1**). HMRC prepares the Trust Statement on an accruals basis. This means that the revenue figure reported relates to tax due on earned income or activities during the financial year, regardless of when the cash is received. In 2014-15, HMRC received some £514.4 billion in cash (£492.6 billion in 2013-14).<sup>2</sup>

**1.3** Revenue increased by 2.4% in 2014-15 (in 2013-14 it increased by 6.3% compared with 2012-13). The taxes that contributed most of this increase were VAT, which increased by £5.7 billion (5.3%), and income tax and national insurance contributions, which increased by £2.3 billion (0.9%). Some smaller taxes that increased significantly were capital gains tax (up 46.2% to £5.7 billion) and climate change levy (up 50% to £1.8 billion). In contrast, petroleum revenue tax fell significantly from £1.1 billion last year to less than £0.1 billion this year.

### Where tax revenues are used

**1.4** Some of the total revenue of £517.7 billion was collected on behalf of other government departments. HMRC collected national insurance contributions of £108.0 billion (2013-14 £106.7 billion) on behalf of the National Insurance Fund and National Health Service, student loan repayments of £1.8 billion (2013-14 £1.5 billion) on behalf of the Department for Business, Innovation & Skills. It transferred £31.5 billion (2013-14 £30.7 billion) of revenue to its Resource Accounts to fund tax credits.

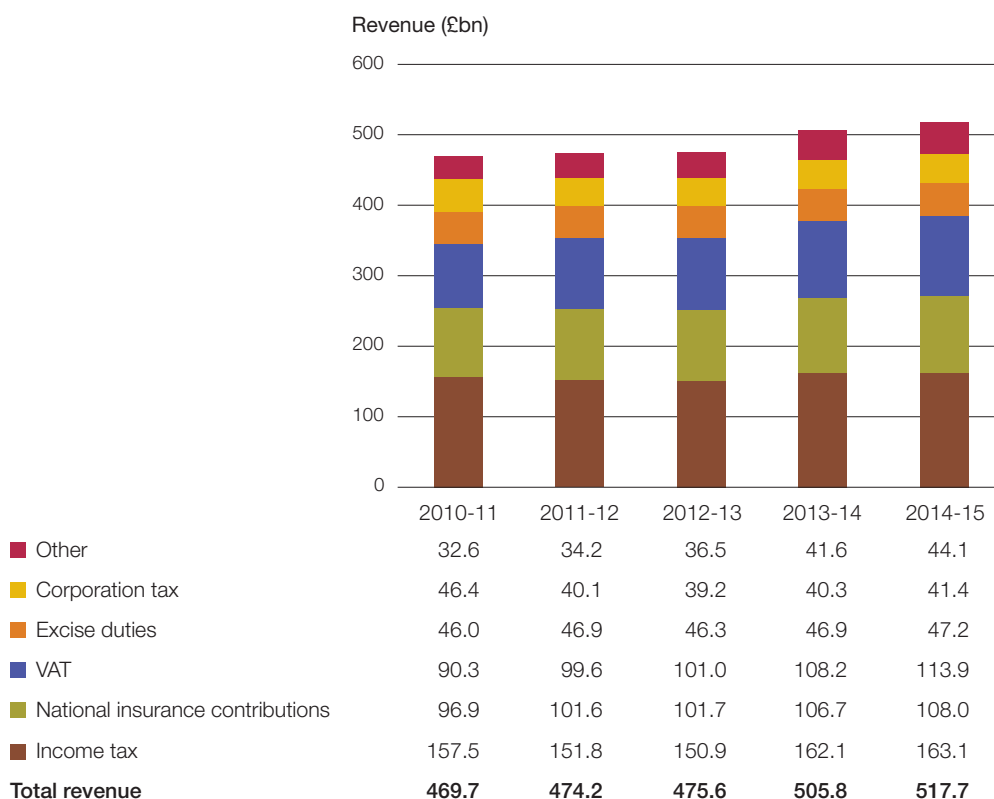
**1.5** After taking these into account, together with HMRC's losses, impairments and provisions, the net revenue of £364.0 billion (2013-14 £360.9 billion) was transferred to the consolidated fund. This is the government's current account, which is used to fund its chosen spending plans for the year. HMRC contributes around 80% of the total receipts recorded in the consolidated fund.

<sup>2</sup> HMRC also publish receipts on a cash basis which can be found at: [www.gov.uk/government/statistics/hmrc-tax-and-nics-receipts-for-the-uk](http://www.gov.uk/government/statistics/hmrc-tax-and-nics-receipts-for-the-uk)

**Figure 1**

## Tax revenues 2010-11 to 2014-15

Total tax revenue has increased in each of the past 5 years



Source: HM Revenue &amp; Customs' Trust Statements 2010-11 to 2014-15

**Tax assessed but not yet collected**

**1.6** Of the total tax revenue of £517.7 billion (2013-14 £505.8 billion), HMRC had not yet received £115.7 billion – 22% of revenue (2013-14 £113.6 billion, 23%). This consisted of:

- £26.0 billion (2013-14 £24.3 billion) due from taxpayers but not yet received (receivables); and
- £89.7 billion (2013-14 £89.3 billion) of taxes not yet due from taxpayers, but earned in the financial year (accrued revenue receivable).<sup>3</sup>

<sup>3</sup> Note 4 to the Trust Statement.

## Accelerated payments

**1.7** The Finance Act 2014 introduced legislation that enables HMRC to issue an 'accelerated payment notice' requiring payment of tax and/or national insurance that is in dispute as a result of their use of a tax avoidance scheme. There are a number of conditions that must be satisfied before a notice can be issued, including that the arrangement used is notifiable under the 'disclosure of tax avoidance scheme' regime or is subject to a 'general anti abuse rule' counteraction notice, and there must be an open enquiry or appeal in connection with the tax/national insurance in dispute.

**1.8** These 'accelerated payments' were included in the Trust Statement for the first time in 2014-15. HMRC has recognised £1.2 billion of revenue at the point when the 'notice to pay' was issued, which is before the enquiry or dispute has been resolved. As at 31 March 2015, HMRC has received £0.6 billion of these payments. The balance is made up of amounts which are due but not yet paid, or amounts which are not yet due because the 90 day payment date has not yet been reached or statutory representations are being considered. Accelerated payments, whether received or receivable, are not disclosed separately in the Trust Statement but are included within the revenue for the related tax.

## Impairments

**1.9** HMRC recognises that there is a risk that some of the tax revenue owed will not be collected or may prove not to be due. Accounting standards require the Trust Statement to reflect this risk. As a result, HMRC has estimated that it may not collect £8.5 billion (2013-14 £6.6 billion). This impairs the overall balance due from taxpayers to £17.5 billion (2013-14 £17.7 billion). This does not mean that HMRC will not collect these amounts, but reflects that there is a chance that it may not. The degree of impairment varies across taxes (**Figure 2**). VAT and income tax carry the highest risks, which include VAT liabilities being uncollectable due to company insolvencies.

## Losses

**1.10** Receivables that have been impaired may still be collected, but in some cases HMRC assesses that the tax is unlikely to be collected and it is either written off, where there is no practical way to pursue it, or it is remitted, where HMRC decides not to pursue it on value-for-money or hardship grounds.

**1.11** Amounts written off totalled £3.9 billion (2013-14 £4.5 billion) and amounts remitted totalled £0.3 billion (2013-14 £0.6 billion). In total, losses fell by £0.9 billion compared with 2013-14. Much of this decrease related to income tax losses, which fell by £0.6 billion, offset by increases in other taxes such as corporation tax, which incurred £0.1 billion more losses than in the previous year (Figure 2). The main reasons for tax revenue losses, including those for high-value cases (more than £10 million), are disclosed in Note 7.2 to the Trust Statement.

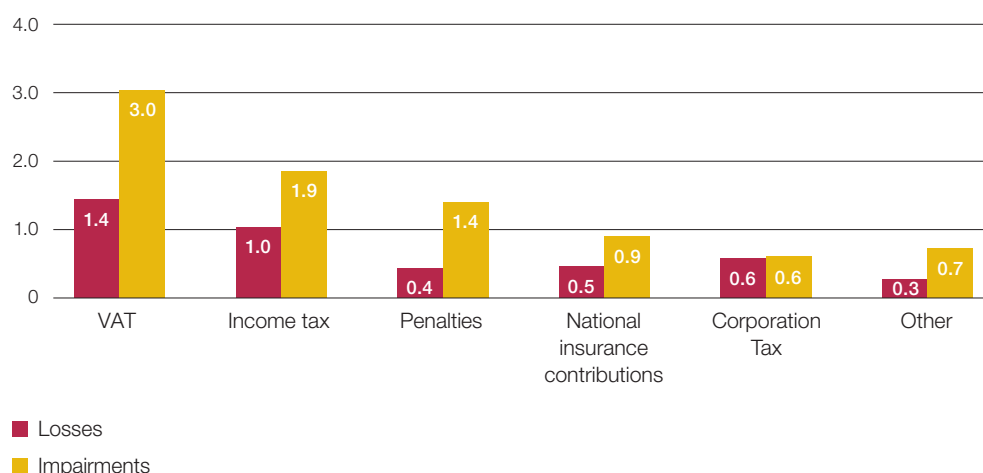


**Figure 2**

## Losses and impairments

VAT and income tax carry the highest risk that tax will not be collected

Losses and Impairments (£bn)



Source: National Audit Office analysis of HM Revenue & Customs Trust Statement 2014-15 and underlying data

**Provisions and contingent liabilities**

**1.12** Some revenue collected and reported in the gross tax revenue figure will later be repaid to taxpayers. This may be because taxpayers have overpaid, taxes due are reassessed for previous tax years, or because taxpayers claim reliefs and allowances. HMRC reports two types of provision:

- **Legal claims** where taxpayers have disputed the interpretation of legislation through the courts and are seeking a reassessment of the tax payable. The outcome depends on the courts, but HMRC expects it will have to repay £7.2 billion as at 31 March 2015 (2013-14 £5.4 billion).
- **Oil field decommissioning costs** where companies offset costs of decommissioning oil and gas fields in the North Sea against tax they have previously paid on those fields. These costs can be carried back to earlier years indefinitely, in contrast to other taxes that are time limited. HMRC has estimated that it will have to repay £7.5 billion as at 31 March 2015 (2013-14 £3.1 billion). As HMRC has set out in Note 8.3.1 to the Trust Statement, it has revised its approach to estimating this provision. The increase since 2013-14 is largely due to HMRC taking a longer term view of its likely repayments of petroleum revenue tax.

**1.13** HMRC also discloses contingent liabilities, which are possible liabilities to HMRC. The liabilities for legal claims have risen by 22% to £35.6 billion at 31 March 2015 (2013-14 £29.2 billion). This is because HMRC has revised its estimates for cases currently in litigation and taken into account court decisions during the year. It is important that HMRC maintains an up-to-date assessment of the progress of key legal cases and any potential accounting and budgetary consequences.

## Debt

**1.14** HMRC's Trust Statement reports a figure of £26.0 billion of 'receivables' (tax owed) at 31 March 2015. This includes £13.0 billion of overdue tax debt, which is when a tax liability is outstanding and collectable after its due payment date. Tax debt excludes tax credits debt, which is discussed in Part Five.

**1.15** The value of tax debt at the year end fell to £13.0 billion<sup>4</sup> at 31 March 2015 compared with £13.3 billion at 31 March 2014. HMRC managed a total of £54.7 billion of new tax debt during 2014-15. This was £1.9 billion less than in the previous year (**Figure 3** on pages R19 and R20). During the year, HMRC collected £40.5 billion (£39.6 billion in 2013-14). The main reason for the decrease in the debt balance has been an increase in the amount of debt collected during the year.

**1.16** HMRC has seen a slight increase in debt older than one year, which accounts for 31% of the year-end debt balance (**Figure 4** on R21). The balance of aged debt has increased to £4.0 billion at 31 March 2015 from £3.7 billion at 31 March 2014. Within this category of debt there has been an increase in Time to Pay arrangements (TTP), which despite remaining on the debt balance represent debts that are being actively repaid in instalments. The terms of these instalments vary from a few months to several years.

**1.17** We reported in last year's Standard Report that HMRC was refreshing its debt strategy to help improve debt collection.<sup>5</sup> The key changes in 2014-15 are:

- **Introduction of the market integrator:** HMRC is currently preparing for the cross-government 'debt market integrator', due to be introduced in 2015. The market integrator should act as a single point of contact to manage debt placed with the private sector for collection on behalf of HMRC and other government bodies.
- **Working collectively with other parts of the business:** HMRC is currently working with other parts of its business to reduce the creation of debt and improve the efficiency of some of the tax collection processes.
- **Self-service options:** HMRC is currently working to introduce digital services. These will give customers self-service options on their 'time to pay' and to code out their debts.

<sup>4</sup> The Real Time Information element of the year-end debt balance has been estimated based on February 2015 figures.

<sup>5</sup> Comptroller and Auditor General, *HM Revenue & Customs Annual Report and Accounts 2013-14*, Session 2014-15, HC 19, National Audit Office, July 2014; R48, paragraph 4.11.

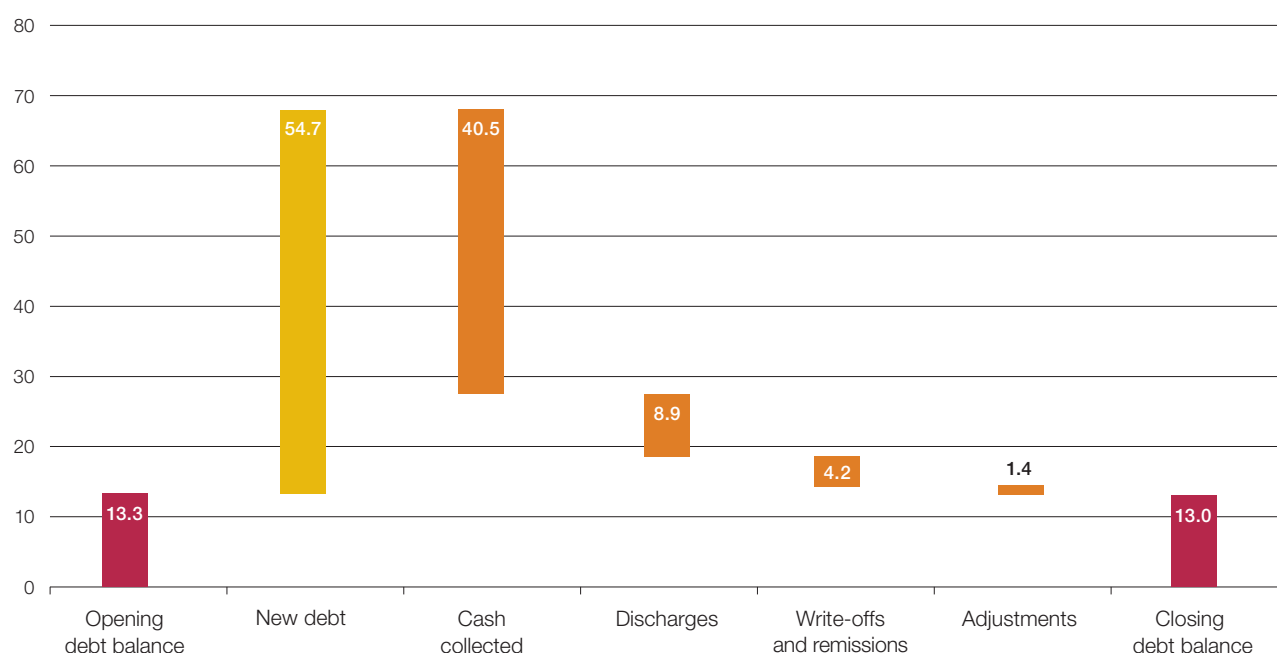
**Figure 3**

## Debt movements

HMRC has collected more debt in 2014-15

2014-15

£ billion



■ Year-end debt balance

■ Movements which increase the debt balance

■ Movements which decrease the debt balance

**Notes**

- 1 Movements exclude tax credits debt.
- 2 Debt is written off in situations where there is no practical way to pursue the liability. Most write-offs occur automatically and are outside a department's control, such as where the debtor is insolvent.
- 3 Debt 'remission' (a concept unique to government) is where a department decides not to pursue a debt. This can be on the grounds of value for money where the cost of pursuing the debt would be greater than the benefit, or because it is not the most efficient use of limited resources, compared with other priorities.
- 4 Discharged debt is where HMRC amends or cancels a debt after receiving further information that determines the taxpayer's final liability as being lower than the figure originally estimated.
- 5 Adjustments are due to manual adjustments to reconcile between debt balance figures in debt management systems and movements, such as cash collected, in other financial systems.

