HM Revenue and Customs

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HM Revenue and Customs
KAI Benefits and Credits

Personal tax credits statistics:

Child and Working Tax Credits error and fraud statistics 2018-19, first release
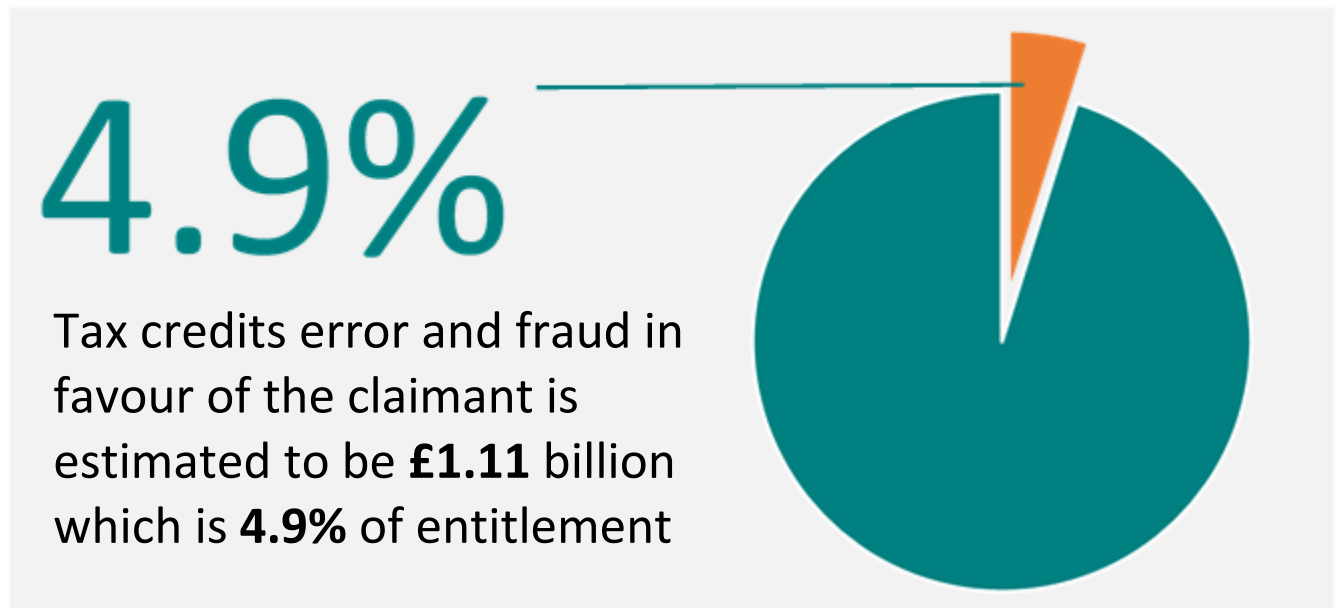
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Tax credits error and fraud at a glance in 2018-19

4.9%

Tax credits error and fraud in favour of the claimant is estimated to be **£1.11** billion which is **4.9%** of entitlement

Tax credits error and fraud as a proportion of entitlement: 2009-10 to 2018-19

4.9%

-0.7%

■ Claimant favour error & fraud ■ HMRC favour error
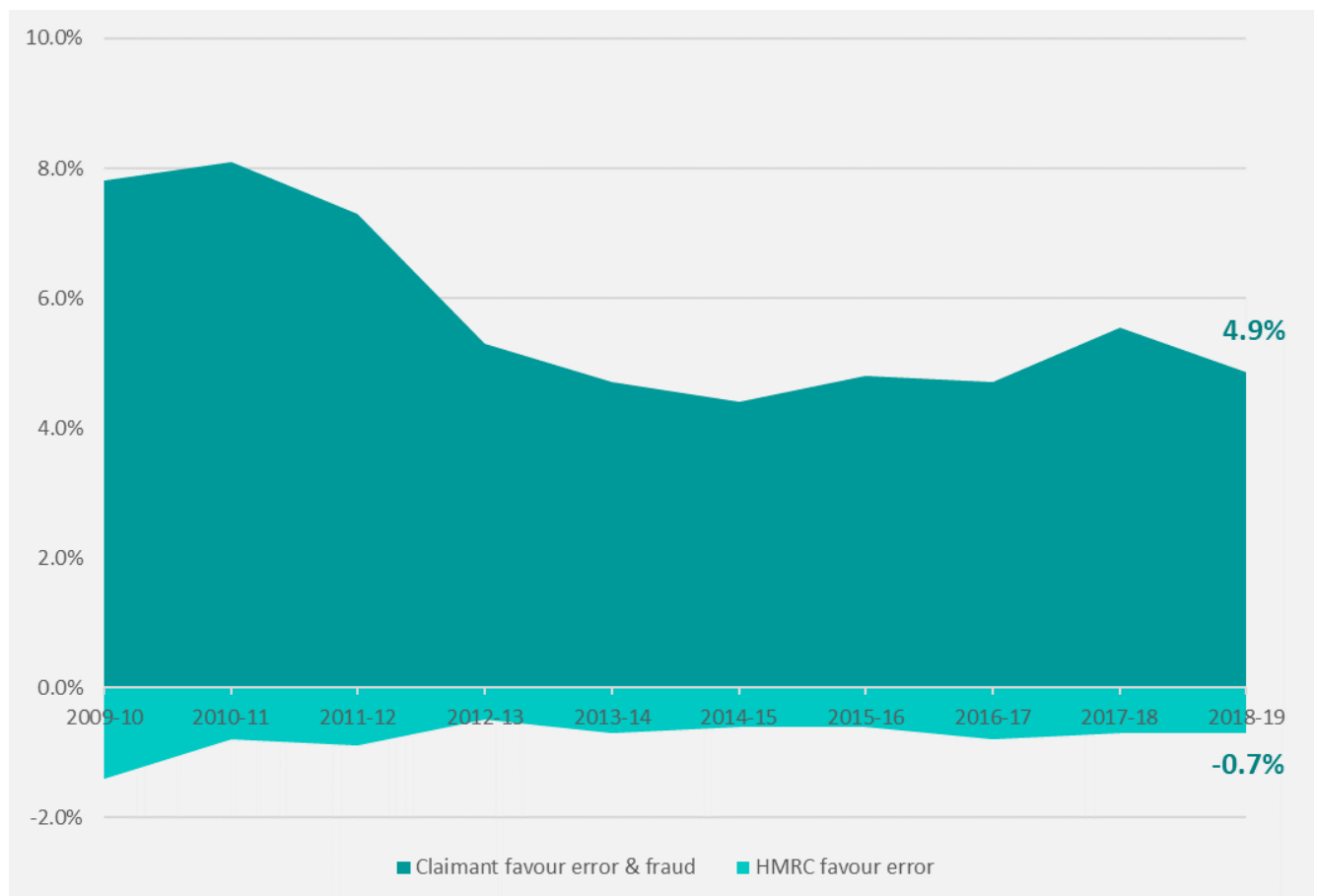
Tax credits error and fraud by risk category: 2013-14 to 2018-19

Error favouring HMRC | **Error and fraud favouring claimant**

Risk category

Income
Inaccurately reporting income
- 2018-19: -135 | 310
- 2017-18: -140 | 295
- 2016-17: -150 | 350
- 2015-16: -125 | 340
- 2014-15: -110 | 270
- 2013-14: -150 | 255

Undeclared Partner
Making a single claim instead of a joint claim
- 2018-19: 0 | 295
- 2017-18: 0 | 350
- 2016-17: 0 | 300
- 2015-16: 0 | 375
- 2014-15: 0 | 335
- 2013-14: 0 | 460

Childcare Costs
Incorrectly claiming childcare costs
- 2018-19: 0 | 95
- 2017-18: 0 | 155
- 2016-17: -5 | 155
- 2015-16: -5 | 180
- 2014-15: -10 | 140
- 2013-14: -10 | 150

Children
Incorrectly including/excluding children or young persons on a claim
- 2018-19: -10 | 65
- 2017-18: -15 | 135
- 2016-17: -20 | 75
- 2015-16: -5 | 75
- 2014-15: -20 | 110
- 2013-14: -15 | 160

Work and Hours
Overstating/understating hours worked
- 2018-19: -15 | 260
- 2017-18: -15 | 430
- 2016-17: -25 | 335
- 2015-16: -30 | 315
- 2014-15: -15 | 325
- 2013-14: -30 | 275

Disability
Incorrectly reporting disability status
- 2018-19: -5 | 75
- 2017-18: -10 | 45
- 2016-17: 0 | 50
- 2015-16: -15 | 60
- 2014-15: -10 | 70
- 2013-14: -5 | 55

Value of error and fraud (£m)

Legend: 2018-19 | 2017-18 | 2016-17 | 2015-16 | 2014-15 | 2013-14

Estimates of error and fraud in tax credits 2018-19

Introduction

1) Child Tax Credit (CTC) and Working Tax Credit (WTC) were introduced in April 2003. They are flexible systems of financial support designed to deliver support as and when a family needs it, tailored to their specific circumstances. They are part of wider government policy to provide support to parents returning to work, reduce child poverty and increase financial support for all families. The flexible design of the system means that as families' circumstances change, so does their (daily) entitlement to tax credits. This means tax credits can respond quickly to families' changing circumstances, providing support to those that need it most. Tax credits are based on household circumstances and can be claimed jointly by members of a couple, or by singles. Entitlement is based on the following factors: age, income, hours worked, number and age of children, childcare costs and disabilities. The introduction of Universal Credit has meant that since 1 February 2019, new claims to tax credits are no longer accepted, except in a limited number of specific circumstances.

2) For further information on who can claim tax credits please refer to the GOV.UK website: https://www.gov.uk/topic/benefits-credits/tax-credits

3) This report presents results from the Tax Credits Error and Fraud Analytical Programme (EFAP), which is designed to measure error and fraud (E&F) in finalised awards across the tax credits population. This publication will be of particular interest to the National Audit Office (as part of their overall review of HMRC's accounts), academics and think-tanks and operationally within HMRC. Historical error and fraud estimates dating back to 2006-07 can be found in Annex B.

4) For the 2018-19 tax year, this exercise took a stratified random sample of 4,000 cases which were selected to be representative of the tax credit population. These cases were taken up for examination by claimant compliance officers who worked the cases as they would for any other enquiry. The sample is stratified because of the size and diversity of the claimant population and the possible variation in compliance risk. This is so that we can measure the level of compliance for various claimant groups, as well as for claimants as a whole. More details about the sampling methodology can be found in Annex A.

Original and revised estimates

5) This analysis is a first release based on incomplete data due to some of the sampled cases still having ongoing compliance interventions and some cases appealing the original decisions made by compliance officers. A final estimate will be completed and published based on the complete data in spring 2021.

Section 1: Estimated levels of error and fraud

6) The details presented in the following tables are based on a sample of cases and hence there are margins of error associated with these estimates. Therefore, tables 1 to 4 also illustrate the 95 per cent confidence intervals associated with these central estimates.

7) Estimates in the tables are rounded to the nearest £10m/10,000 in tables 2, 4, 5, and for all the overall totals in the other tables. The breakdowns in the other tables are rounded to the nearest £5m/5,000. The error and fraud rates are rounded to the nearest 0.1% in tables 1 and 3. Note that numbers in these tables may not sum to the totals due to rounding.

8) Error and fraud favouring the claimant refers to cases where the claimant has been found to be non-compliant in a way that has led HMRC to pay them more tax credits than they were entitled to for the year – i.e. there was a monetary gain for the claimant and a monetary loss for HMRC. Error and fraud favouring HMRC refers to cases where the claimant has been found to be non-compliant in a way that has led HMRC to pay them less tax credits than they were entitled to for the year – i.e. there was a monetary gain for HMRC and a monetary loss for the claimant.

9) The 2018-19 error and fraud rate has decreased compared to the previous year from 5.5% to 4.9%, as shown in table 1. This is mainly a result of a large decrease in error and fraud in the Work and Hours risk group, as well as decreases in the Childcare Costs and Children risk groups. There has also been a decrease in error and fraud in the Undeclared Partner risk group which may be partly due to HMRC providing additional information to customers to educate them on their responsibilities around declaring a partner.

Table 1: Total error and fraud as a proportion of finalised entitlement (%), 2017-18 and 2018-19

	2017-18			2018-19		
	Lower bound	**Central estimate**	Upper bound	Lower bound	**Central estimate**	Upper bound
Estimated error and fraud favouring the claimant	5.0	**5.5**	6.1	4.4	**4.9**	5.4
Estimated error favouring HMRC	0.6	**0.7**	0.8	0.6	**0.7**	0.8

10) Table 2 shows that there were an estimated 680,000 tax credits claims containing error and fraud in the claimant's favour in 2018-19 and the total value of this error and fraud is estimated at £1.1 billion. There were an estimated 450,000 claims containing error favouring HMRC, with a total estimated value of £170 million.

11) It is important to note that due to the introduction of Universal Credit, the total number and entitlement of tax credits awards is decreasing year-on-year, and comparisons of the absolute number of awards in error and fraud and absolute value of error and fraud to previous years should consider the decreasing size of the tax credits population.

Table 2: Overall level of error and fraud, 2018-19

	Number ('000)			Amount (£m)		
	Lower bound	**Central estimate**	Upper bound	Lower bound	**Central estimate**	Upper bound
Estimated error and fraud favouring the claimant	640	**680**	730	1,000	**1,110**	1,220
Estimated error favouring HMRC	420	**450**	490	140	**170**	190

12) When Claimant Compliance Officers find error and fraud in EFAP cases they assess whether they believe it was due to genuine error or fraud. To be classified as fraud, a caseworker needs to have found evidence that the claimant deliberately set out to misrepresent their circumstances to get money to which they are not entitled (e.g. claiming for a child that does not exist). Error covers instances where there is no evidence of the claimant deliberately trying to deceive HMRC. It covers a range of situations, including cases where a claimant inadvertently over-claims because they simply provided HMRC with the wrong information. It could also cover a situation where the correct information has been provided but this information has been incorrectly processed by HMRC.

13) Tables 3 and 4 show that error makes up 85% of the total value of error and fraud in claimant favour, with the remaining 15% coming from fraudulent activity.

Table 3: Error and fraud favouring the claimant as a proportion of finalised entitlement (%), 2018-19, split out into separate error and fraud components

	Lower bound	**Central estimate**	Upper bound
Estimated **error** favouring the claimant	3.9	**4.3**	4.7
Estimated **fraud** favouring the claimant	0.4	**0.6**	0.8
Total	4.4	**4.9**	5.4

Table 4: Level of error and fraud favouring the claimant, 2018-19, split out into separate error and fraud components

	Number ('000)			Amount (£m)		
	Lower bound	**Central estimate**	Upper bound	Lower bound	**Central estimate**	Upper bound
Estimated **error** favouring the claimant	600	**650**	690	870	**970**	1,070
Estimated **fraud** favouring the claimant	20	**40**	50	90	**140**	190
Total	640	**680**	730	1,000	**1,110**	1,220

14) Error can be made by both the claimant and HMRC and table 5 provides a breakdown into claimant error and HMRC error. It shows that the majority of errors are made by the claimant with a small proportion being made by HMRC. This is consistent with previous years.

Table 5: Overall level of error split between claimant error and HMRC error - central estimates, 2018-19

|	**Claimant error**		**HMRC error**	
	Number ('000)	Amount (£m)	Number ('000)	Amount (£m)
Estimated error favouring the claimant	630	940	20	30
Estimated error favouring HMRC	430	150	30	20

15) Figure 1 shows that the majority of tax credits awards with claimant favour error and fraud have an award value of less than £10,000. The £0 to £2,000 band has the highest number of claimants in error and fraud, at 130,000. The £2,000 to £4,000 band has the highest value of error and fraud at £185 million. Note that the value of the award shown in figures 1 and 2 is the value of the finalised award and includes the value of error and fraud.

Figure 1: Distribution of error and fraud favouring the claimant by value of finalised award - central estimates, 2018-19
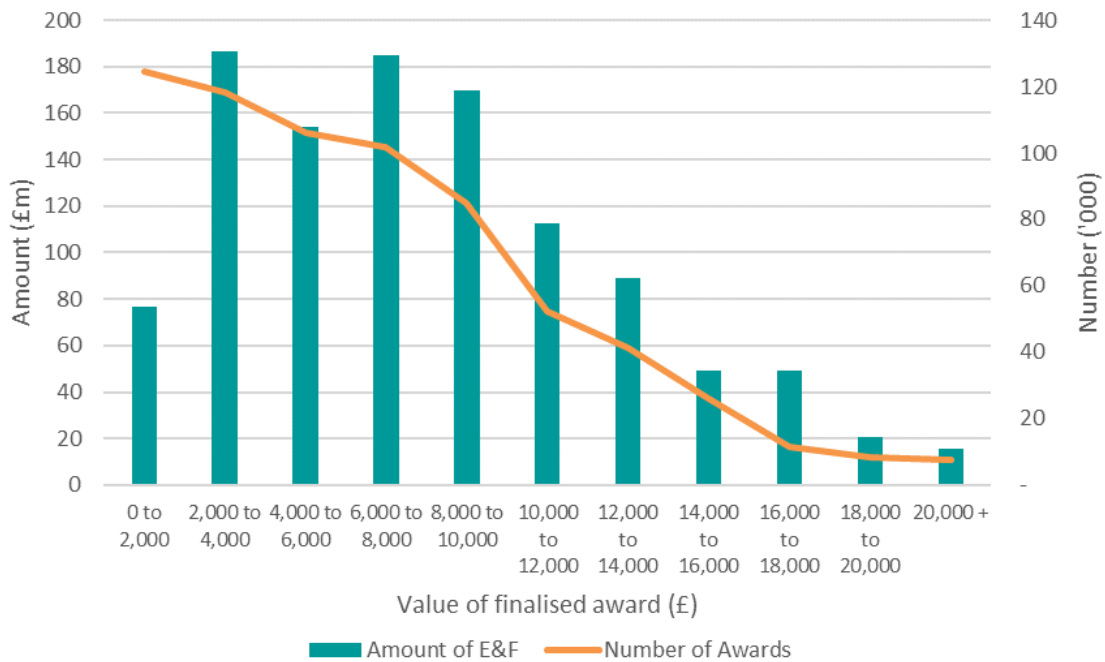
16) Figure 2 shows that the majority of tax credits awards with HMRC favour error have an award value below £10,000. The £2,000 to £4,000 band has both the highest number of claimants in error and the highest value of error, at 90,000 and £40 million, respectively.

Figure 2: Distribution of error and fraud favouring HMRC by value of finalised award - central estimates, 2018-19
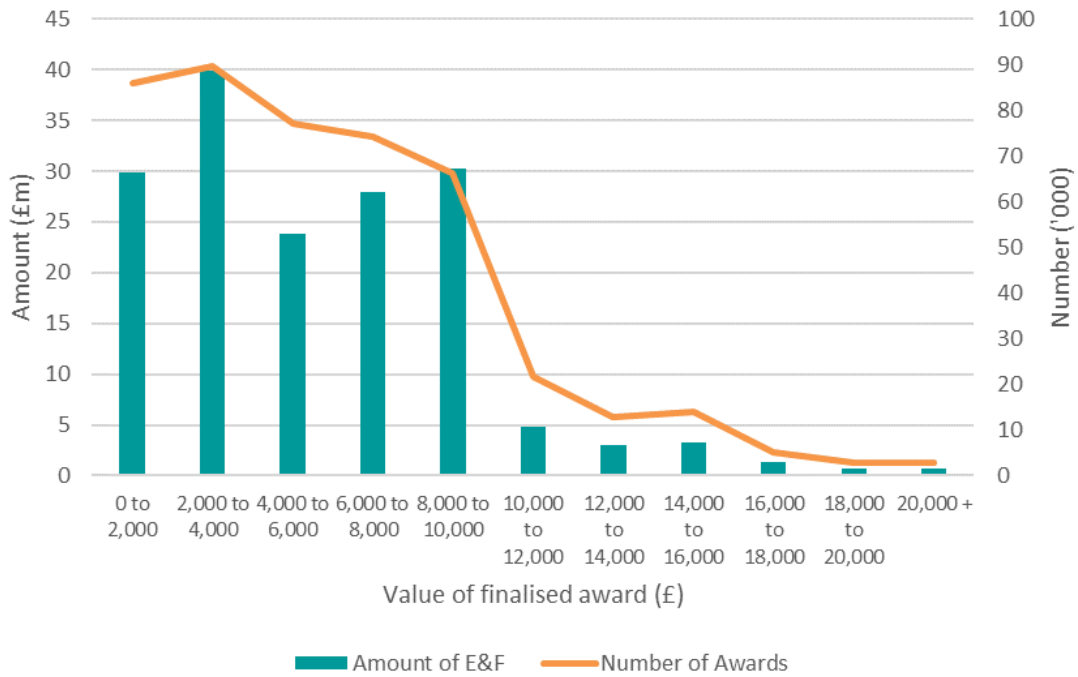

17) Figure 3 shows that the majority of awards with claimant favour error and fraud have an error and fraud value below £1,000. Fewer than 50,000 cases have an error and fraud value over £6,000, although this band accounts for the largest proportion of total claimant favour error and fraud (£300 million).

Figure 3: Distribution of claimant favour error and fraud amounts, 2018-19
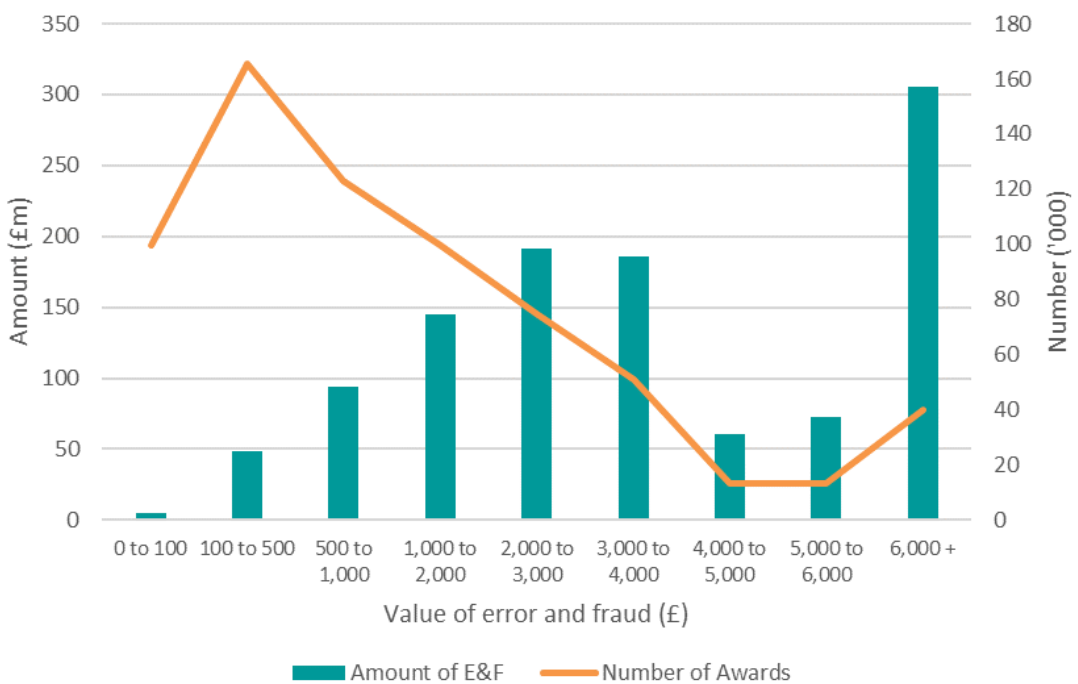
18) Figure 4 shows that the majority of HMRC favour error has a value of less than £500, with around 50,000 awards having HMRC favour error of over £1,000. The largest proportion of total HMRC favour error is in awards with an error value of £1,000 to £2,000 (£45 million).

Figure 4: Distribution of HMRC favour error amounts, 2018-19
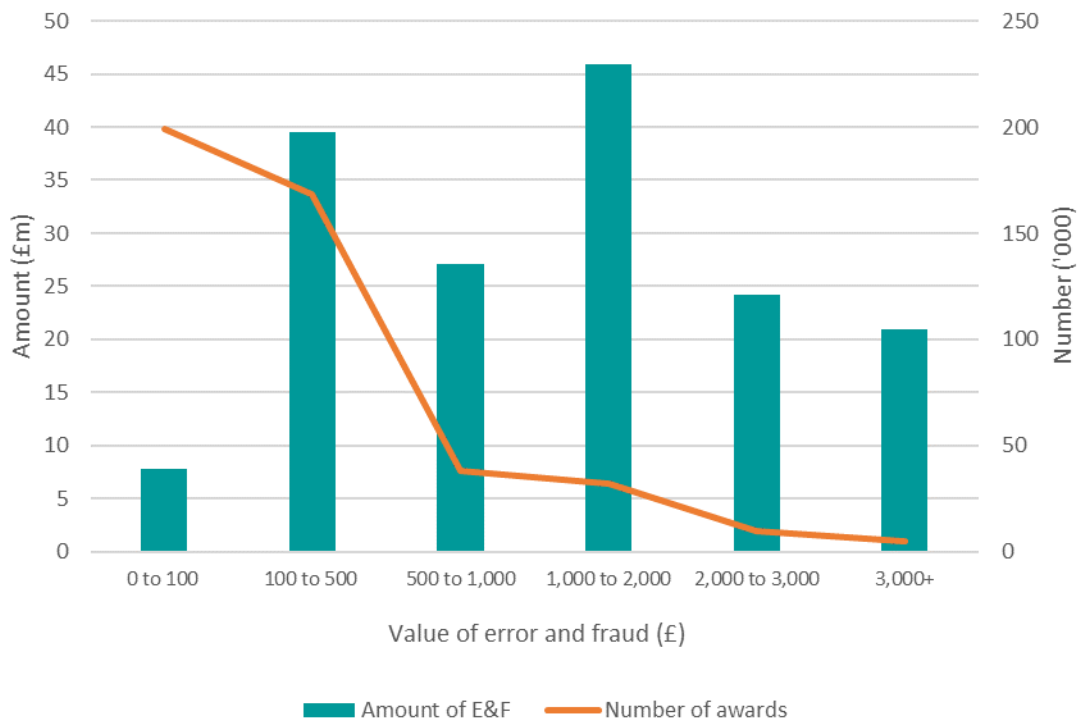
Section 2: Reasons for error and fraud

19) Error and fraud can enter the system due to a range of circumstances being incorrectly reported. At a high level there are 7 key risk categories. These are:

- Income – inaccurately reporting income.
- Undeclared Partner (UP) – making a single claim instead of a joint claim.
- Childcare Costs – incorrectly reporting childcare costs.
- Children – incorrectly including/excluding children or young persons on a claim.
- Work and Hours – overstating/understating hours worked.
- Disability – incorrectly reporting disability status.
- Other – risks that cannot be assigned to one of the other high level categories. This category includes residency and situations where a partner has been declared but is not present.

20) The associated level of error and fraud for each of the risk categories can be found in tables 6 and 7. Note that some claimants will have more than one risk identified in their claim so the numbers will not sum to the total number of awards presented in the other tables.

21) Table 6 and Figure 5 show the total number of cases and amount of claimant favour error and fraud for each of the risk categories with their respective confidence intervals. Most of the error and fraud favouring the claimant is due to the Income, Undeclared Partner and Work and Hours categories. These risk groups have similar values of error and fraud; however, the Income risk has a larger number of awards in error and fraud.

Table 6: Reasons for claimant favour error and fraud - central estimates, 2017-18 and 2018-19

Reason	2017-18		2018-19	
	Number ('000)	Amount (£m)	Number ('000)	Amount (£m)
Income	320	295 (+/- *55*)	310	310 (+/- *55*)
Undeclared Partner	100	350 (+/- *85*)	85	295 (+/- *75*)
Childcare Costs	165	155 (+/- *30*)	125	95 (+/- *20*)
Children	70	135 (+/- *50*)	60	65 (+/- *25*)
Work and Hours (including C&P)	310	430 (+/- *65*)	200	260 (+/- *45*)
Disability	40	45 (+/- *25*)	50	75 (+/- *25*)
Other	-	-	5	10 (+/- *10*)
Total	**1,000**	**1,410**	**830**	**1,110**

Figure 5: Value of claimant favour error and fraud (£m) by risk category, with confidence intervals, 2017-18 and 2018-19
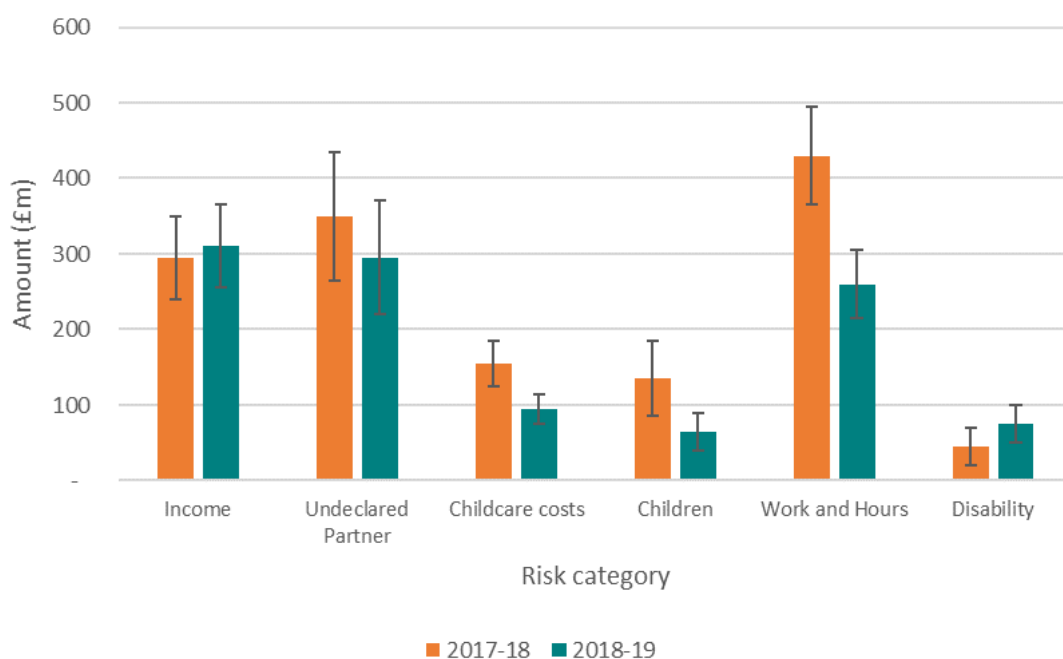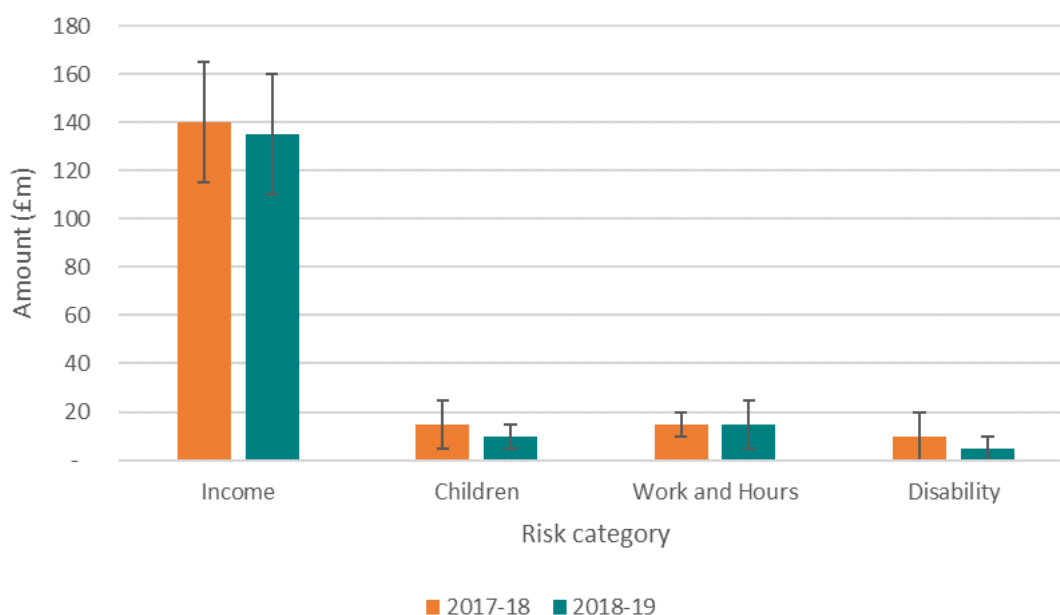
22) Table 7 and Figure 6 show that error favouring HMRC is mainly due to the Income risk category.

Table 7: Reasons for HMRC favour error - central estimates, 2017-18 and 2018-19

Reason	2017-18		2018-19	
	Number ('000)	Amount (£m)	Number ('000)	Amount (£m)
Income	470	140 (+/- *25*)	440	135 (+/- *25*)
Undeclared Partner	-	-	-	-
Childcare Costs	10	-	5	-
Children	15	15 (+/- *10*)	10	10 (+/- *5*)
Work and Hours (including C&P)	45	15 (+/- *5*)	40	15 (+/- *10*)
Disability	10	10 (+/- *10*)	5	5 (+/- *5*)
Other	-	-	-	-
Total	**550**	**180**	**500**	**170**

23) We are able to break down the larger risk categories further to see the underlying reasons for the error and fraud entering the system. There is not enough information on the smaller risk categories to provide a further breakdown.

Income risk

24) Income error and fraud occurs when a claimant under or overstates their actual income. This can come from a range of different sources. We are able to break down the Income risk into these sources as can be seen in table 8 and figure 7 below.

Table 8: Income error and fraud favouring the claimant broken down by different sources of income - central estimates, 2018-19

Source of income	Estimated error and fraud favouring the claimant	
	Number ('000)	Amount (£m)
Self-employed income	70	90
Employed income	95	90
Social security benefits	60	35
Dividends	15	35
Rents	10	15
Benefits in Kind	20	15
Other	40	30
Total	**310**	**310**

25) Table 8 shows self-employed income and employed income have the highest E&F among the different sources of incorrect income, with self-employed income having fewer cases in error and fraud but the same total value due to higher average E&F values for each case.

Figure 7: Income error and fraud favouring the claimant broken down by sources of income - central estimates, 2018-19
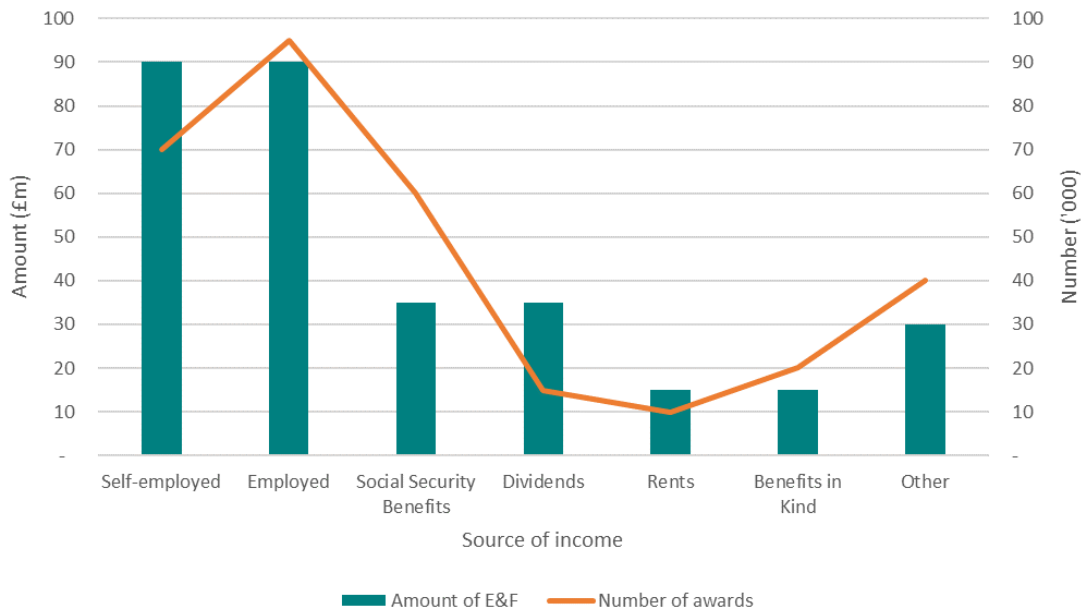
26) Error and fraud can occur because the claimant has not informed HMRC about any of their income from a certain source or because they have under or overstated the amount of income they receive. This varies depending on the type of income as can be seen in Figure 8.

27) Overall there is approximately a 60-40 split between claimants understating their income and claimants not informing HMRC of their income. However, this varies substantially by type of income. Figure 8 shows the main sources of undeclared income are rents, social security benefits, and benefits in kind, whereas claimants are more likely to understate self-employed and employed income than not declare it at all.

Figure 8: Proportion of error and fraud broken down by declaration of different sources of income - central estimates, 2018-19
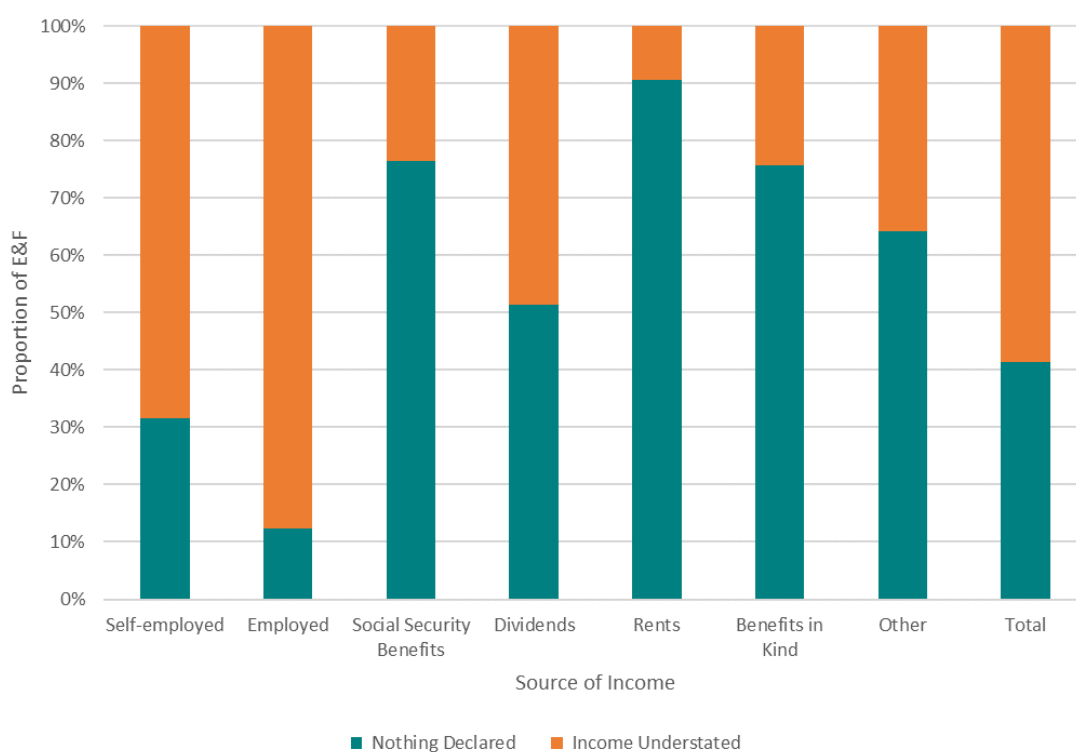

28) Table 9 shows that employed income accounts for around 65% of total income error favouring HMRC. Reasons for this could include claimants overstating their income or including a component of their income which should be disregarded for tax credits claims.

Table 9: Income error favouring HMRC broken down by different sources of income - central estimates, 2018-19

Source of income	Estimated error favouring HMRC	
	Number ('000)	Amount (£m)
Employed income	365	90
Self-employed income	40	35
Social security benefits	20	5
Other	15	5
Total	**440**	**135**

29) Figure 9 shows that while employed income makes up the majority of income error favouring HMRC, the average amount of error in self-employed income cases is higher.

Figure 9: Income error favouring HMRC broken down by different sources of income – central estimates, 2018-19

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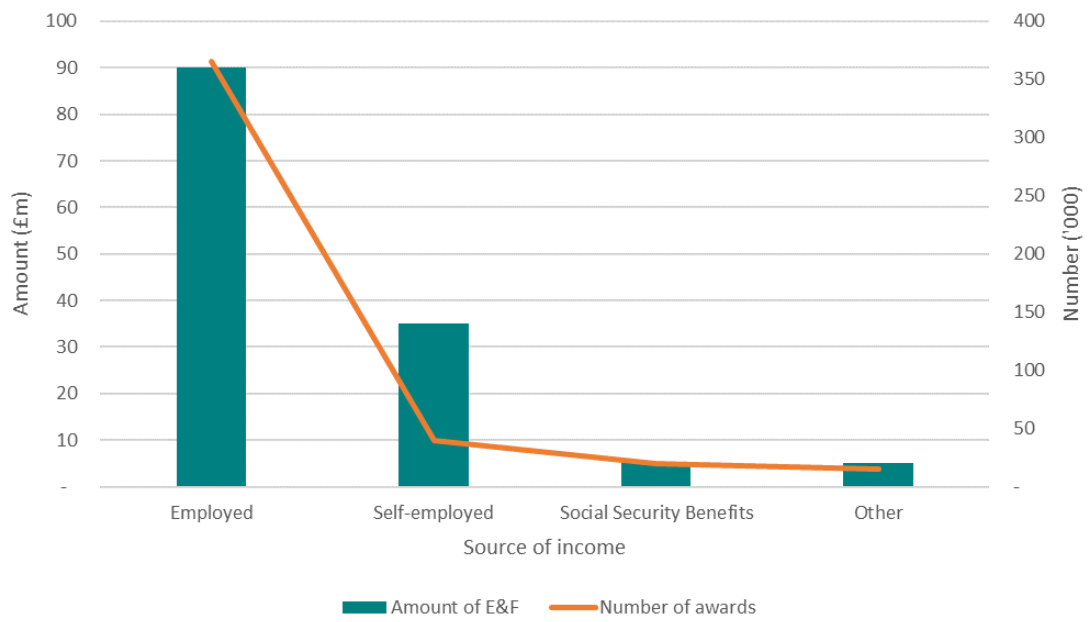
Work and Hours risk

30) Work and Hours error and fraud can occur when a claimant provides an incorrect start or end date for their qualifying employment, or provides an incorrect assessment of their weekly hours. We are able to break down Work and Hours into these categories and also distinguish between employed and self-employed work. This can be seen in table 10. Note that HMRC favour Work and Hours error can not be broken down further due to a small sample size.

31) Table 10 shows most Work and Hours error and fraud is from employed work when claimants overstate the number of hours worked (the claimants are working fewer hours than they originally claim).

Table 10: Work and Hours error and fraud favouring the claimant broken down by type of employment and reason - central estimates, 2018-19

Source of Work and Hours error and fraud	Estimated error and fraud favouring the claimant	
	Number ('000)	Amount (£m)
Employed	**170**	**210**
Fictitious employment	5	10
Incorrect start and/or end dates	60	55
Overstated hours	110	145
Self-employed	**25**	**50**
Incorrect start and/or end dates	5	5
Overstated hours	15	20
C&P	10	20
Total	**200**	**260**

32) Figure 10 shows that incorrect start and/or end dates accounts for a smaller amount of error and fraud relative to the number of awards than other reasons (£60m and 60,000 awards).

Figure 10: Work and Hours error and fraud favouring the claimant broken down by reason - central estimates, 2018-19

Amount (£m)

Number ('000)

Reason for error and fraud

■ Amount of E&F ── Number of awards
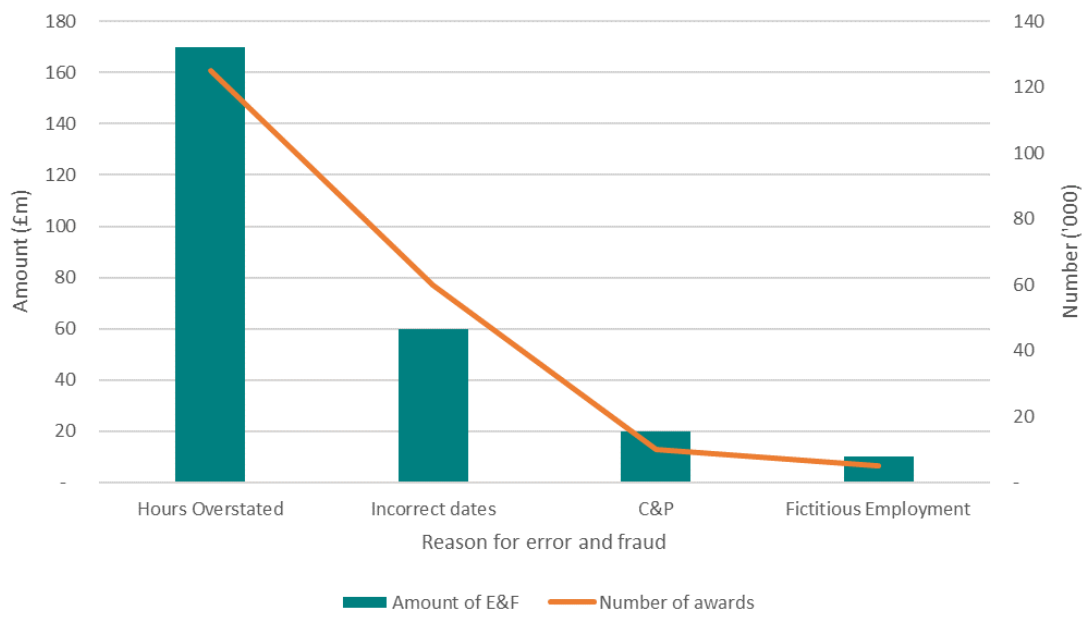
Annex A: The 2018-19 Tax Credits Error and Fraud Analytical Programme (EFAP) methodological and technical details

Introduction

1. The tax credits system is designed to respond to changes in circumstances as they happen. A claimant's entitlement can therefore change throughout the year which could lead to over or underpayments depending on when the claimant tells HMRC about the change, either in year or at finalisation. Error and fraud can therefore only be found after the claim has been finalised with the actual circumstances of the 2018-19 tax year. The 2018-19 exercise could not start until recipients had provided HMRC with details of their final 2018-19 circumstances, which meant that compliance officers were unable to start work on some cases until after 31 January 2020.

2. The impact of COVID-19 meant that compliance investigations on a significant number of the sample cases were delayed to ensure customers were able to supply evidence. This means that publication of the first estimate of tax credits error and fraud was delayed from the usual June publication date to September 2020.

Error and fraud

3. When Claimant Compliance Officers identified non-compliance, they were required to indicate whether they believed it was due to genuine error or fraud. To be classified as fraud, a caseworker needs to have found evidence that the claimant deliberately set out to misrepresent their circumstances to get money to which they are not entitled (e.g. claiming for a child that does not exist). Error covers instances where there is no evidence of the claimant deliberately trying to deceive HMRC. It covers a range of situations, including cases where a claimant inadvertently over-claims because they simply provided HMRC with the wrong information. It could also cover a situation where the correct information has been provided but this information has been incorrectly processed by HMRC.

4. As part of the working of each case, compliance officers were asked to classify whether or not a case that was found to be incorrect was due to either error or fraud, as well as whether or not the error was due to HMRC.

5. For cases where error or fraud have been identified the Claimant Compliance Officer also has to identify the causes of the error or fraud, the monetary consequence of this and the adjustment categories which are shown in table 6.

6. Due to the nature of organised fraud and HMRC compliance procedures the vast majority of organised fraud claims are stopped quickly and awards in payment are terminated. Any cases identified as having an ongoing organised fraud investigation during the EFAP process are not taken up by the EFAP caseworker. Any

overpayments as a result of organised fraud are included in the annual National Statistics publication on under and overpayments.

Sampling

7. The sample for the 2018-19 EFAP is constructed from 3 strata of claimants; these strata, together with the sample sizes, are shown in table A1 below. For the 2018-19 EFAP, nil awards were removed from the sample, as these have been found to contain negligible amounts of error and fraud. This has increased the number of cases selected in the other strata improving the confidence levels of the outputs.

Table A1: Sample Strata and Sample Sizes

Stratum	Sample size
CTC Only – family element or less	50
WTC only	384
Others	3,566
Total	**4,000**

8. The sample was stratified in this way to ensure that an appropriate number of both Other and WTC only awards were included in the sample. If a purely random sample had been used this would have consisted of a high number of Nil and Flat rate awards which show relatively low rates of non-compliance, thus reducing the accuracy of the results of the EFAP. The use of a stratified sample allows for the levels of error and fraud in each stratum to be estimated more accurately by ensuring the number of cases in each stratum is representative of the likelihood of error and fraud occurring in that strata of the population. Cases that fall under special customer records policy (secure and sensitive cases) are excluded from the sample. Further detail on these cases can be found in paragraph 26.

9. An individual award can fall into a number of different strata during the year depending on the circumstances of the household at a given point in time, for example a couple could initially be receiving WTC only and then half way through the year have their first child thus moving them to our other strata. In fact there are 7 possible categories (which we aggregate into our 3 strata) that a household in award could find themselves in at a given point during the year depending on their circumstances and income. When an award moves between these categories we say that a new entitlement sub-period has been created.

10. It is important to note that our sample base is awards and not families – these two differ as a family can have a number of awards during a year. Take the following example: initially a lone parent family is in award then a new household is formed when a partner moves in and later in the year the partner moves out (the household breaks down) and they become a lone parent again. In total they have had three

separate awards during the year. We follow awards as this is the unit that the tax credits system is based around and hence is most suitable for constructing a representative sample from.

11. The sample base contains all 2018-19 awards present on the HMRC tax credit system at the end of the first week of August 2018. An award may last for a period of anywhere between one day and the whole year.

12. The sample for each stratum was selected at random. The minimum sample size for each stratum is 50 to allow for further breakdown of the results internally. This ensures results from the Child Tax Credits only strata are robust and representative of the population.

13. It is possible for awards to migrate to Universal Credit (UC) during the EFAP estimation year. If an award migrated to UC prior to 1 September of the EFAP estimation year (e.g. before 1 September 2018 for the 2018-19 estimation), the award is excluded from the sample and a different award selected. This occurs during the sampling process, therefore the total number of cases selected will always be 4,000. If the award migrates to UC after 1 September of the estimation year, it is included in the sample for the period of the year that the award was in payment.

Sampling errors around the estimates

14. