

HMRC's Compliance Yield: How HMRC reports future revenue benefit – an update for 2016-17

Introduction

HM Revenue and Customs (HMRC) annually carries out a huge number of compliance interventions, legislative changes and educational activity which lead to the reporting of an annual amount of compliance yield arising from this work. Compliance yield is recorded under five classifications, these are:

- Cash expected
- Revenue loss prevented
- Future revenue benefit
- Product and process yield
- Accelerated Payments

Whilst these classifications are explained further in [HMRC's Annual Report and Accounts 2016-17](#), this technical paper focuses specifically on future revenue benefit (FRB). FRB quantifies the effects of our compliance interventions on customers' future behaviour.

Since 2011, and in line with the Organisation for Economic Co-operation and Development (OECD) good practice, we have included FRB across all of HMRC's compliance work as this helps us reflect and understand the full impact of our compliance work.

In their 2014-15 Standard Report, the National Audit Office (NAO) said that there were inconsistencies between how we recorded FRB and Product and Process yield. FRB was reported in the year the compliance intervention concluded, whereas Product and Process yield is reported when the product or process change impacts Exchequer receipts.

A [technical paper](#) accompanied our [2015-16 Annual Report and Accounts](#) explaining how HMRC planned to change how it reports FRB and the impact of the change compared to the original method. This technical paper provides an update on that reporting approach for FRB.

Future Revenue Benefit

Many of our compliance interventions have an effect not just on the particular period that the return relates to, but future years too. For example, if we make changes to the rate at which a business has claimed capital allowances or tax relief for interest payments, then the change will affect both the liabilities under investigation (cash expected) and future years' liabilities as well. Since 2011, we have quantified FRB across all of HMRC's compliance work as this helps us reflect and understand the full impact of our compliance work. This is important to inform how we resource to areas of highest risk.

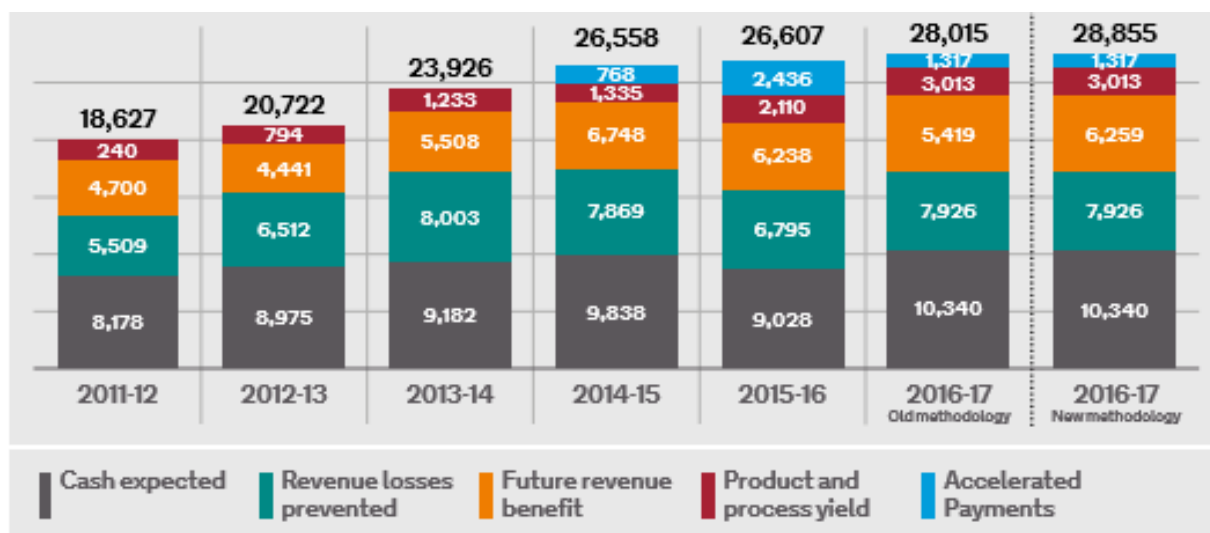
FRB can only be recorded by caseworkers where there is sufficient evidence – there is detailed guidance in place which sets out the conditions that must be met to justify recording FRB and there are limits to the number of future years for which FRB can apply.

Changing our FRB reporting methodology

From 2011-12 to 2015-16 we reported FRB in the year in which we completed each compliance intervention. At the beginning of the Spending Review 2015 period (2016-17 to 2019-20), and responding to the NAO’s recommendation, we started recording FRB for the future year(s) in which the FRB has an impact on Exchequer receipts rather than the year in which we completed the compliance intervention.

For illustrative purposes the total FRB results of our 2016-17 activity reported by both methodologies are shown in Figure 1 below.

Figure 1 – Comparison of FRB reporting methodologies (£m)



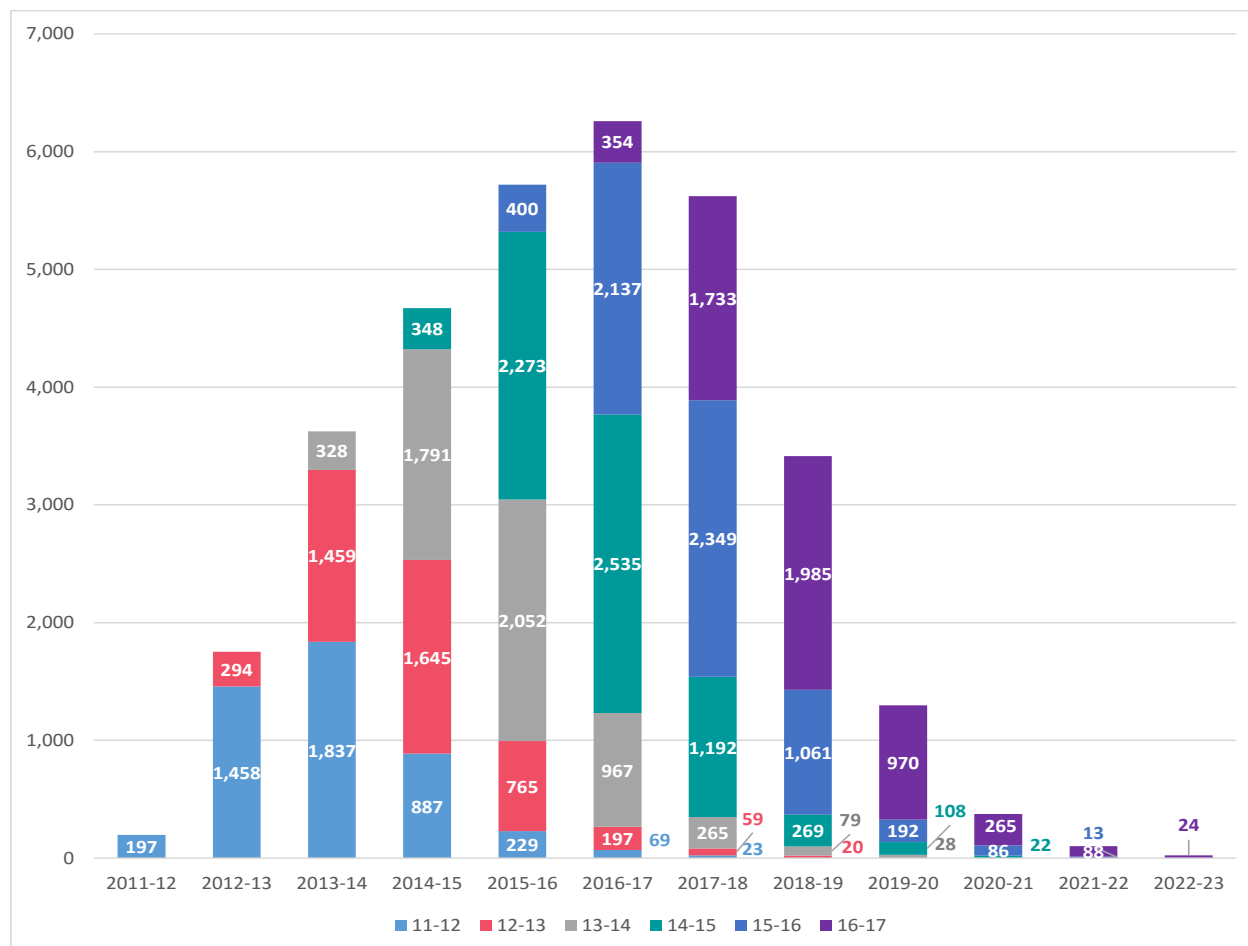
For comparative purposes, the columns in Figure 2 show the total FRB generated by the previous reporting method and the rows show how FRB is spread over several years under the new reporting methodology.

Figure 2 – Estimated year of impact of FRB generated between 2011-12 and 2016-17 (£m)

| | | Year of impact | | | | | | | | | | | | |
|------------------|--------------|----------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|------------|------------|-----------|-------|
| | £'m | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 | 2022-23 | Total |
| Year of Activity | 2011-12 | 197 | 1,458 | 1,837 | 887 | 229 | 69 | 23 | | | | | | 4,700 |
| | 2012-13 | | 294 | 1,459 | 1,645 | 765 | 197 | 59 | 20 | | | | | 4,441 |
| | 2013-14 | | | 328 | 1,791 | 2,052 | 967 | 265 | 79 | 28 | | | | 5,508 |
| | 2014-15 | | | | 348 | 2,273 | 2,535 | 1,192 | 269 | 108 | 22 | | | 6,747 |
| | 2015-16 | | | | | 400 | 2,137 | 2,349 | 1,061 | 192 | 86 | 13 | | 6,238 |
| | 2016-17 | | | | | | 354 | 1,733 | 1,985 | 970 | 265 | 88 | 24 | 5,419 |
| | Total | 197 | 1,752 | 3,624 | 4,670 | 5,719 | 6,259 | 5,621 | 3,414 | 1,298 | 373 | 101 | 24 | |

Figure 3 below summarises how FRB generated between 2011-12 and 2016-17 is expected to impact revenues in 2017-18 and future years in the SR15 period and beyond. It is important to note that for 2017-18 onwards the FRB elements will build up from activity undertaken in those years which will impact on future years' receipts.

Figure 3 – Estimated year of impact of FRB generated between 2011-12 and 2016-17 (£m)



New reporting methodology - detail

Based on our guidance, where we have Customer Relationship Managers in place and FRB is appropriate to be claimed, FRB can be claimed for 3 or 5 years, for other cases it's 2 or 3 years.

Total amounts of FRB generated between 2011-12 and 2016-17 are set out in [HMRC's 2016-17 Annual Report and Accounts](#).

We have specifically separated FRB generated from VAT cases away from other heads of duty. VAT works in the main on a quarterly return basis, whereas other heads of duty involve annual returns, so the profile of future periods affected by a VAT compliance intervention is more complex and needs to be modelled separately.

For VAT, the behaviour change measured by FRB starts in the first quarter after the conclusion of an intervention, which means that some FRB generated has an impact in the same year as the investigation. For example, a business has an investigation that concludes in quarter 2 of 2014-15 and two years of FRB is appropriate to be claimed. Therefore, FRB will be reported against quarter 3 and 4 of 2014-15, the whole of 2015-16 and quarters 1 and 2 of 2016-17.

For all other heads of duty, we have spread the amounts of FRB generated each year across the number of future years affected. We have spread the amounts on a straight line basis. So for example, if we conclude a non-VAT intervention in 2011-12 and FRB is claimed for 2 future years, we have assumed 50% impacts 2012-13 and 50% impacts 2013-14.