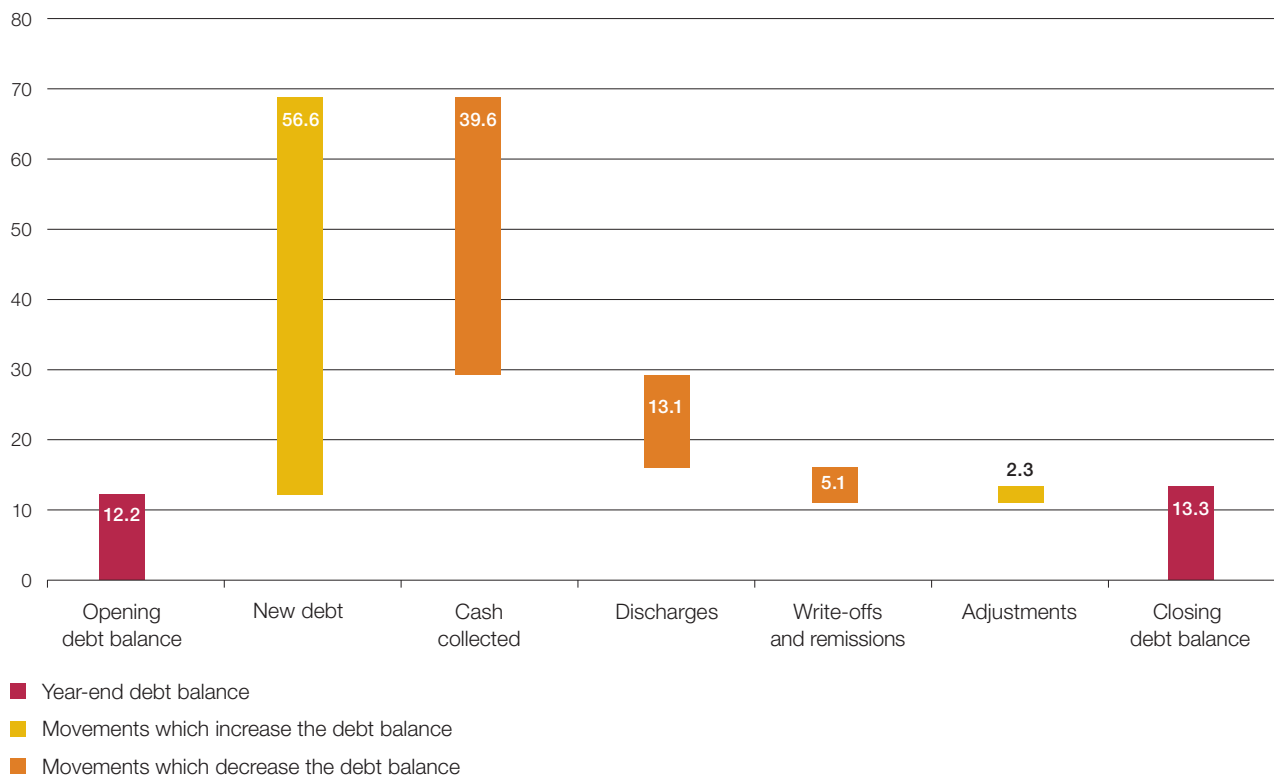
Source: HM Revenue &amp; Customs

**Figure 3** *continued*

## Debt movements

2013-14

£ billion



## Resource Accounts

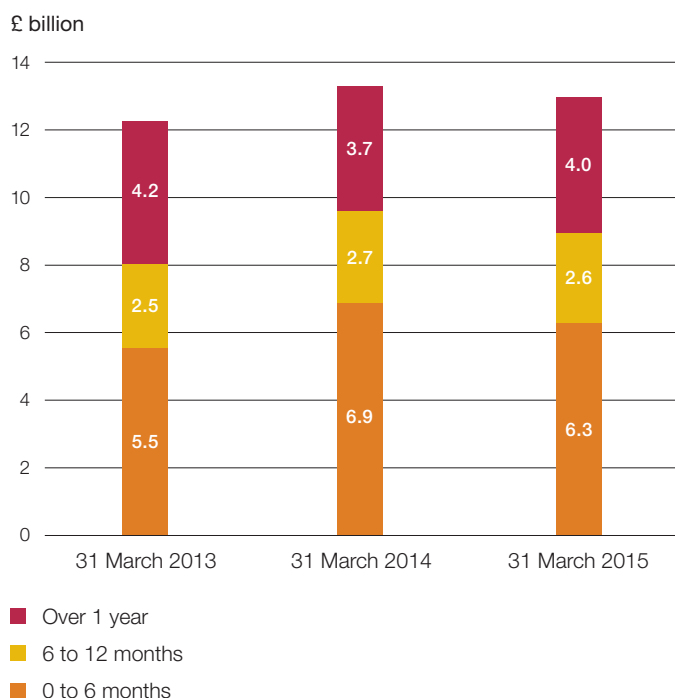
**1.18** HMRC has collected more tax revenue this year, and paid more in benefits and credits. At the same time, it has reduced spending on administration from £3.3 billion to £3.1 billion (6% decrease) (**Figure 5** on page R22).

**1.19** Tax credits have been reported in the Resource Accounts since 2011-12, having previously been included in the Trust Statement. This change arose from the clear line of sight project, which aimed to simplify government financial statements. Tax credits in the Resource Accounts are those that result in a payment to the taxpayer. Other reliefs that are offset against liabilities, and are integral to the tax system, are reported in the Trust Statement. The tax credits reported in the Resource Accounts are personal tax credits of £29.1 billion (2013-14, £29.3 billion) and corporation tax reliefs of £2.1 billion (2013-14, £1.6 billion). Child Benefit payments of £11.6 billion (2013-14, £11.5 billion) are also reported in the Resource Accounts.

**Figure 4**

## Tax debt by age

HMRC has seen a slight increase in debt older than a year

**Note**

1 Trend analysis showing change in composition of age of debt.

Source: HM Revenue &amp; Customs data

**1.20** Since HMRC's creation following the merger of the Inland Revenue and HM Customs and Excise ten years ago, the number of staff permanently employed by the core department has fallen by more than one-third, from 97,000 in April 2005 to 57,000 in March 2015. Staff numbers have fallen from 61,000 full-time equivalent staff at March 2014 to 57,000 at March 2015 (7%) (**Figure 6** on page R23). Personal Tax has seen the largest fall (27%). Staff numbers in enforcement and compliance have fallen slightly this year, after increases in recent years as HMRC focused resources in this area. Against the overall reduction, staff numbers in some directorates have risen. For example, in Business Tax they have increased by 40%.<sup>6</sup>

**1.21** Total staff costs for the core department have fallen by 4% compared with 2013-14.<sup>7</sup> This is a lower reduction than for overall numbers of staff. It reflects the change in staff profile as technological improvements require fewer processing staff, with relatively more resources moved into more senior roles.

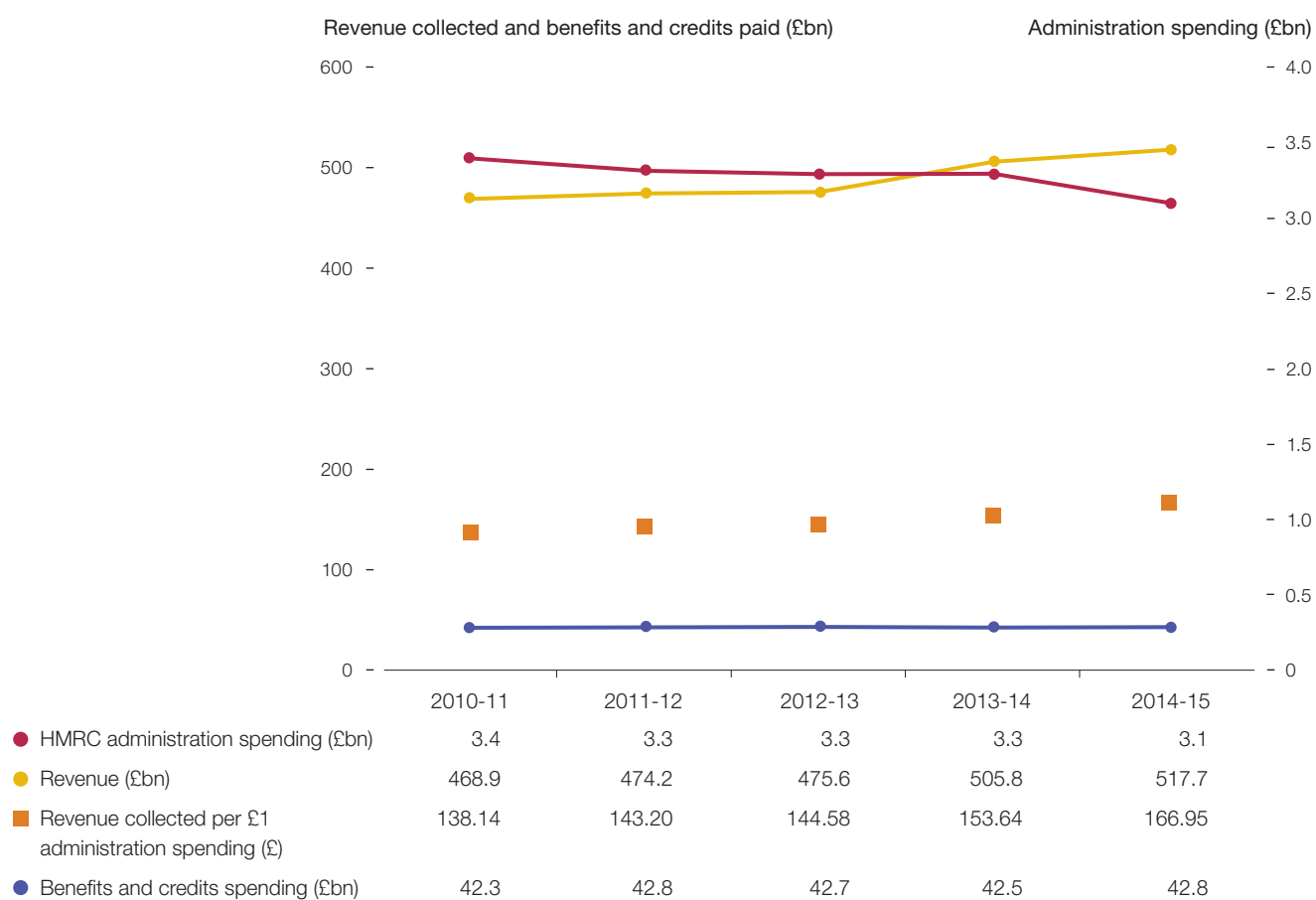
<sup>6</sup> These staff increases were due to internal restructuring from Enforcement and Compliance to Business Tax Directorates.

<sup>7</sup> Total staff costs as stated in Note 3 to *HMRC Resource Accounts 2014-15*

**Figure 5**

## Revenue and spending

HMRC has reduced administration spending while increasing revenue collected and increasing benefits and credits paid

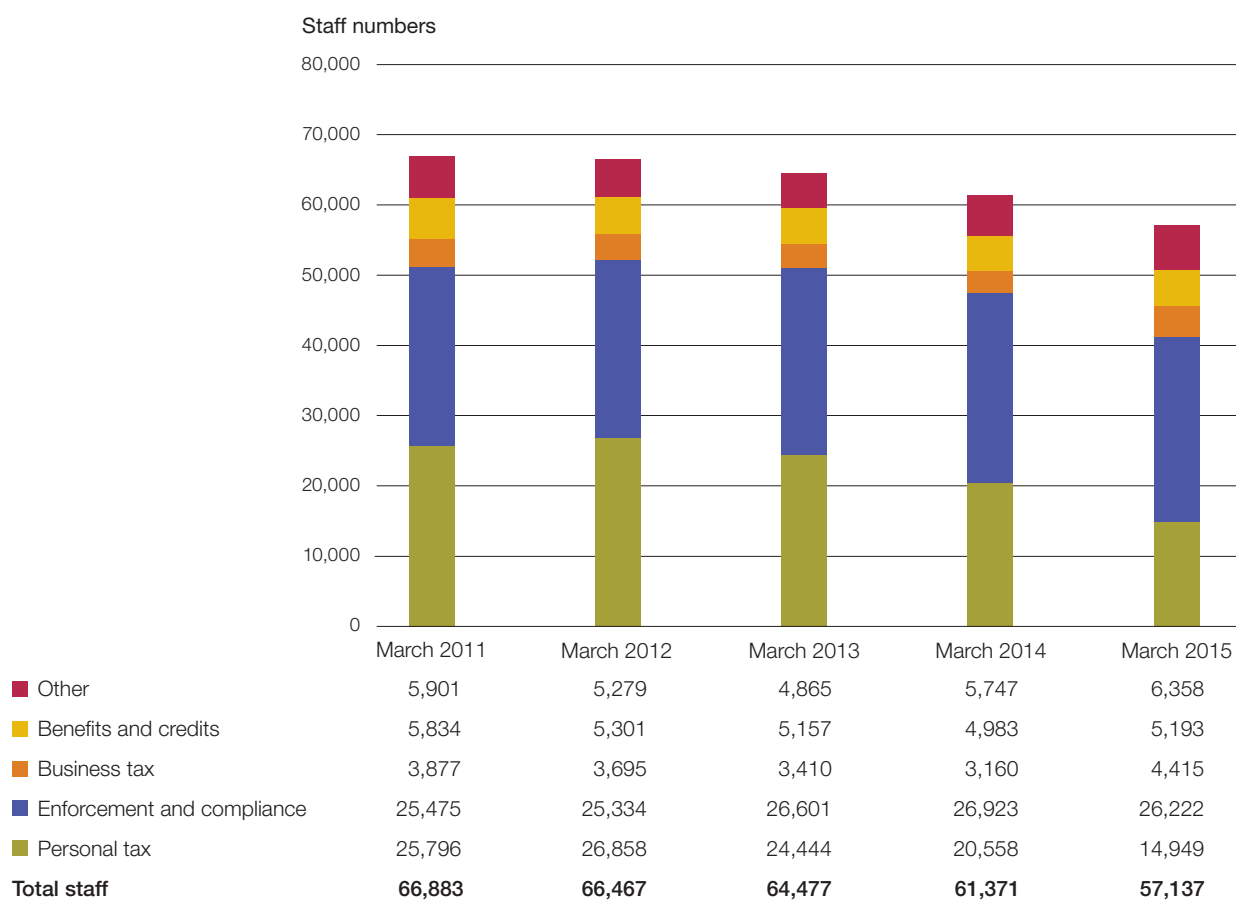
**Notes**

- 1 Benefits and credits spending includes Resource Accounts subheads: E Social benefits and grants, F Providing payments in lieu of tax relief to certain bodies, M Personal tax credits and N Other reliefs and allowances.
- 2 Administration spending is Resource Accounts subhead A HMRC administration.

Source: Analysis of HM Revenue & Customs' Resource Accounts and Trust Statement

**Figure 6**  
Staff numbers

Staff numbers (full-time equivalent) have decreased in each of the past 5 years



Source: HM Revenue & Customs data

## Part Two

### HMRC's assessment of the tax gap and tax risk

**2.1** HM Revenue & Customs (HMRC) faces many risks to the effective and efficient collection of tax. Customers vary in their abilities to understand and interact with the tax system. Most taxpayers want to get their tax right but some do not take sufficient care or may misinterpret rules. Some establish aggressive arrangements to avoid tax by exploiting loopholes in the tax rules, while others are prepared to break the law by seeking to evade tax, such as by concealing their income from HMRC. Organised criminals target weaknesses in the tax system to commit fraud, such as by triggering VAT repayments.

**2.2** HMRC seeks to assess how much of the tax due is not collected (the 'tax gap'), and to identify and quantify ongoing risks to tax revenue (tax at risk), and measure the effectiveness of its response. In this part we describe how HMRC does this and how its approach is developing. We also summarise recent reports by the National Audit Office (NAO) which have considered the effectiveness of HMRC's work to identify and address particular tax risks.

#### How HMRC estimates the tax gap

**2.3** The tax gap is HMRC's estimate of the difference between the amount of tax it should theoretically be able to collect and what it actually collects. Estimating the tax gap is not an exact science but it provides an indicator of the trend in tax compliance, and a broad indication of HMRC's long-term performance in tackling non-compliance. HMRC's business plan for 2012–2015 included an objective to close the tax gap.

**2.4** HMRC publishes tax gap data for official statistics and prepares a report each year which sets out its methodology and analysis in detail. HMRC seeks to preserve the integrity of its tax gap methodology over time, but it also refines its methodology to make its estimates as robust as possible based on the best data available. When it makes changes, it adjusts previous years' data to preserve the time series.

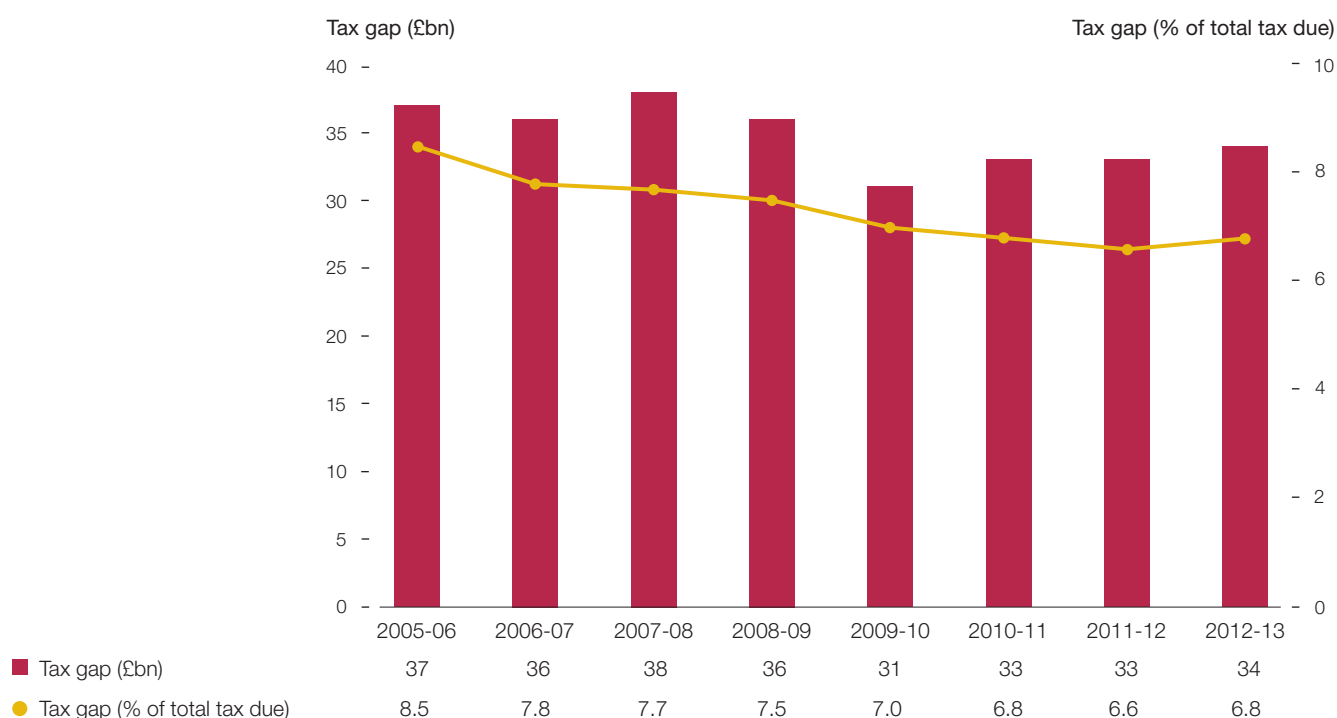


**2.5** HMRC's latest estimate of the tax gap is £34 billion, covering the 2012-13 year. As a proportion of all the tax due, the tax gap decreased steadily from 8.5% in 2005-06 to 6.6% in 2011-12, increasing slightly to 6.8% in 2012-13 (**Figure 7**). Analysis of the tax gap can help HMRC understand the source of tax losses and where to focus its attention. For example, it publishes a breakdown of the tax gap by type of tax, customer group and customer behaviour (**Figure 8** overleaf). This three-way analysis mirrors the way HMRC considers tax risks and organises its compliance response.

### Figure 7

Size of the tax gap in absolute terms and as a percentage of all tax due from 2005-06 to 2012-13

HMRC's estimate of the tax gap as a proportion of all tax due declined from 2005-06 to 2011-12, but increased slightly in 2012-13



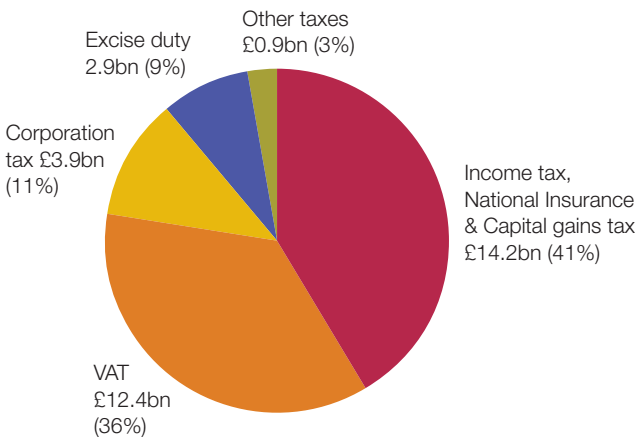
Source: HM Revenue & Customs, *Measuring tax gaps 2014 Edition*, October 2014

**Figure 8**

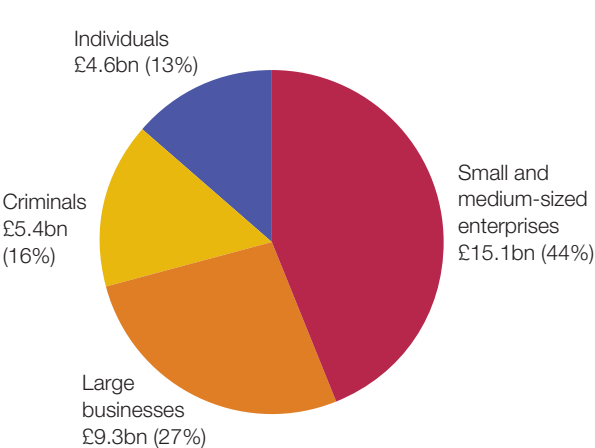
The share of the tax gap (2012-13) by type of tax, customer group and behaviour

The taxes that account for most of the tax gap are income taxes (41%) and VAT (36%), while the largest share by customer group comes from small and medium-sized enterprises (44%)

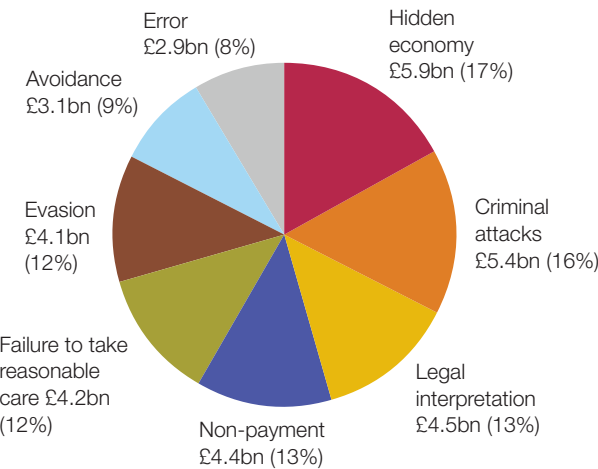
**Type of tax**



**Customer group**



**Customer behaviour**



Source: HM Revenue & Customs

## The tax gap methodology and its limitations

**2.6** The tax gap involves a significant time lag. Taxpayers have up to a year from the year-end to submit their tax returns and HMRC needs time to evaluate them. HMRC therefore publishes an initial estimate of the tax gap around 18 months after the end of the tax year to which it applies. Some components are projected and revised as new data become available, resulting in revisions to the tax gap measure in subsequent publications.

**2.7** The tax gap is inherently difficult to estimate and HMRC acknowledges that no estimate of the tax gap can be definitive and that its estimates carry a degree of uncertainty. It uses a mix of sources and methods to fill gaps in data (**Figure 9**). It makes ‘top-down’ estimates using national statistics for indirect taxes (VAT and excise duties). For direct taxes (on income and wealth), it applies a ‘bottom-up’ approach, making random enquiries on a sample of tax returns to estimate the size of the tax gap nationally. It also cross-checks its data with other sources, including its intelligence on tax risks. Where data is very limited, HMRC bases its estimates on known cases and makes an extrapolation. Around two-thirds of the tax gap is estimated using established methodologies, with the remainder estimated using developing and experimental methodologies.<sup>8</sup>

**Figure 9**

Sources of HMRC’s tax gap estimates by type of tax

HMRC uses a range of methods to estimate the tax gap, which vary by type of tax. Where possible HMRC cross-validates its estimates by using more than one approach.

Tax regime	‘Top-down’ estimates of tax due from macro-economic data	‘Bottom-up’ random enquiries into tax returns	HMRC’s own intelligence on tax risk	Cross-checking with other sources of data	Illustrative estimates to fill gaps in data
VAT	Yes	Yes	Yes	Yes	Yes
Excise	Yes				Yes
Income tax, National Insurance and Capital gains tax		Yes	Yes	Yes	Yes
Corporation tax		Yes	Yes		Yes
Stamp duty			Yes		Yes
Other direct					Yes
Percentage of tax gap which is estimated primarily by this method	44%	22%	8%	3%	23%

Source: National Audit Office summary of HM Revenue & Customs and International Monetary Fund analysis

<sup>8</sup> Experimental methods are used for the hidden economy, some excise duties, large and complex businesses, large partnerships, large employers, Inheritance tax and some smaller taxes.

**2.8** HMRC is not able to estimate the scale of uncertainty around its best estimate of the tax gap. For around 60% of the value of the tax gap, it has not made any estimate of the scale of uncertainty. For the remaining 40% (£14 billion) of the tax gap, HMRC can and does calculate margins of error.

**2.9** Other commentators have published estimates of the tax gap in the UK which rely on macroeconomic data to make ‘top-down’ estimates. Without access to the range of data held by HMRC, it is necessary to infer relationships from aggregated data in order to produce such estimates. They also define the tax gap differently, such as by using a much broader definition of tax avoidance than that employed by HMRC. Such approaches typically lead to much higher estimates. HMRC argues that top-down approaches are not possible for direct taxes.<sup>9</sup> Instead it uses the data it has from sources such as random enquiries, risk registers and data matching, to produce ‘bottom-up’ estimates for direct taxes.

**2.10** In 2013, HMRC asked the International Monetary Fund (IMF) to review its methodology for estimating the tax gap. The IMF concluded that HMRC produced one of the most comprehensive studies of the tax gap available internationally. It concluded that in general the methodologies HMRC used to estimate the tax gap were sound and consistent with the approaches used by other countries. It found the HMRC programme followed a pattern of employing “bottom-up” based estimates for the direct tax gaps, and “top-down” estimates for the indirect tax gaps. The IMF judged that both approaches were applied consistently with good international practices – in fact, HMRC had been leading the application of some of these methodologies.<sup>10</sup> The IMF recommended that HMRC improve its measurement and reporting of the tax gap, such as by combining ‘bottom-up’ and ‘top-down’ approaches for those taxes where this is possible, including direct taxes. It also recommended that HMRC improve its estimates of undetected non-compliance by replacing uplift factors derived from US evidence with those produced from UK data.

**2.11** No measure of the tax gap can be definitive, and there will always be uncertainties inherent in such a calculation. HMRC must also balance the cost of refining its estimate with the added value such additional work would provide. We consider it useful that HMRC has produced a measure of the tax gap as an indicator of the scale and nature of non-compliance with the tax rules, and as a broad indication of its performance over time. It is also a strength that HMRC publishes a comprehensive analysis of its tax gap estimates so that the basis and limitations of the measure are clear and understood. HMRC supplements the tax gap with more timely sources of intelligence about tax at risk to help it respond in an appropriate and timely way to known and emerging threats.

<sup>9</sup> A detailed explanation of why HMRC believes such approaches are not possible is set out in an HMRC working paper “The practicality of a top-down approach to the direct tax gap” August 2011. Available at: <https://www.gov.uk/government/publications/the-practicality-of-a-top-down-approach-to-the-direct-tax-gap>

<sup>10</sup> International Monetary Fund, *Country Report No. 13/314, United Kingdom: Technical Assistance Report — Assessment of HMRC’s Tax Gap Analysis*, October 2013.

## How HMRC assesses tax at risk

### HMRC's approach to promoting tax compliance

**2.12** HMRC uses three dimensions by which to assess the risks to tax revenue and plan its compliance response: type of tax (such as corporation tax); customer group (such as large business); and customer behaviour (such as tax avoidance or criminal attack). HMRC aims to promote tax compliance and deter non-compliance by:

- making its systems and processes easier for customers (for example, by simplifying guidance and forms);
- making it harder for people to cheat or make mistakes when they file information (for example, real-time alerts to stop repayments of VAT on fraudulent and incorrect claims); and
- responding to non-compliance firmly, and with maximum impact (for example, by targeting tax investigations on high-risk groups).

**2.13** HMRC applies different compliance strategies to different groups of taxpayers. It has dedicated customer relationship managers to support and monitor large businesses and wealthy individuals with complex tax affairs. For most customers who are required to submit tax returns, HMRC uses mass messaging to nudge customers in the right direction. It plans to help customers further in the future by pre-populating tax returns with data it holds and promoting compliance by using pop-up messages to challenge unusual entries on forms. For customers who choose not to comply voluntarily or engage with the tax system at all, HMRC must intervene more actively to detect and tackle abuses of the tax rules, sometimes working alongside other government bodies, such as local authorities and the police, sometimes working internationally with other revenue authorities and law enforcement agencies.

### How HMRC identifies and records tax risks

**2.14** HMRC identifies risks to revenue from a variety of sources including tax returns, third-party data, intelligence from the public, published accounts and social media. It analyses data to identify those parts of the taxpayer population that present particular risks and individual taxpayers with a high risk profile. HMRC has a range of tools to analyse data: its Connect technology, for example, checks tax returns against multiple data sources to detect patterns, hidden relationships and inconsistencies, and suspicious activity. HMRC believes Connect has enabled it to produce a higher volume of better quality cases to compliance officers whilst also reducing the number of staff working on production of those cases by 40%.

**2.15** HMRC analyses the intelligence it has about tax risks with other relevant information and trend data, such as by analysing seasonal patterns to help understand changes in tax revenue. It assesses which risks are most likely to materialise, which helps inform decisions about how to intervene, such as by creating a specialist taskforce.

**2.16** HMRC records the main risks to tax revenue in risk registers which are discussed on at least a monthly basis by the teams which administer each tax. Cross-cutting planning and governance groups oversee the response to strategic risks to tax compliance, such as from marketed tax avoidance or off-shoring. HMRC normally pilots new interventions on a small scale before committing significant resources. The planning groups monitor the cost of interventions and their effectiveness, and advise the business on how best to deploy resources to achieve the optimal impact.

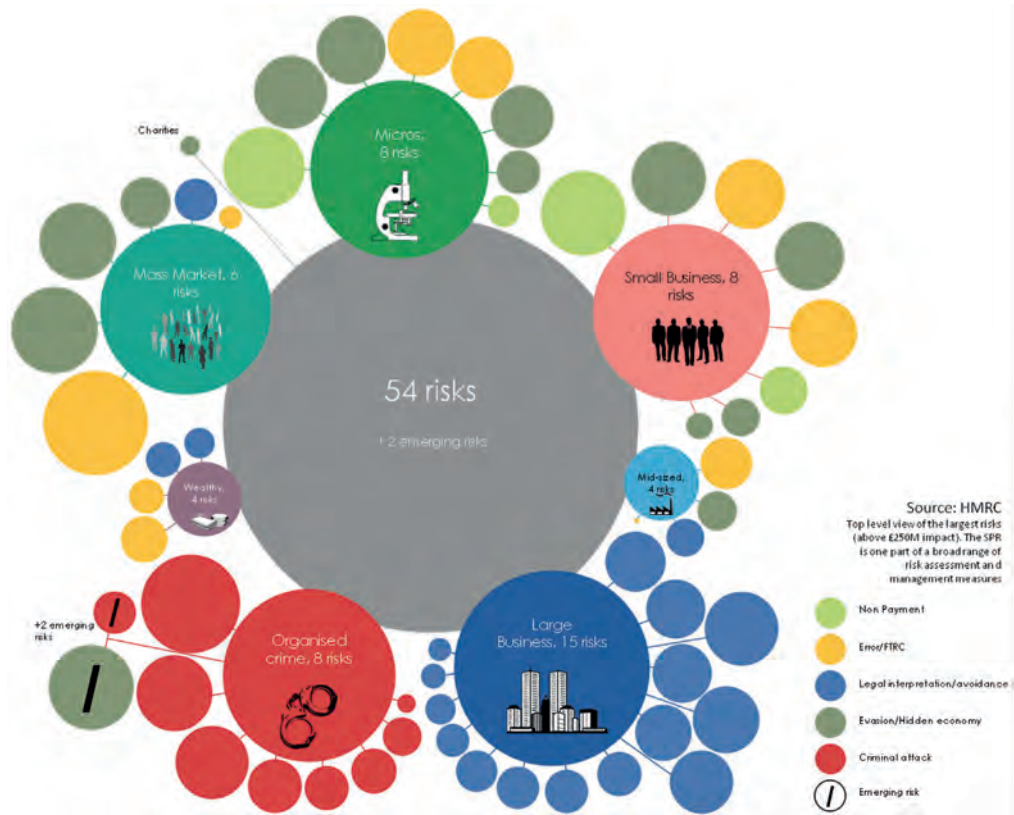
### How HMRC is developing a more strategic view of tax risk

**2.17** In his report on HMRC's 2013-14 Accounts, the Comptroller and Auditor General (C&AG) concluded that HMRC's assessment of tax risks needed to be used more consistently in the allocation of compliance resources. He noted that HMRC was developing the Strategic Picture of Risk to bring together data, intelligence and economic analysis to give a more comprehensive and current view of risks across its business, intending to provide a more explicit link between risks and decisions about where to allocate resources.

**2.18** The Strategic Picture of Risk combines all risks to tax exceeding £250 million with risks to the integrity of the tax system or HMRC's reputation for running it. HMRC has identified 54 such strategic risks which, if realised, have the potential to lead to £48 billion in lost tax revenue (**Figure 10**). The Strategic Picture of Risk is not intended to determine how HMRC allocates resources to tackle non-compliance, but is becoming an important tool in influencing such decisions. HMRC recognises the data has limitations and is developing the measure and seeking to use it more consistently to inform operational decisions.<sup>11</sup>

**2.19** HMRC is now seeking to assess how much of the tax gap is attributable to each strategic risk and how much of the related tax is collected from its compliance interventions. This requires HMRC to apportion its estimates of compliance yield (discussed in Part Three) to each of the strategic risks, a process which remains immature but which HMRC is refining. It has apportioned 76% of compliance yield to the strategic risks where it can identify a clear link. In other cases, it has not apportioned yield to the risks, either because the yield does not relate to one of the 54 strategic risks or because it is not clear what risk it should relate to. HMRC has estimated that its compliance work to mitigate the strategic risks recovered at least £14 billion in tax revenue in 2013-14.

**Figure 10**  
HMRC analysis of risks by market segment and behaviour



Source: HM Revenue & Customs

## What the data show

**2.20** HMRC's preliminary analysis shows that some risks are inherently much harder to tackle than others (**Figure 11**). This is unsurprising: for example, large businesses are more visible and easier for HMRC to influence than criminals or participants in the hidden economy. The proportion of the tax gap which HMRC estimates is closed by its compliance work is:

- high for most of the risks relating to legal interpretation and tax avoidance by large businesses;
- low for those risks relating to very small businesses and the hidden economy; and
- widely distributed in relation to risks from evasion and criminal attack.

**2.21** For each strategic risk, we reviewed HMRC's estimate of the tax yield from its compliance work against its estimate of the potential value of the tax at risk. We identified 13 risks with a potential value of more than £1 billion for which HMRC's analysis suggests it had reduced the potential tax loss by less than a quarter. Of these risks:

- 9 relate to micro or small businesses;
- 8 relate to income tax (of which 6 relate to self-assessment); and
- 6 relate to tax evasion and the hidden economy.

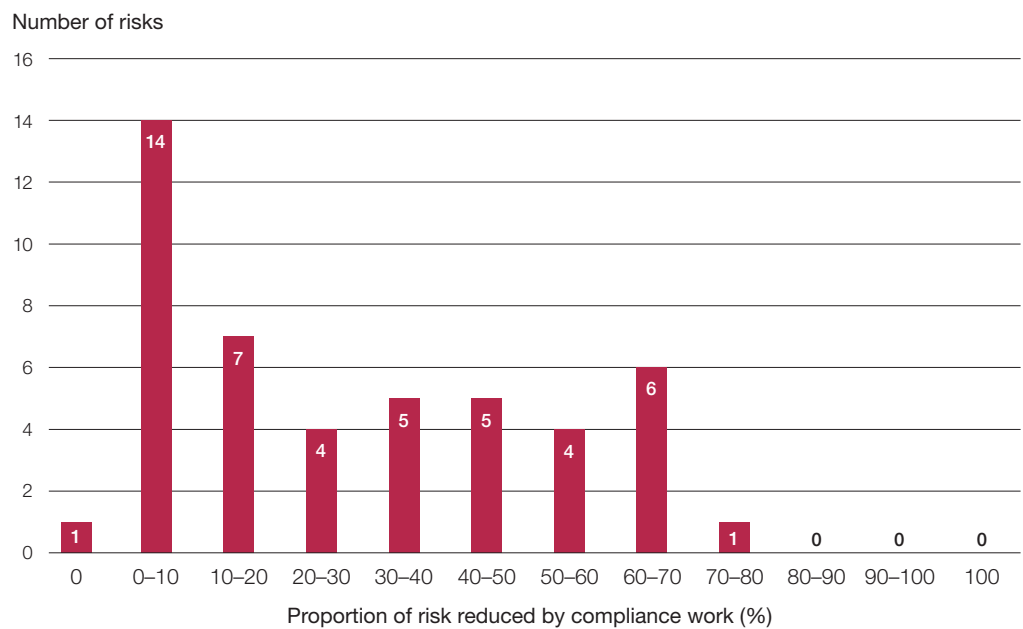
**2.22** HMRC's analysis of the Strategic Picture of Risk so far has identified 3 priority areas into which HMRC has commissioned deeper reviews: the micro business sector, mid-sized business and wealthy individuals. The micro-business sector, for example, accounts for several strategic risks involving evasion and income tax. HMRC's review of the micro-business sector made 10 recommendations, including several areas for further research, making more use of customer data, promoting easier payment and reviewing HMRC's powers.



**Figure 11**

Distribution of strategic risks by the proportion by which the risk is reduced by compliance work

Given the wide range of risks HMRC faces, some risks are inherently much harder to tackle than others. This is illustrated by the variance in the HMRC's estimates of the proportion of risk reduced by compliance work

**Note**

1 HMRC cannot yet apportion compliance yield to 7 of its strategic risks.

Source: National Audit Office analysis of HM Revenue & Customs data

## What further analysis is needed

**2.23** More systematic and deep analysis of risks is necessary to understand whether levels of yield are because of the inherent nature of the risks or because of the effect of HMRC's interventions. HMRC does seek to identify how vulnerable the tax system is to each risk and how challenging its compliance controls are. It is intending to introduce analysis on the inherent challenge of closing risks and the effectiveness of related controls into the Strategic Picture of Risk. As HMRC deploys new techniques, such as increasing its mass messaging to nudge taxpayers in the right direction, it needs to develop suitable measures to understand their effectiveness. This requires a different methodology from that used by HMRC to record the tax yield from more traditional compliance work, such as that done by teams investigating potential tax avoidance and evasion cases, where the money recovered by the team is more readily identifiable.

**2.24** For some risks, HMRC has sought to compare the overall amount of resources deployed with the tax yield collected. We looked at HMRC's analysis in respect of 3 types of risk, arising from: self-assessment of income tax; the mid-sized business sector; and evasion. We found that HMRC knew the amount of resources it devotes to the risks for self-assessment and mid-sized business, but did not have complete data on the resources devoted to tackling evasion risks. Estimating the costs of evasion work can be complicated because cases typically involve investigating a range of issues, of which the possibility of tax evasion is just one.

**2.25** HMRC's analysis for mid-sized business suggested potential to improve the allocation of resources. It identified, for example, that compliance interventions targeting excise risks for mid-sized business consumed very little resource but supplied 20% of the expected yield for the sector; but that in contrast, compliance interventions focused on employers consumed 21% of resources but offered only 8% of expected yield. There are other factors which must also be considered when assessing the distribution of resources, such as the need to tackle the scale of the tax gap in a particular area and the need to maintain a deterrent effect.

### **NAO work examining HMRC's response to risk**

**2.26** NAO's work over the last Parliament found that HMRC has been successful in increasing overall levels of revenue, particularly where it has targeted specific risks by applying additional compliance resources. However, our work has also shown that HMRC commits the majority of its compliance resources to investigating non-compliance and rule-breaking after the event, from which its rates of return – given the wide variety of risks HMRC manages – are variable. Such investigative work is important to act as a deterrent, but HMRC is seeking to combine this approach with an increasing range of preventative compliance measures. We have recommended changes which have helped HMRC increase the efficiency and effectiveness of its compliance work by helping it to intervene earlier in the cycle (**Figure 12** on pages R35 and R36).

**2.27** For example, HMRC has responded to the work of the NAO and the Committee of Public Accounts by seeking and applying new powers, which it expects will disrupt the industry of marketed tax avoidance; and by piloting new interventions to prevent erroneous or fraudulent payments happening in the first place, such as by analysing the root causes of error and fraud in the payment of tax credits (Part Five). We have also made recommendations about how HMRC could improve its detection of risks and decision-making about how to deploy its resources. In February 2015, we reviewed HMRC's response to our and the Committee's recommendations since 2010 and found that HMRC had accepted and implemented most recommendations.

**2.28** As HMRC develops its use of the Strategic Picture of Risk, we intend to report on how effectively its new approach to assessing tax risks drives operational decisions about how to deploy compliance resources. In addition, we plan to evaluate and advise Parliament specifically on how effectively HMRC is identifying and tackling tax evasion, the hidden economy and criminal attack on the tax system, which account for 45% of the tax gap.

**Figure 12**

## National Audit Office work examining HMRC's response to risk

Subject	Date	Conclusions
Renewed alcohol strategy – a progress report	January 2012	Alcohol excise fraud is a significant risk to revenue. We found HMRC had exceeded its financial objective in delivering its alcohol strategy, but needed to improve the effectiveness of its work with industry to disrupt the supply chain for alcohol diverted illicitly to the UK market. We also recommended HMRC should strengthen the financial and performance information is used to inform delivery of the strategy.
The Compliance & Enforcement programme	March 2012	This change programme helped HMRC substantially increase compliance yield with fewer staff. It introduced new technologies to strengthen compliance work, including its approach to assessing risks. We acknowledged that HMRC was working to exploit the full potential of new capabilities and recommended that it integrate the new systems into business processes and ensure staff have the capabilities to use new technologies.
Tax avoidance: tackling marketed avoidance schemes	November 2012	It is inherently difficult for HMRC to stop tax avoidance as it is not illegal. Since requiring taxpayers to disclose their use of tax avoidance schemes, HMRC had made important headway by reducing loopholes and opportunities for avoidance. This had changed the shape of the market but not prevented some promoters selling highly contrived schemes and depriving public finances of billions of pounds. We recommended HMRC should: <ul style="list-style-type: none"> <li>● seek more effective counter-measures, proposing legislative change where necessary;</li> <li>● analyses the economics of promoting and operating avoidance schemes, the incentives and potential disincentives for promoting schemes, and the types of interventions that could change behaviour; and</li> <li>● improve its management information and costing of its activities to better direct its anti-avoidance work.</li> </ul>
Tackling tax credits error and fraud	February 2013	HMRC had been innovative in tackling fraud and error. It had improved its understanding of risks to strengthen its operational response, piloting different approaches. This led to a year-on-year improvement in the amount of error and fraud prevented, and reduced losses in 3 of 6 risk areas. Our recommendations focused on the actions needed to achieve a sustainable reduction in fraud and error. We recommended that HMRC improve its use of data and analytical techniques to establish plans for each risk area, and improve the quality and volume of its interventions.
Progress in tackling tobacco smuggling	June 2013	HMRC's renewed strategy for tackling tobacco smuggling had set out a wide range of complimentary measures to tackle the problem, but its approach to deterring and disrupting the distribution of illicit tobacco was not yet effectively integrated. HMRC's focus on building overseas intelligence was yielding success. We recommended HMRC should: <ul style="list-style-type: none"> <li>● assess the deterrent impact of enforcement action against people selling illicit tobacco;</li> <li>● collaborate further with police, trading standards and other local bodies, building on successful regional initiatives; and</li> <li>● seek to improve its methodology for estimating tax losses from tobacco fraud.</li> </ul>

**Figure 12** *continued*

## National Audit Office work examining HMRC's response to risk

Subject	Date	Conclusions
Tackling VAT fraud (Part Three of the C&AG's report on HMRC's 2012-13 Accounts)	July 2013	HMRC made good use of intelligence to respond to the risks. HMRC's interventions and wider cooperation had helped reduce significantly VAT losses from missing trader fraud from between £2 billion and £3 billion in 2005-06 to an estimated £0.5 billion to £1 billion in 2010-11. We recommended HMRC should consider the costs and benefits of enhanced real-time risk profiling of VAT payment returns, and should increase the urgency of its response to the fraud risk posed by internet-based traders.
How HMRC resources compliance work (Part Three of the C&AG's report on HMRC's 2013-14 Accounts)	July 2014	HMRC used £1 billion of additional funding between 2011-12 and 2014-15 to target specific risk areas and increase tax revenues. It was constrained in how flexibly it could reallocate resources but had responded to changing threats to tax revenue by shifting the balance of its activities. We recommended that HMRC could further improve its strategic planning process by using its assessment of risks to explicitly inform the deployment of resources, and build a view of the optimal deployment of resources by risk type.
The effective management of tax reliefs	November 2014	HMRC needed more structured and proactive management of tax reliefs, an area with significant impact on public finances. We found some good practice but that HMRC did not generally test whether tax reliefs achieved their aims. We identified risks that tax reliefs could cost more than expected; could be used in ways not intended by Parliament; and could fail to bring about the intended behaviour change. We recommended HMRC should systematically track the actual costs of tax reliefs against their forecasts, and report to Parliament each year on the cost and impact of the tax reliefs posing the greatest risks.
Increasing the effectiveness of tax collection: a stocktake of progress since 2010	February 2015	HMRC is among the strongest government departments as regards its managerial competence and its robustness in managing the risks to its essential function of tax collection. It engaged strongly with the accountability process, taking a robust approach to implementing the recommendations of the NAO and the Committee of Public Accounts. In tackling marketed tax avoidance, it had sought and obtained new powers and implemented new measures appropriately to tackle some of the root causes of abuse of the tax system. It now faced some significant challenges, however, if it was to harness technology effectively and thereby exploit the data it collects to continue to improve the efficiency and effectiveness of its tax collection activities.

Source: National Audit Office publications

# Part Three

## Measuring compliance yield

### Compliance yield

**3.1** The 2010 Spending Review set HM Revenue & Customs' (HMRC's) funding and delivery commitments until 2014-15. HMRC committed to make efficiency savings while doing more compliance work to secure additional revenues. HMRC's efficiency savings would reduce its running costs from £3.4 billion in 2010-11 to £3.1 billion in 2014-15. At the same time, it would increase the additional revenue from its enforcement and compliance work by £7 billion a year by 2014-15. HM Treasury agreed that, to achieve this additional revenue, HMRC could reinvest £917 million of its efficiency savings.

**3.2** In 2014-15, HMRC reported its highest compliance yield to date – some £26.6 billion (£23.9 billion in 2013-14), meeting its target of £26.0 billion (£23.0 billion in 2013-14).

**3.3** Building on the work we undertook in 2013-14, this Part considers HMRC's progress in taking forward our recommendations and those of the Committee of Public Accounts. It assesses whether HMRC's methodology supporting the yield calculations for 2014-15 is robust. We have not verified the accuracy of the figures reported by HMRC.

### The measure

**3.4** HMRC measures compliance yield to support accountability and its own decision-making. It evaluates the additional revenues it considers it has generated, and the revenue losses it has prevented, from its enforcement and compliance activities. This yield is a more direct and timely measure of the impact of HMRC's enforcement and compliance activities than the tax gap, which is subject to long reporting delays and other factors outside HMRC's control (see paragraph 2.6).

**3.5** Compliance activities can take many different forms, such as disrupting organised criminal gangs or tackling the use of tax avoidance schemes. But it can be divided into activities that are:

- detective and corrective – these take place after a taxpayer has taken a course of action, for example when HMRC checks a taxpayer's self-assessment return against data it already holds so that the taxpayer eventually pays the correct amount of tax due; and
- preventative – these take place before a taxpayer acts; for example, the government may change legislation to close tax loopholes so that taxpayers find it harder to exploit any weaknesses in the law.

**3.6** HMRC has continued to develop how it measures its yield from compliance activities over the 2010 Spending Review period to reflect the impact of its wide range of existing and new compliance work. It has progressively adapted the measure to reflect changes in its compliance activities and has improved the evidence base to support its estimates of the impact of these activities. As it has evolved the measure, HMRC has taken a prudent approach, collecting relevant evidence before making changes and reducing its estimates appropriately where there is uncertainty.

### **Our work in 2013-14**

**3.7** We reviewed the methodology HMRC had in place to support its yield estimates.<sup>12</sup> We noted that the methodology and processes HMRC used to estimate compliance yield in 2013-14 were sound, and that the measure provides a reasonable proxy for the beneficial impacts of its compliance work.

**3.8** However, our work revealed significant errors in the baseline calculation.<sup>13</sup> To measure incremental improvements over the Spending Review period, HMRC established a baseline based on its 2010-11 performance. It gave a fixed point of reference from which HMRC could set and amend targets and measure performance over the 2010 Spending Review period. HMRC adjusted the baseline in its 2013-14 Annual Report so it could measure its performance since 2011-12 against a comparable baseline. Despite the baseline adjustment, HMRC still met the additional compliance yield targets that the government set in the 2010 Spending Review.

**3.9** While we found that HMRC's internal processes for testing and challenging in-year estimates were sound, HMRC did not pick up the error in the 2010-11 baseline for three years. It accepted that there should be external scrutiny of the data published and invited the NAO to play an ongoing role in providing independent assurance about the data's quality.<sup>14</sup> Following its hearing on 16 July 2014 where it considered HMRC's published Annual Report and Accounts for 2013-14, the Committee of Public Accounts recommended that HMRC improves the governance around the measure and how it is publically reported (**Figure 13**).<sup>15</sup>

### **HMRC's performance in 2014-15**

**3.10** HMRC's current measure of compliance yield is complex. It is a combination of measures, calculated in different ways and covering different time periods. These are designed to reflect the breadth of its compliance activities, which can be difficult to quantify. As a result, they include an element of estimation, particularly in assessing the impact of HMRC's activities on customers' future behaviours.

<sup>12</sup> Comptroller and Auditor General, *HM Revenue & Customs Annual Report and Accounts 2013-14*, HC 19, July 2014, Part Two, pp. R19–R32.

<sup>13</sup> See footnote 12, pp. R21–R22, paragraphs 2.5–2.14.

<sup>14</sup> See footnote 12, page R27, paragraph 2.30.

<sup>15</sup> HM Treasury, Treasury Minutes, *Government responses on the Eighteenth, the Twenty-First to the Twenty-Fourth, and the Thirty-Third reports from the Committee of Public Accounts: Session 2014-15*, Cm 9013, February 2015.

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**Figure 13**

## Committee of Public Accounts' recommendations

**HMRC should ensure the governance arrangements around its key performance indicators are sufficiently robust, and subject to adequate internal and external challenge, before they are reported publicly:** The government agreed with this recommendation, setting out that HMRC's internal audit function and the National Audit Office have programmes of work in place for 2014-15. HM Treasury will also have greater oversight of HMRC's compliance revenue.

**HMRC should be more transparent about its compliance yield estimates by publishing more detail about how it calculates yield, being clearer about how much it has actually collected in cash terms and explaining how uncertainty affects its estimates:** The government agreed with this recommendation and recognised the need to provide more information to aid understanding of its complex performance. HMRC will continue to provide explanatory information whenever it publishes its compliance revenue outturns.

**HMRC should maintain a comparable measure of compliance yield over time and report clearly the impact of any changes it makes to its methodology in its key accountability statements to Parliament:** The government disagreed with this recommendation. While it will ensure that any changes are set out clearly in its Annual Report, it said it may not always be possible, or practical, to make comparisons over time. This is because HMRC's method of assessing the effects of its compliance activities may change so significantly that it would be unable to maintain a comparable time series.

Source: HM Treasury, Treasury Minutes, *Government responses on the Eighteenth, the Twenty-First to the Twenty-Fourth, and the Thirty-Third Reports from the Committee of Public Accounts: Session 2014-15*, Cm 9013, February 2015, pp. 3-4.

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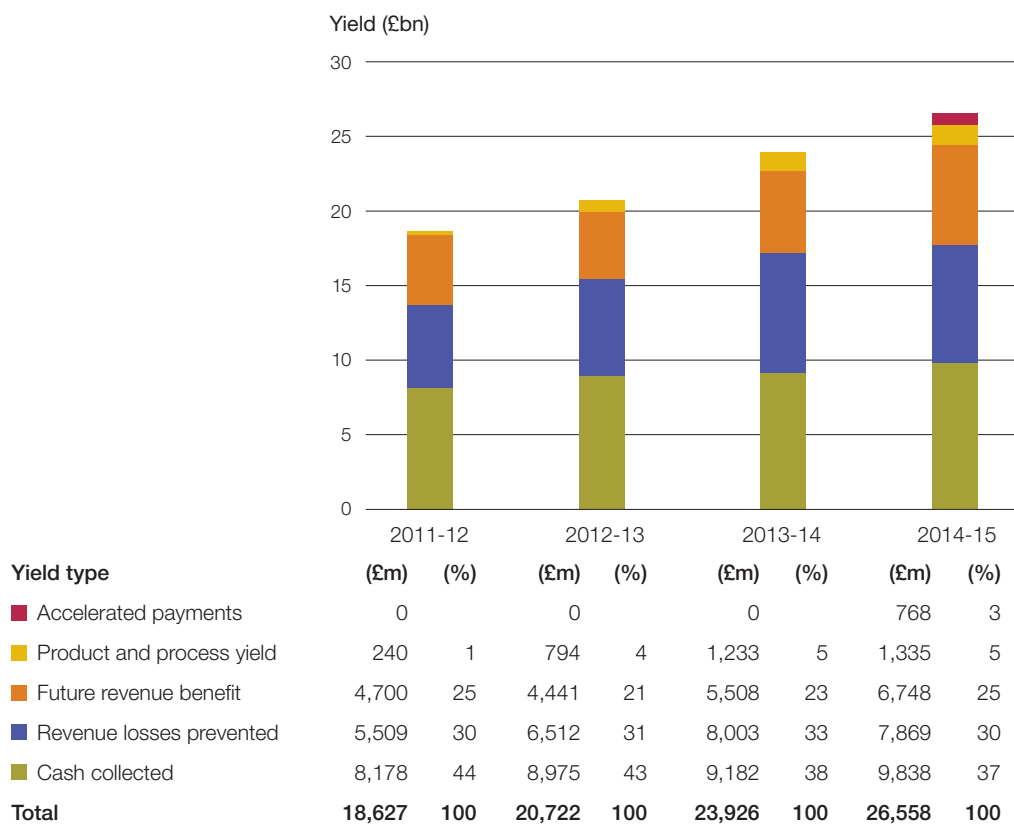
**3.11** HMRC's reported compliance yield in 2014-15 was £26.6 billion (**Figure 14** overleaf). This has five components:

- **Cash collected** of £9.8 billion (37%), which is an estimate of the extra tax HMRC expects to collect by identifying and challenging non-compliance.
- **Revenue losses prevented** of £7.9 billion (30%), which is tax revenue HMRC has protected each year either by refusing or reducing repayment claims because they are in error or fraudulent or by disrupting organised criminal activity.
- **Future revenue benefit** of £6.7 billion (25%), which is HMRC's estimate of the revenue benefits over the next 1 to 5 years where it considers it has changed the behaviour of taxpayers.
- **Product and process** yield of £1.3 billion (5%), which is the annual impact of legislative changes made since April 2011 to close tax loopholes and changes to HMRC's processes which reduce opportunities to avoid or evade tax.
- **Accelerated payments** of £0.8 billion (3%), a new component this year, which is the net amount of disputed tax (£0.6 billion) that users of avoidance schemes have paid upfront to, and have received back from, HMRC and £0.2 billion of estimated behavioural impact. We give our view on the method applied to calculating this yield in paragraphs 3.18 and 3.19.

**Figure 14**

## Compliance yield reported by HMRC since 2011-12

HMRC reported £26.6 billion of compliance yield in 2014-15, more than in any previous year of the 2010 Spending Review period

**Note**

1 Percentages shown here do not all add to 100% due to rounding.

Source: National Audit Office analysis of HM Revenue & Customs data



**3.12 Figure 15** shows examples of HMRC's compliance activities and how they result in different types of yield.

## Figure 15

### Examples of HMRC's interventions and their impact on the reported yield

Directorate	HMRC intervention	Reported yield
Personal tax	<p>An executor submitted an IHT400 form for the estate of their late relative. HMRC noticed that two properties owned by the deceased appeared to have been undervalued. HMRC referred the matter to the Valuation Office to establish correct values.</p> <p>HMRC opened an enquiry, as internal information suggested the deceased was receiving foreign rental income. He had declared this through his self-assessment return, but no foreign property was included on the IHT400 form. HMRC established that the deceased owned a property in France, which had not been declared.</p> <p>The Valuation Office advised HMRC that the two UK properties owned by the deceased had been undervalued by £50,000.</p> <p>HMRC also made enquiries about gifts the deceased may have made during his lifetime. These enquiries revealed the deceased gave gifts of £150,000 to each of his three children.</p>	<p>HMRC's compliance check resulted in reported yield of:</p> <ul style="list-style-type: none"> <li>• £20,000 of <b>cash collected</b> to reflect the extra tax payable as a result of the UK properties being undervalued by £50,000.</li> <li>• £77,546 of <b>cash collected</b> to reflect the extra tax payable on the discovery of a foreign property uncovered as a result of the compliance investigation.</li> <li>• £180,000 of <b>cash collected</b> to reflect the tax payable on the £450,000 of gifts the deceased made just before he died.</li> </ul>
Business tax	<p>The tax agent of a company advised HMRC that there is no annual tax on enveloped dwelling (ATED) liability for their client, as the company owned the property as a beneficiary of a settlement. HMRC asked for information to establish if this claim was correct.</p> <p>The agent eventually accepted that ATED was due.</p>	<p>HMRC reported <b>revenue loss prevented</b> of £15,000 and <b>future revenue benefit</b> of £30,800 for two years.</p>
Business tax	<p>After a business submitted its company tax return, HMRC investigated whether all the interest paid on a £1 billion loan is an allowable deduction for tax.</p> <p>HMRC found that part of the interest paid was non-commercial as the loan was from a related non-UK company that had lent more money than a commercial bank would have done. This meant not all of the interest was an allowable deduction.</p>	<p>HMRC reported:</p> <ul style="list-style-type: none"> <li>• <b>Cash collected</b> of £6.9 million, which is the tax on the disallowed interest on part of the loan in the first year of the loan.</li> <li>• <b>Future revenue benefit</b> of £30.3 million for additional tax on future disallowances of interest.</li> </ul>
Business tax	<p>A business submitted a VAT return claiming a repayment. The return was selected by HMRC for review.</p> <p>HMRC found that an invoice for business entertainment had been included in the return. VAT on this cannot be recovered.</p>	<p>HMRC's action results in £250,000 of <b>revenue loss protected</b> as the £250,000 VAT claimed was not repaid to the business.</p>
Enforcement and compliance	<p>HMRC stopped an organised crime gang's attempt to evade excise duty by smuggling loose leaf tobacco into the UK and processing it to convert into counterfeit hand-rolling tobacco.</p> <p>Four individuals were successfully prosecuted and given custodial sentences totalling 11 years and three months. All were found to be illegal immigrants and two have received deportation orders.</p>	<p>HMRC's investigation yields £8.3 million in <b>revenue loss prevented</b>, which is an estimate of the continuing losses that would have occurred over the next 12 months if HMRC had not stopped this fraudulent activity.</p> <p>Cash believed to be the proceeds of crime with a value of nearly £16,000 was taken from the gang and forfeited to the Crown. Confiscation proceedings are ongoing.</p>

### **Our assessment of the 2014-15 measure**

**3.13** In assessing the robustness of HMRC's method of estimating its yield, and the extent to which it has taken forward the recommendations that we and the Committee of Public Accounts made last year, we considered whether the measure:

- is based on the best evidence available;
- is reported in a transparent way;
- allows comparison of HMRC's performance over time; and
- is subject to robust processes to assure data quality.

**3.14** Our analysis is at **Figure 16** on pages R43 and R44. Our findings fall into four areas:

- estimation and uncertainty;
- internal consistency;
- transparency in reporting; and
- data quality.

**Figure 16**

## Types of compliance yield and how they are scored

Yield type	When the revenue benefit occurs	What is measured	Benefits received by the Exchequer in year	Levels of estimation included within the yield calculation	NAO's assessment of the robustness of HMRC's methodology
Cash collected £9.8 billion	In-year	Additional tax liabilities and behavioural penalties are recorded when the compliance officer issues the taxpayer with a statement of the tax due.	Yes.  Some benefits, in terms of cash, will be received in year, however some will be outstanding, and some will never be received.	HMRC discounts a proportion of the amount it records by 10% to recognise that some tax liabilities are not collected, for example because the taxpayer becomes insolvent.	Reasonable, but some weaknesses.  Recording cash collected is straightforward. The area for improvement is the application of a discount rate, where the evidence base could be developed. HMRC analysis in previous years broadly indicated that 10% is not unreasonable. HMRC has performed additional work this year, as part of a longer term approach to improve the evidence base behind cash collection rate. HMRC recognises that more work is needed to fully support the 10% discount rate.
Revenue losses prevented £7.9 billion	In-year and future	Losses prevented are recorded when HMRC refuses or reduces repayment claims because they are incorrect or fraudulent (84% of revenue losses prevented in 2014-15).  However, HMRC estimates the value of criminal activity disrupted when it seizes illicit goods (this is some 16% of revenue losses prevented in 2014-15).	Cash loss is prevented.  Future benefit expected from disruption of organised criminal gangs.	No estimation.  Amounts scored reflect specific amounts identified.  Significant estimation.  Judging the scale of a gang's activities or that individuals will go on to buy legitimate goods involves estimation.	Reasonable.  It is straightforward and well understood. The benefit to the Exchequer is clear and specific.  Methodology contains some weaknesses. Amounts scored are based on cases and the revenue that would have been lost if the criminal activity had not been successfully disrupted. This scoring assumes that none of the revenue loss relating to the particular gang that has been disrupted has been displaced to rival gangs or different criminal activities. HMRC could do more to validate this assumption.

**Figure 16** *continued*

## Types of compliance yield and how they are scored

Yield type	When the revenue benefit occurs	What is measured	Benefits received by the Exchequer in year	Levels of estimation included within the yield calculation	NAO's assessment of the robustness of HMRC's methodology
<b>Future revenue benefit</b> <b>£6.7 billion</b>	Future years (1 to 5 years)	Whenever a compliance investigation is concluded, staff assess whether, and for what period, they should record the revenue benefits that will accrue in future years.	<p>None.</p> <p>Relates to future years so no benefit received in year. But the current year's tax payments include the ongoing impacts of compliance activity completed in previous years.</p>	<p>Significant estimation.</p> <p>HMRC estimates how long the taxpayer's behaviour will change and the likelihood and duration of impact in terms of the estimated monetary amount that will accrue over the period the future revenue benefit is being claimed for as a result of the intervention, based on the taxpayer's characteristics and circumstances.</p>	<p>Not straightforward and at risk of being subjective.</p> <p>Whenever a compliance investigation is concluded, staff assess whether, and for what period, they should record the revenue benefits.</p> <p>HMRC recognises the risk that the estimates of future revenue benefit entail a degree of uncertainty. It has established guidance for staff that explains how they should estimate the yield.</p> <p>HMRC has also put limits in place on the number of years a caseworker can score an impact. They are required to have evidence of the taxpayer's commitment to change and information to support amounts scored.</p>
<b>Product and process</b> <b>£1.3 billion</b>	In-year	HMRC records the likely impact on revenues over up to 5 years of legislative changes. Each year, it reviews these estimates and records the cumulative impact of all changes made since April 2011 as they impact the reporting year.	<p>Yes.</p> <p>Additional benefits are expected as a result of all legislative changes since April 2011 in that year.</p>	<p>Significant estimation.</p> <p>The impact of the legislative changes is a significant estimate.</p>	<p>Reasonable.</p> <p>The calculation of amounts is subject to external review by the Office of Budget Responsibility (OBR) and supported by appropriate documentation.</p>
<b>Accelerated payments</b> <b>£768 million (including £200 million of behavioural impacts)</b>	In-year and future	<p>HMRC records the disputed tax when it has been collected from tax avoidance users.</p> <p>It scores repayments made by HMRC to taxpayers when a case is settled.</p> <p>In addition, it scores the impact the scheme has on the behaviour of individuals in the future.</p>	<p>There is a net impact for the Exchequer in year with receipts and payments in respect of this scheme.</p> <p>There is no in year impact for the Exchequer for the impact of the change in behaviours.</p>	<p>No estimation.</p> <p>Actual cash received and paid out is scored.</p> <p>Estimation.</p> <p>The impact on individual's behaviour is estimated.</p>	<p>Accelerated payments is a new power which HMRC has available to it and the measure of its success is included in the compliance yield targets HMRC has been set this year.</p> <p>As such, it is reasonable to compare outturn against this target. HMRC will keep the way this scheme is scored under review as this initiative becomes more significant (paragraphs 3.18 and 3.19). The calculation of the behavioural impact of the accelerated payments legislation is subject to review by the OBR.</p>

## Estimation and uncertainty

**3.15** HMRC did not design compliance yield to be a cash-based measure. It measures the outcome of the range of compliance activities HMRC undertakes, and consequently includes a degree of estimation. For example, **future revenue benefit** is an estimate of the amount of money that HMRC expects to receive in future years as a direct result of its compliance activity. HMRC takes into account the likelihood of non-compliance continuing, and the level of future monitoring. Due to the volume of cases and the range of taxes and duties potentially involved, HMRC is unable to match cash received to compliance yield cases and, therefore, cannot with certainty say how much cash is ultimately collected against all compliance interventions.

**3.16** HMRC's reported compliance yield is an attempt to reflect the full extent of its compliance activities. With around 900,000 compliance interventions across all customer groups and taxes, HMRC considers it would be neither practical nor cost effective to manually reconcile the amounts claimed to the actual amounts paid. As such, its performance measurement system includes a degree of reliance on estimates and assumptions.

**3.17** We noted that the methodology and processes HMRC used to estimate compliance yield in 2013-14 were sound. However, in reviewing HMRC's progress this year, there are areas where the evidence used to support estimates need to continue being reviewed and strengthened. **Cash collected** is a calculation of the cash HMRC expects to receive when it has identified taxpayers who have not complied with what is expected of them. It applies a discount rate to reflect that some cash will not be collected from some customer groups, for example small businesses. HMRC has consistently applied a 10% discount rate over the Spending Review period to a proportion of cash collected. Whilst we have no evidence to show that this is unreasonable, we will continue to look to HMRC to strengthen its evidence base to support this discount.

**3.18** In 2014-15, HMRC included, for the first time, the potential impact of its **accelerated payment scheme** within its yield target, agreed with HM Treasury. HMRC's performance against this target is included as a new yield type so that readers can identify the yield received against the target set. The scheme allows HMRC to collect disputed tax from the users of tax avoidance schemes up front, although it is possible for HMRC to repay this money if disputes are found in favour of the taxpayer. HMRC currently estimates that it may win around 80% of such cases, with many more settling before reaching litigation.

**3.19** HMRC reports the cash amounts it has received under this scheme during the year (some £596 million in 2014-15), and the cash amounts it has repaid (£28 million). This is a simple approach which does not involve any estimation. However, there is no adjustment for the possibility that cash received in individual cases may have to be repaid in future years, or for the possibility that the final award to HMRC may be higher than the cash already received. Although HMRC is confident that these two issues may offset each other in a particular financial year, as amounts received under the scheme are recognised up front, HMRC's current treatment may lead to its annually reported performance being distorted. HMRC will keep the assumptions supporting its approach to scoring Accelerated Payment yield under review and consider the possibility of making such adjustments once it has more of a track record of dealing with cases.

### Internal consistency

**3.20** HMRC's compliance activities cover a wide range of activities, which are reflected in the different yield types. The various types of yield are not scored consistently, although they are based on approaches set out at the start of the Spending Review period and have been consistently applied year-on-year:

- We highlighted last year that HMRC scores the total impact for **future revenue benefit**, which relates to monies it expects to collect in future years, in the year it is identified. However, it scores the impact of **product and process yield** in the year it relates to so future years are scored in the future and not in the year the impact is identified.
- HMRC reports **product and process** yield on a cumulative basis as more product and process improvements are introduced. This means the upwards trend is partly a consequence of this scoring policy; it does not necessarily indicate better performance year-on-year. This is the only yield category where HMRC applies this approach.

### Transparency in reporting

**3.21** HMRC continues to improve the accuracy, clarity and transparency of the way it reports compliance yield in its Annual Report. It has made a number of improvements in its 2014-15 reporting. For example, to allow comparability between years, it has highlighted new areas introduced into the measure this year with a breakdown of the targets over the 2010 Spending Review period it has to meet against actual outturn. It has provided further indications of the degree of uncertainty involved in its reported compliance yield, particularly in relation to its cash collected category.

**3.22** HMRC has improved its reporting of compliance yield to assist the readers of the Annual Report in comparing its performance between years. The Annual Report discloses two areas included within its yield measure in 2014-15:

- Its compliance yield target was adjusted by some £0.4 billion to take into account the impact of accelerated payments and, consequently, the yield includes the outturn performance of this policy (a net cash figure of some £568 million and £200 million of behavioural impact to reflect the deterrent effect of the accelerated payments legislation).
- The impact of one of its Spending Review reinvestment projects to increase its debt collection activity was excluded from the yield calculation in 2013-14 due to a delay in the availability of the underlying data (an estimate was included in the calculation in 2011-12 and 2012-13). The impact of this work added some £576 million to the yield figure.

These components total some £1.3 billion or 48% of the reported increase in yield from 2013-14 to 2014-15.

**3.23** Following its hearing on the Annual Report for 2013-14, the Committee of Public Accounts highlighted that HMRC should provide more information to aid the reader's understanding of HMRC's performance. The Committee recommended that HMRC should publish more detail about how it calculates yield, be clearer about how much it has actually collected in cash terms, and explain how uncertainty affects its estimates. HMRC has continued to develop the evidence base for the estimates used and has published more detail about how it calculates yield in its Annual Report for 2014-15, such as by explaining uncertainty in its estimates of 'cash collected'. However, the measure was not designed to track the amounts HMRC reports as yield to the benefits the Exchequer received in the current year and a significant element of the yield calculation relies on estimates of current and future benefits. It is therefore important that the reader is clearer that the yield is not a cash figure and the inclusion of ranges around the estimated elements of yield would help to achieve this.

### Data quality

**3.24** We reviewed HMRC's internal processes in place during 2014-15 for assuring the robustness of the data feeding into its yield calculations. As in 2013-14, we found that these were well developed and applied reasonably consistently within HMRC. Overall, there are control procedures in evidence across directorates. HMRC employs a wide range of internal checks that operate within lines of business and at a central level to ensure the quality of their data.

**3.25** However, our work highlighted that:

- There were some areas within HMRC where its quality assurance processes were weaker, increasing the risk of errors in the data. The variations in the robustness of the quality assurance processes across the lines of business sometimes reflect the differing nature of risks and volume of cases handled by each area. However, there is scope to develop and draw on processes already established by other business areas, particularly where there is no formal manager review of cases.
- In some cases, HMRC could not, without a considerable investment of time and resources, produce a full list of cases that constituted its yield figure. HMRC could, in principle, use the outcomes of its internal checks of cases to determine the net impact of identified errors on its reported compliance yield. This would improve the quality of the management information available to HMRC. HMRC believes that its current checks provide an appropriate level of control without spending disproportionate amounts of money on an assurance regime.

### **The future of the performance measure**

**3.26** HMRC plans to gradually introduce a new basket of performance measures for the next spending review period. HMRC intends compliance yield to form part of this new performance management framework. The new measures will allow HMRC to give a more comprehensive picture of its overall performance by extending the scope of its measures beyond its traditional enforcement and compliance activities.

**3.27** HMRC will continue to use compliance yield as a performance measure in 2015-16. However, it will also trial the new performance measures alongside the compliance yield measure. This will enable it to review the data and, where necessary, continue to revise its performance measures so that it is in a good position to introduce them from 2016-17.



# Part Four

## Plans for tax administration

**4.1** In July 2014 HM Revenue & Customs (HMRC) announced its plans to undertake an ambitious programme of work to transform how it administers tax.<sup>16</sup> This will be HMRC's third major change programme since its formation in 2005.

**4.2** While HMRC's plans are in the early stages, it is already clear that the scale of the transformation is significant, and more complex and far-reaching than its previous change programmes. With such high levels of change we would expect any organisation to experience implementation difficulties and for some projects to fail. This part of the report:

- describes HMRC's history of delivering change;
- explains HMRC's new strategy to improve tax administration; and
- identifies high-level challenges HMRC faces in delivering its transformation plans.

**4.3** HMRC will develop detailed cost and delivery plans during the upcoming 2015 Spending Review. Therefore we have not evaluated HMRC's plans to deliver its strategy here. We intend to report on progress as the programme develops.

## Making changes

**4.4** HMRC has carried out two major change programmes since the merger of the Inland Revenue and HM Customs and Excise in 2005:

- **The Departmental Transformation Programme (2006-07 to 2010-11):** to deliver the service improvements, tax yield and efficiency savings from the merger.
- **The Change Programme (2011-12 to 2014-15):** to deliver commitments in the 2010 Spending Review settlement.<sup>17</sup> The programme's main aims were to reduce costs and increase tax revenues by reinvesting £917 million of efficiency savings into its compliance activities to generate additional revenues. It also included some transformation programmes like Real Time Information (RTI) for PAYE.

<sup>16</sup> Ruth Owen, 'Building our Future: transforming how HMRC serves the UK', speech to HM Revenue & Customs annual stakeholder conference, 17 July 2014. Available at: [www.gov.uk/government/speeches/building-our-future-transforming-how-hmrc-serves-the-uk](http://www.gov.uk/government/speeches/building-our-future-transforming-how-hmrc-serves-the-uk)

<sup>17</sup> Over the 4 years covered by the 2010 Spending Review (2011-12 to 2014-15), HM Revenue & Customs committed to reduce the administration budget by 33%; reduce spending by 25%; and generate additional revenue of £7 billion per year by 2014-15.

**4.5** HMRC has spent £4.6 billion on change programmes over the past nine years (£2.4 billion on the Departmental Transformation Programme and £2.2 billion on the Change Programme). The proportion of HMRC's total spending on change programmes has increased from 12% in 2011-12 to 20% (£682 million) in 2014-15 (**Figure 17**).<sup>18</sup>

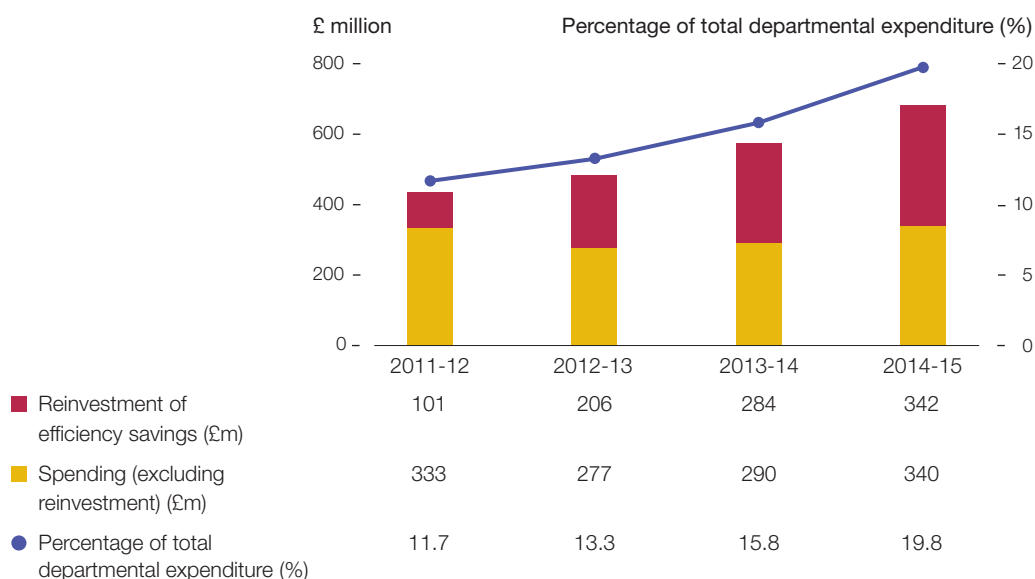
**4.6** HMRC designed its change programmes to maximise revenue, reduce running costs and improve the customer experience. Since its creation, HMRC has reduced the number of full-time equivalent staff by 40,000 (from 97,000 in April 2005 to 57,000 in March 2015) and the number of offices by more than two-thirds (from 593 to 190). It has reduced its annual running costs since 2005-06 by £0.7 billion, from £3.8 billion in 2005-06 to £3.1 billion in 2014-15.<sup>19</sup> At the same time it has increased the revenue it raises from compliance work.<sup>20</sup> It has modernised its services through initiatives such as:

- the expansion of online filing of tax returns since 2007;
- the integration of National Insurance and PAYE services in 2009;
- the introduction of an online VAT registration system in 2012; and
- the roll-out of RTI in 2013.

**Figure 17**

HMRC's annual expenditure on change programmes, 2011-12 to 2014-15

HMRC's total spending on change programmes has increased



**Note**

1 Total departmental expenditure includes both resource and capital spend.

Source: National Audit Office analysis of HM Revenue & Customs spending data

<sup>18</sup> Total spending includes resource and capital departmental expenditure.

<sup>19</sup> HM Revenue & Customs' resource spending voted by Parliament (which excludes the costs of collecting National Insurance Fund income and the e-filing incentive payments) fell by £0.7 billion in cash terms between 2005-06 and 2014-15. After adjusting for inflation, the real terms decrease in HMRC's running costs over this period was 34% or £1.6 billion.

<sup>20</sup> HM Revenue & Customs, *Building our Future: Transforming the way HMRC serves the UK*, July 2014.

**4.7** HMRC estimates the financial benefits of its change programme using three primary measures. HMRC had targets for two of these measures in its 2010 Spending Review settlement: efficiency savings and compliance yield, both of which it met. HMRC later agreed to deliver a number of initiatives intended to deliver tax credits fraud and error savings: these are estimates of savings made by HMRC through the identification and resolution of fraud and error or through the increased success in collecting tax credit debt. By 2013-14 the Department estimated that it had reduced tax credits fraud and error to 4.4% against its target to reduce it towards 5.5% by 2014-15. This is discussed separately in Part Five of this report. In addition, HMRC also measures quantifiable customer benefits from its change projects, in the form of customer compliance cost reductions, but agreed no targets for this measure. HMRC estimates customer compliance cost reductions when it makes changes to services which reduce the cost to taxpayers of interacting with the tax system.

**4.8** When we reported on HMRC's progress on reducing its costs in 2013, we also looked at how well it managed change. We found HMRC managed change well, with robust reporting and monitoring arrangements in place. However, HMRC needed to do more to manage the dependencies and connections between projects and to better understand the link between the cost and value of activities.<sup>21</sup>

**4.9** HMRC has a strong track record in delivering IT-enabled change, and implementation problems have been the exception rather than the rule. However, making major changes to customer services often carries high risk and can have a big impact on taxpayers when things go wrong. For example, we have reported a number of times on HMRC's implementation of major projects to improve how personal tax is administered. We first reported on significant difficulties HMRC faced implementing a new service for National Insurance and PAYE (NPS) in 2009-10.<sup>22</sup> Millions of employees' tax records were affected, and it took HMRC a number of years to stabilise the new system. HMRC learned from its experience implementing NPS and its later major project to modernise PAYE between 2012 and 2014, known as Real Time Information, was more successful.

<sup>21</sup> Comptroller and Auditor General, *HM Revenue & Customs: Progress on reducing costs*, Session 2012-13, HC 889, National Audit Office, February 2013.

<sup>22</sup> Comptroller and Auditor General, *HM Revenue & Customs Annual Report and Accounts 2009-10*, Session 2009-10, HC 299, National Audit Office, July 2010.

## Improving tax administration

**4.10** HMRC launched its new strategy for transforming the tax system in June 2014.<sup>23</sup> The strategy aims to help customers pay the right amount of tax at the right time by making better use of its data and providing more personalised online services. A key ambition is to give every customer in the UK a personal online tax account so that they can manage all their tax affairs easily in one place, rather than deal with HMRC separately for each tax they pay. The March 2015 Budget announced the end of the annual tax return by the end of the next Parliament.<sup>24</sup>

**4.11** HMRC's strategy will affect almost all customers in some way during the next Parliament. Examples of the impact of the changes on customer experience are:

- **Improving the provision of systems, guidance, and support to make it easier to comply:** Customers accessing their online tax accounts will get intelligence-led guidance and automated answers to their queries. This will help them carry out more tasks themselves. Face-to-face and phone support will be available for those customers who need extra help.
- **Automating routine processing of tax information and transactions:** Moving services online means that many manual processes will become automated. For example, HMRC plans to pre-populate tax returns and online accounts with real-time data. This will save customers' time and reduce the need for contact and manual processing by HMRC.
- **Concentrating resources on enforcement and compliance activities to tackle tax avoidance and evasion:** HMRC expects compliance staff will need less time on routine work and correcting errors. Compliance staff will have better data and information about risks to tax revenue. This means they can focus more on dealing with taxpayers who deliberately avoid or evade their taxes.

<sup>23</sup> See footnote 16.

<sup>24</sup> HM Revenue & Customs, *Making tax easier: The end of the tax return*, March 2015.

**4.12** To deliver its strategy, HMRC has started re-designing its processes and services around customers, rather than around the taxes they pay. HMRC expects to:

- **develop a ‘multi-channel digital platform’** that interacts with customers flexibly through a range of channels such as web chat and secure messaging;
- **create a ‘single customer view’ in HMRC** that allows staff to see information about all the taxes paid by an individual, and their interactions with HMRC, in one place;
- **give small and medium enterprises (SMEs) ‘your tax account’** – an online service with a personalised homepage, providing an overview of the SME’s main taxes and allowing it to quickly access all services from one place; and
- **build an ‘enterprise data hub’ to house all HMRC data**, replacing its current system of multiple, disconnected data stores to allow HMRC to analyse data more easily and efficiently, and to improve customer service and compliance.

**4.13** HMRC’s strategy means changing the shape and size of its workforce and estate to support the new way of administering tax. HMRC intends to reduce spending on its buildings. It will use resources more flexibly by consolidating its 190 existing offices into a small number of large regional centres. HMRC expects to continue reducing its staff. It plans to invest in developing new skills in its staff, recognising that its needs will change. For example, compliance staff will increasingly focus on complex and challenging cases. This will require new legal and analytical skills. HMRC also intends to invest in developing its digital, programme and project management, and commercial skills.<sup>25</sup>

## **Key challenges to making changes**

**4.14** HMRC is beginning to plan activities to deliver its strategy over the next five years. It expects to spend over £500 million on the changes during 2015-16 (around 15% of its total spending). It will decide how to fund and schedule key activities after 2015-16 during the upcoming Spending Review; HMRC and HM Treasury will also agree new performance measures to monitor progress and hold HMRC to account for its performance.

**4.15** HMRC must change more radically than it has in the past to achieve this transformation. HMRC’s previous change programmes had focused on increasing efficiencies, improving processes and investing more in pre-existing compliance activities. This time the change programme is more ambitious and more complex: making planned cost reductions while moving millions of taxpayers to digital customer services and decommissioning old ones.

<sup>25</sup> See footnote 20.

**4.16** We reviewed HMRC's strategy and identified three high-level challenges it will face delivering its transformation plans:

- **Managing the high levels of complexity and ambition in HMRC's plans, given the scale of the transformation that will be required, alongside further cost reductions.**

In 2013 we reported on HMRC's progress in reducing its costs. We found it had more to do to understand how all its change projects linked together and to identify the key projects that will enable it to reduce costs.<sup>26</sup> HMRC's new change programme is more complex than the one we reviewed in 2013: it has more than double the number of projects. These projects will be delivered across all parts of HMRC's business, often by new cross-organisational teams. Establishing the right sequencing, managing dependencies and prioritising the most valuable projects will be challenging. HMRC will also need the commitment and resilience not to be deflected from the delivery of its strategic vision when implementation problems occur.

While HMRC has a generally successful record in delivering change, it recognises its transformation plans are more ambitious than its earlier change programmes. It will need to balance this ambition with realism about its critical assumptions and make contingency plans. Other departments face similar issues: our work on implementing welfare reforms found that the Department for Work & Pensions had relied too much on assumptions that were uncertain and unchallenged. It did not have a sufficient understanding of its portfolio of programmes or overall capacity to manage them.<sup>27</sup>

- **Managing significant operational change alongside changes to how it procures and manages its digital services.**

Digital technology is one of the primary enablers of HMRC's planned transformation by 2020. For the past 11 years HMRC has procured the majority of its IT (including digital) services through the Aspire contract. The Aspire contract ends in 2017. HMRC will therefore need to implement its digital transformation alongside activity to replace the Aspire contract.<sup>28</sup>

<sup>26</sup> See footnote 21.

<sup>27</sup> Comptroller and Auditor General, *Department for Work & Pensions: Welfare Reform – lessons learned*, Session 2015-16, HC 77, National Audit Office, May 2015.

<sup>28</sup> Comptroller and Auditor General, *HM Revenue & Customs: Managing and replacing the Aspire contract*, Session 2014-15, HC 444, National Audit Office, July 2014; Comptroller and Auditor General, *The HMRC VAT Service: the impact of legacy ICT*, August 2013.

- **Designing management information into programmes from the start.**

HMRC will need to decide how to measure and record the benefits expected from its transformation. HMRC's current customer service measures include the speed of its response to telephone queries. If HMRC is successful in helping customers to get their tax returns right first time, this should reduce demand for telephone contact. A key challenge will be for HMRC to establish what its current services cost, and develop how it measures the impact of any changes on its customers. This includes developing leading indicators for major risks within programmes. HMRC recognises that it will need to change the measures it uses to prioritise investments, measure progress and evaluate whether its transformed services are more cost-effective. It is developing a new set of performance measures for 2016.

**4.17** We intend to return to HMRC's transformation over the coming five years as it develops more detailed and specific plans. We will review how well HMRC manages these challenges.

# Part Five

## Personal tax credits

**5.1** HM Revenue & Customs (HMRC) paid £29.1 billion in tax credits in 2014-15. This supported around 4.6 million families and around 7.6 million children. Tax credits represent 57% of the Department's total expenditure of £51 billion recorded in the HMRC Resource Accounts.

**5.2** Tax credits were introduced in April 2003, with the aim of providing support to families with children; tackling child poverty; and helping to make sure that work pays more than welfare. The government is continuing the roll-out of Universal Credit which will replace many of the current working-age benefits, including tax credits, with a single means-tested payment. HMRC will retain responsibility for administering the tax credits scheme until all existing claimants have migrated to Universal Credit, which is currently expected to be in 2021. Tax credits are complex:

- **Over- and under-payments are inherent in the system.** Tax credits are awarded on an annual basis. HMRC makes a provisional award based on the information it holds. It makes in-year payments based on estimated figures and then calculates the final amount after the end of the year, once actual household income and circumstances are known. At finalisation of awards, HMRC can identify under- and over-payments. It then makes any necessary adjustments and, as needed, undertakes recovery action.
- **Tax credits entitlement is based on a range of eligibility criteria.** Criteria include hours worked; number of children; disability; childcare costs; household income; and household composition. It is difficult to maintain accurate information on claimants' circumstances for some of these criteria, particularly household composition and hours worked.
- **Tax credits are designed to respond to changes in household income.** The value of tax credits is reduced when household income reaches certain thresholds. Household income is less easy to measure than personal income.
- **HMRC depends on claimants notifying it of changes in their circumstances.** Claimants are responsible for providing accurate details of their circumstances and notifying HMRC if any changes occur. This includes providing information at the year end to confirm actual circumstances. Claimants do not always fully understand what they need to report, leading to inaccurate or non-reporting of changes to their circumstances.



**5.3** The complexities in tax credits present challenges for HMRC in administering awards and for claimants in meeting their obligations. Where HMRC finds a claimant who has been paid more than they are entitled to, it seeks to recover the overpayment. At 31 March 2015 the total value of tax credits debt and overpayments still to be recovered from claimants was £6.9 billion.

**5.4** This part covers:

- the estimated level of fraud and error in tax credits;
- why the Comptroller and Auditor General (C&AG) qualified his audit opinion in 2014-15;
- HMRC's progress in reducing tax credits fraud and error;
- HMRC's progress in managing tax credits debt recovery; and
- future challenges.

### Estimated level of fraud and error in tax credits

**5.5** HMRC estimated that the overall level of fraud and error in 2013-14 decreased to 4.4% of expenditure (from the revised figure of 5.3% in 2012-13) (**Figure 18**). This equates to overpayments of £1.26 billion and underpayments of £0.18 billion.

**Figure 18**

HMRC's estimate of fraud and error in 2013-14

	2013-14		2012-13	
	(£bn)	(%)	(£bn)	(%)
Total expenditure	29.3	–	29.7	–
Estimated overpayments due to fraud and error				
Central estimate	1.26	4.4	1.52	5.3
Range	1.12–1.41	3.9–4.9	1.33–1.72	4.7–6.0
Estimated underpayments due to error				
Central estimate	0.18	0.6	0.13	0.5
Range	0.15–0.22	0.5–0.8	0.06–0.20	0.2–0.7

**Note**

1 HMRC revised the 2012-13 estimate in June 2015. The table includes the revised figures. The central estimate of overpayments changed from £2.01 billion representing 7% of entitlement. Underpayments changed from £0.20 billion representing 0.7% of entitlement.

Source: HM Revenue & Customs, *Child and Working Tax Credits Error and Fraud Statistics, 2012-13 and 2013-14*

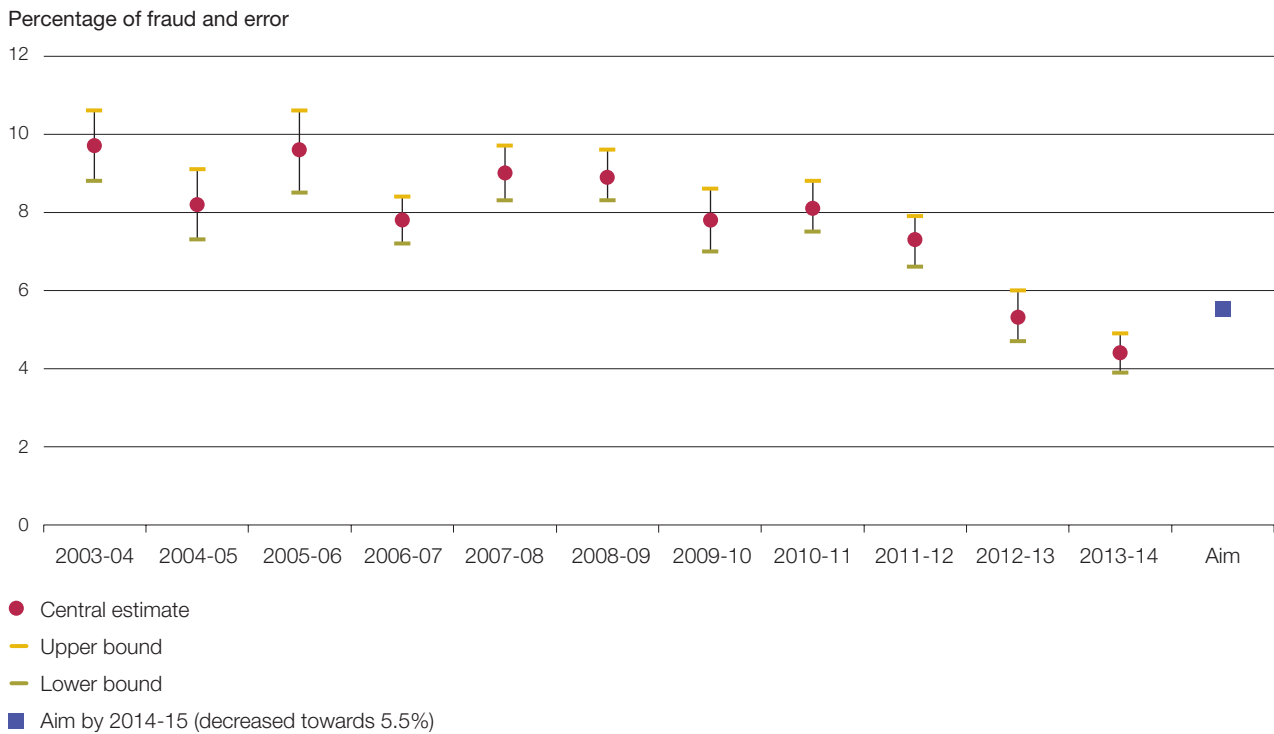
**5.6** HMRC estimates that it has reduced fraud and error overpayments from 8.1% in 2010-11 to 4.4% in 2013-14, which is the lowest level since tax credits were introduced (**Figure 19**). In June 2015 HMRC released its estimates for 2013-14 and revised the 2012-13 estimates from 7.0% to 5.3%, a reduction of £490 million. HMRC has not yet had time to assess reasons for reductions more fully and is planning to conduct further detailed analysis. Based on its initial examination:

- HMRC believes that the increasing number of compliance checks over this period, particularly in its work with credit reference agencies to tackle the undeclared partner risk, have helped to reduce fraud and error. It plans to do more analysis to better understand the link between initiatives and outcomes.
- HMRC's assessment is that around half of its revision of 2012-13 estimates was due to the previous over-statement of losses for the undeclared partner risk. This was caused by awards, sampled in the exercise to produce the estimates, that HMRC initially assessed as incorrect that were overturned or amended on appeal. In some cases, the result of the appeal was not known at the time of the initial measurement period. In other cases, HMRC found it had misclassified some awards as fraud and error when compiling the original estimates.
- HMRC understands the reasons for the revision of losses for the income risk which was partly caused by its misclassification of losses between years. It has not established a full understanding of the reasons for the remainder of the revision by risk type, including a £90 million reduction in losses due to work and hours.

**5.7** In 2013 HMRC set an aim to reduce losses through fraud and error towards 5.5% of tax credits entitlement by the end of 2014-15. HMRC has already reduced losses below this level and needs to sustain and improve on this in future. Due to the lag in measuring of fraud and error, the final results for 2014-15 will be available in June 2016.

**Figure 19**

HMRC's fraud and error estimates from 2003-04 to 2013-14, including projections to 2014-15 'towards 5.5%' aim

**Note**

1 HMRC reports fraud and error within a range around a central estimate. The figures referred to within this report are the central estimates. The methodology meets the national standard for official statistics. It is HMRC's best estimate of fraud and error.

Source: HM Revenue & Customs, *Child and Working Tax Credits Error and Fraud Statistics, 2003-04 to 2013-14*

## The C&AG's audit opinion

**5.8** In forming his audit opinion on HMRC's Resource Accounts, under the Government Resources and Accounts Act 2000, the C&AG is required to obtain sufficient evidence to give reasonable assurance that the expenditure and income reported have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities that govern them (his regularity opinion).

**5.9** The C&AG has qualified his regularity opinion on HMRC's 2014-15 Resource Accounts because of the material level of fraud and error in tax credits expenditure. This expenditure has not been spent as Parliament intended and does not conform to the requirements of the Tax Credits Act 2002 (the Act). The Act specifies the criteria that govern entitlement to tax credits and the method that HMRC should use to calculate the amounts to be paid. Transactions do not conform to the governing legislation and are therefore irregular for one of two reasons:

- fraud or error results in payments of tax credits to households that are not entitled to those credits; or
- fraud or error results in underpayments or overpayments which differ from the entitlement specified in the legislation.

**5.10** This is the fourth consecutive year in which HMRC's Resource Accounts have been qualified for irregular tax credits expenditure. Between 2003-04 when the scheme started and 2010-11, tax credits were reported in HMRC's Trust Statement. This account was qualified for each of these years. As a result, the C&AG has reported to Parliament on tax credits every year since they were introduced.

**5.11** Note 6.3 to HMRC's Resource Accounts discloses its best estimate of all fraud and error within the tax credits system.

## **HMRC's work to reduce fraud and error**

**5.12** HMRC has previously sought to reduce fraud and error by increasing the volume of interventions and targeting major risk areas. In 2013, our Tax Credits report acknowledged that HMRC had taken an innovative approach and significantly increased the number of interventions.<sup>29</sup> HMRC's focus has evolved as it has sought to make its compliance activities more effective and develop a broader approach to stopping overpayments from occurring. It has focused on:

- improving the effectiveness of its compliance activity;
- extending its capacity to tackle overpayments;
- making changes to scheme rules and requirements; and
- improving its support to claimants.

### **Improving the effectiveness of compliance activity**

**5.13** HMRC seeks to target its resources at claims that pose the highest risk of financial loss. Its work is directed by risk area and different stages of the tax credits system (that is, new awards, change of circumstance, renewal and finalisation of claim). HMRC is refining its data analysis and predictive analytics techniques to identify the riskiest claims.

29 Comptroller and Auditor General, *HM Revenue & Customs: Tackling tax credits error and fraud*, Session 2012-13, HC 891, National Audit Office, February 2013.

**5.14** HMRC is continuing to seek access to new data sources to establish better information to support decisions on eligibility and entitlement. It has identified a number of potential data sources such as data to help them identify school leavers and the existence of children. HMRC has been working on a number of proposals but has faced difficulties in securing access to additional data in the form that it requires for large scale analysis. There is also scope to make more use of its own data from tax evasion work, such as its taskforces and work to identify customers who may avoid paying taxes as part of the 'cash economy'.

### Extending capacity

**5.15** HMRC has recognised that, despite its increase in compliance activity, a significant number of claims are still incorrect, leaving undetected fraud and error in the tax credits system. In our 2013 report we recommended that HMRC use third parties to increase the number and quality of its interventions.

**5.16** In May 2014 HMRC signed a contract with Synnex-Concentrix UK Ltd to provide additional capacity to tackle fraud and error on a payments-by-results basis. The aim was to increase the number of compliance interventions. So far, the benefits of the contract have been lower than anticipated. This is because of delays in the service going live and a lower than expected number of interventions completed by the supplier. HMRC estimates that the project delivered savings of £0.5 million in 2014-15, compared with its original forecast of £285 million. The original estimate of £1 billion savings over the three year contract is not achievable. HMRC currently estimates that the project will deliver savings of £423 million, although this relies on increasing staff numbers and improving performance.

### Making changes to scheme rules and requirements

**5.17** HMRC has made policy changes to tackle fraud and error risks. The changes introduce obligations for claimants to provide additional information to support their claim, providing HMRC with better information to make decisions on entitlement. For example, the 2014 Autumn Statement, included measures to investigate where it believes there is a risk of fraud by a self-employed individual. Other measures announced in previous Autumn Statements required claimants to provide:

- regular updates from households reporting high childcare costs; and
- evidence on a child's education status each year for all children aged between 16 and 19.

HMRC estimated in March 2015 that these changes would save up to £471 million over the next five years.

## Improving support to claimants

**5.18** HMRC has updated the interactive guidance for its contact centre staff to lead claimants through tailored questions to prevent errors that cause overpayments. HMRC's long-term vision is to introduce digital accounts to verify customer information and prompt claimants to keep this up-to-date.

## Fraud and error by risk area

**5.19** HMRC analyses the level of fraud and error against 6 main causes of loss. We use these data to help review performance, focusing on trends in reducing losses. **Figure 20** shows that HMRC has made sustained reductions in most risk areas since 2010-11 and has maintained losses at a relatively low level for the disability risk. HMRC has not reduced losses due to claimants misstating their income, although this will be affected by changes to the income disregard.<sup>30</sup> The losses due to undeclared partner and 'work and hours' have fallen considerably in 2013-14 (and in the revised 2012-13 estimates). HMRC will analyse the results of its annual exercise in greater detail to improve its understanding of the causes of fraud and error.

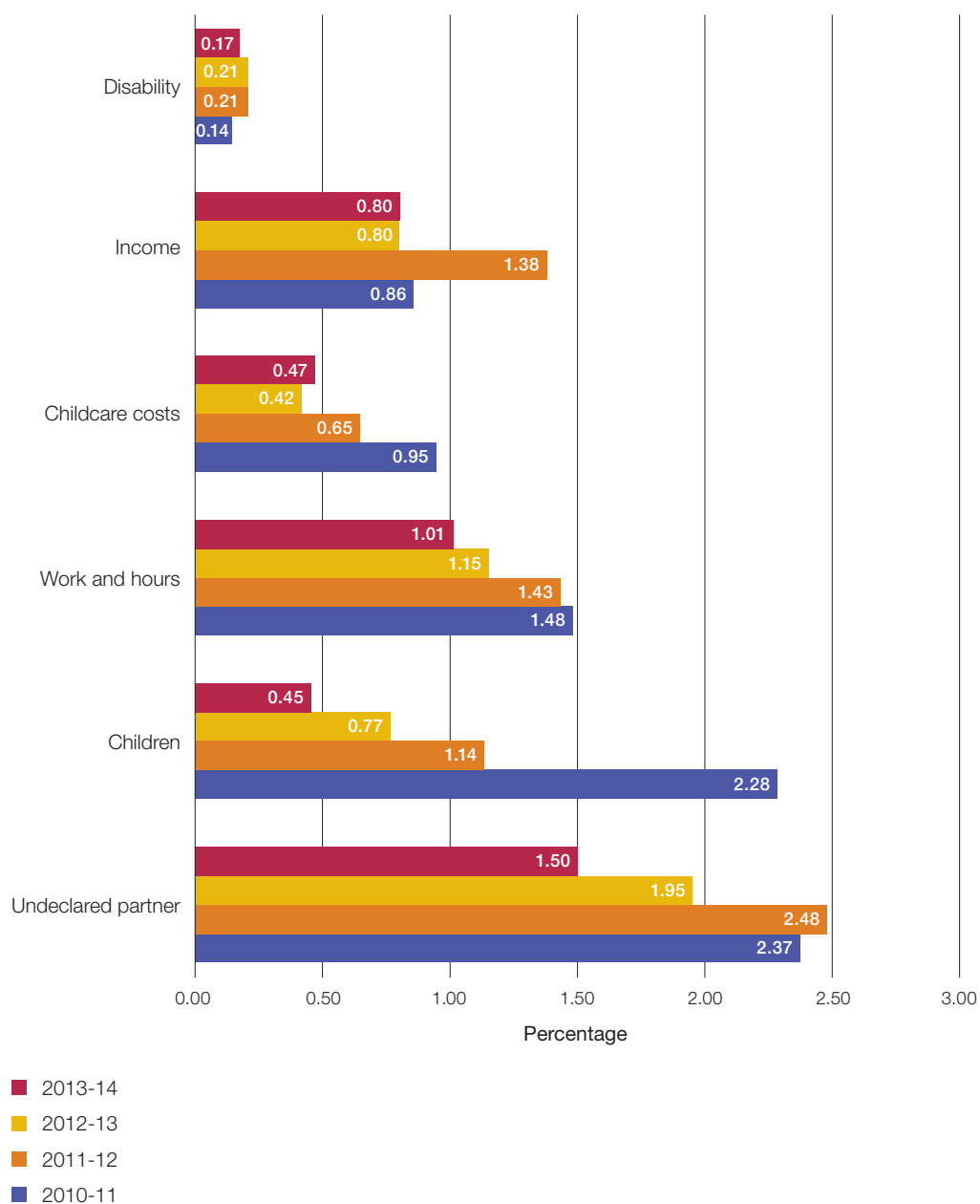
**5.20** We have used this breakdown to assess how the Department's fraud and error activities address risks. **Figure 21** on page R64 summarises the main changes that HMRC has recently introduced. HMRC has a range of activities across the major risk areas to prevent and detect fraud and error, although the impact of some changes will not yet be reflected in the most recent fraud and error estimates. Despite recent progress, HMRC still needs to develop more effective approaches to reducing losses for undeclared partners and work and hours risk types. These risks account for £720 million of fraud and error and HMRC needs to assess the extent to which it is able to further reduce losses. For example, HMRC could better understand claimant behaviours and the reasons why they do not provide the correct information.

**5.21** Figure 21 sets out some of the work HMRC is currently undertaking by risk area. This work is part of a suite of approximately 60 activities it carried out during 2014-15. HMRC estimates that it prevented £469 million of fraud and error that may otherwise have gone undetected. The activities are aimed at individual risk types as well as multiple risks and seek to identify misreported circumstances as well as unreported changes of circumstances.

<sup>30</sup> The income disregard is the amount HMRC allows a customer's income to move by, before it affects the value of their award. Hence, not all income changes reported by the customer result in an adjustment to their payments. The value of this disregard decreased in April 2013 to £5,000 from £10,000.

**Figure 20**

HMRC's fraud and error estimates by risk area for 2010-11 to 2013-14

**Note**

1 The values are HMRC's best estimate of the primary reason for an adjustment to awards. HMRC does not publish confidence intervals for these estimates.

Source: National Audit Office analysis of HM Revenue & Customs' *Child and Working Tax Credits: Error and Fraud Statistics 2010-11 to 2013-14*

**Figure 21**

## HMRC's main fraud and error interventions by risk type

Risk area	Estimated loss 2013-14		HMRC's interventions by risk type
	(£m)	(%)	
Undeclared partner	430	34	HMRC works with a credit reference agency to identify whether a single claimant has financial connections with another adult. It is also exploiting other data it holds (from Real Time Information (RTI) and Connect) and using information from the Department for Work & Pensions (DWP).
Work and hours	290	23	<p>HMRC initially hoped to use data from employers submitted through RTI, but has been unable to use this source due to limitations in the data.</p> <p>The Autumn Statement 2014 included measures requiring self-employed individuals to pass a 'genuine and effective work test' and register for self-assessment. HMRC believes this may help address this risk, but the change only came into effect in April 2015.</p>
Income	230	18	HMRC is using RTI on customers' income to identify errors due to undeclared or understated income. This was used as part of their finalisation of 2013-14 awards and throughout the year.
Childcare costs	135	11	<p>The Autumn Statement 2012 announced a change to policy requiring regular updates from households reporting high childcare costs.</p> <p>HMRC's interactive guidance for contact centre staff is designed to help claimants calculate their childcare costs. However, contact centres are managed under a separate directorate and this guidance is not always used.</p>
Children	130	10	<p>HMRC requires claimants to provide a declaration on education status of children aged between 16 and 19. It also sends letters to parents of 18-year-olds asking whether they remained in full-time education, amending the award if they fail to comply.</p> <p>HMRC also identifies discrepancies between claimants tax credits and child benefit data.</p>
Disability	50	4	HMRC uses DWP data to identify customers incorrectly claiming the disability element of tax credits.

Source: National Audit Office analysis

**HMRC's management of tax credits overpayments**

**5.22** Tax credits overpayments arise when a claimant is paid more than they are entitled to receive. HMRC seeks to recover overpayments that are identified. The tax credits debt balance rose in 2014-15 to £6.9 billion (£6.5 billion at 31 March 2014).<sup>31</sup> A proportion of this balance relates to finalisation, an estimate included for the first time in 2013-14, which recognises an estimate of overpayment debt a year earlier than previously. Without finalisation the balance would be £6.1 billion (£5.5 billion 2013-14). HMRC's original target was to reduce the gross tax credits debt balance to £3.7 billion by March 2015.

<sup>31</sup> Overpayments are reported as debt owed to HMRC in the HMRC Resource Accounts within the tax credits receivables note 6.2. The figures include an accounting estimate for overpayments created in the renewals period after year end (finalisation) that relate to the year of the accounts. Operationally, HMRC does not refer to the total balance as debt, classifying debt only as those overpayments being recovered through direct engagement with the customer. Overpayments being recovered via deductions from existing awards are not included in its classification.



**5.23** HMRC considered a target on the tax credits debt balance was not the most appropriate performance measure. Tax credit debt levels are likely to increase as improvements in detecting fraud and error increase the amount of identified debt. HMRC therefore introduced a new target that emphasises cash recovery. In 2014-15 HMRC had a recovery target of £970 million. It achieved recoveries of £967 million (2012-13, £815 million).<sup>32</sup>

## Progress in improving debt collection

**5.24** In the 2013 Autumn Statement, the government announced that HMRC would expand its capacity to recover tax credits debts by making increased use of private sector debt collection agencies. Since August 2014 HMRC has sent cases to a private sector company, TDX. The company has collected £15.5 million so far on behalf of HMRC and estimates it will recover a further £37.4 million from payment plans set up with customers. In total HMRC estimates £97 million recoveries were put in place in 2014-15 because of this measure.<sup>33</sup> The use of a third party to collect debts allows HMRC to redeploy staff to collect other debts with higher recovery rates. As a result, HMRC bases the benefit of this measure on the recoveries collected through the contract plus recoveries collected by redeployed staff.

**5.25** In the 2012 Autumn Statement HMRC announced a project to recover £520 million of historical tax credits debt (revised in 2013-14 to £480 million). The project started six months later than planned in October 2014. It involved HMRC updating its IT systems to collect this debt. HMRC can now deduct a proportion of the payment from a claimant's new award when it identifies that the same person already has a debt on a previous award. HMRC did not achieve forecasted benefits for the first year of this project. In the light of this experience, it reduced its estimate of planned recoveries to £413 million.

## Future challenges for HMRC benefits and credits

### Universal Credit

**5.26** Under current plans Universal Credit will replace tax credits. In September 2014, DWP extended the timetable for transferring tax credit claimants to Universal Credit. New tax credits claims will gradually stop and, on current plans, there will be no new claims for tax credits after December 2017. HMRC will be responsible for administering the tax credits scheme until claims are closed and existing customers are migrated to Universal Credit. HMRC currently expects to maintain a tax credits caseload until 2021.

<sup>32</sup> The figures quoted here for recovery do not align directly with the figures disclosed in Note 6.2 of the 2014-15 Resource Accounts. The recovery target captures only cash collected and the value of 'time to pay' arrangements. The Resource Accounts figures also include other adjustments to the receivables balance.

<sup>33</sup> This balance is made up of actual cash recoveries and direct debit arrangements set up (as at 27 March 2015). Actual recoveries may be lower if obligations under direct debit arrangements are not fully met.

**5.27** HMRC's plans are based on DWP's approved migration timetable. As at March 2015, HMRC had stopped 7,000 claims (0.2% of claimants) as customers started to claim Universal Credit. The fall in the number of tax credits cases is based on claimants becoming eligible for Universal Credit following a change in their circumstances. Tax credits claims will start to fall significantly from May 2016 as claims are closed on a geographical basis. Under current forecasts HMRC still expects to be administering 660,000 tax credit claimants in December 2019.

**5.28** HMRC will monitor the risks created by the migration while it continues existing fraud and error activities. It will consider the investment required to maintain and improve systems, given the extra time it will need to administer tax credits.

**5.29** HMRC is working closely with DWP to agree arrangements for the recovery of Tax Credit debt once customers move into Universal Credit.

## Digital

**5.30** In 2014-15 HMRC considered further how to extend its use of digital services to interact more widely with claimants. It intends to build upon its digital renewals system introduced at the beginning of 2014-15 to allow customers to report changes of circumstances online throughout the year. This would reduce overpayments that build up when customers wait to report changes of circumstance until they renew their claim following the year end. HMRC needs to continue monitoring how the behaviour of its digital customers differs from their traditional customers, and whether it needs to adapt its response to prevent and detect fraud and error.

## Child Benefit

**5.31** Child Benefit expenditure will take on more prominence in the Resource Accounts as tax credits payments start to decrease with the roll-out of Universal Credit. Levels of fraud and error in Child Benefit are lower than in tax credits. This is attributed to the relative simplicity of the eligibility criteria. However, administering the benefit has become more complex with the introduction of the High Income Child Benefit Charge.<sup>34</sup>

**5.32** HMRC currently estimates the level of overpayments due to fraud and error as £175 million. It is now improving the robustness of its estimate of fraud and error. We will monitor HMRC's performance in tackling fraud and error, using the new methodology to track progress.

**5.33** HMRC can draw on its experience of tackling tax credits fraud and error to refine its approach to Child Benefit compliance work, and it could build on existing analytical techniques and methodologies to identify the underlying causes and entry points of fraud and error. This would help it to better target its controls and interventions within Child Benefit.

<sup>34</sup> From January 2013 a tax charge was introduced for those in receipt of child benefit if they or their partner have an individual income over £50,000.

# Appendix One

## Our evidence base

- 1 We reached our conclusions on HMRC using evidence collected between September 2014 and June 2015.
- 2 As part of our financial audit, we reviewed the supporting information for HMRC's Trust Statement and Resource Accounts and their disclosures. We analysed and discussed with officials the supporting data prepared by a variety of business units in HMRC.
- 3 As part of our Section 2 audit on the adequacy and integrity of HMRC's revenue collection systems, we reviewed the systems for revenue collection across all different tax streams, as well as HMRC's debt management system, and the Real Time Information system introduced for PAYE.
- 4 Our analytical review in Part One was based on an analysis of the numbers published in the financial statements, plus an analysis of supporting information provided during the course of the financial audit.
- 5 Our review in Part Two of HMRC's assessment of the tax gap and tax risk looked at external reviews of HMRC's tax gap methodology. We reviewed the methodology and analysis used for HMRC's 'Strategic Picture of Risk' and considered how this drives action. We also considered the NAO's recent findings on HMRC's response to tax risks.
- 6 As part of our review of how HMRC measures compliance yield in Part Three, we reviewed HMRC's progress on implementing the recommendations made by the Committee of Public Accounts. Our findings are based on testing of the controls around the scoring and reporting of compliance yield, document review, interviews, site visits to various lines of business across the three main directorates of HMRC, and reviews of 81 case files including Local Compliance, Large Business and Specialist Personal Tax cases. We also assessed the robustness of HMRC's method of estimating its yield by considering whether the measure:
  - is based on the best evidence available;
  - is reported in a transparent way;
  - allows comparison of HMRC's performance over time; and
  - is subject to robust processes to assure data quality.

**7** To provide the evidence for Part Four's consideration of HMRC's plans for tax administration, we reviewed the strategy, governance and risk management for HMRC's portfolio of projects in its current change programme. We conducted interviews with key members of staff involved in planning the transformation, and reviewed documents prepared by HMRC as it developed its new strategy.

**8** In addition to our standard financial audit work around personal tax credits, for Part Five we also reviewed HMRC's error and fraud statistics analysis, and information on the performance of initiatives to reduce error and fraud in tax credit payments. We also interviewed key staff and reviewed documents on HMRC plans and strategies around tax credit debt, and reviewed the performance of strategic initiatives such as the use of debt collection agencies.

**9** In addition, we also reviewed:

- HMRC's internal audit reports to understand their management of risks and challenges.
- HMRC's corporate publications on measuring the tax gap and on compliance performance.

**10** We reviewed relevant NAO and Committee of Public Accounts reports on HMRC's performance in the past year, including reports on tax reliefs, and its management of the Aspire contract, as well as HMRC's responses to recommendations on taxation from the Committee of Public Accounts since 2010.

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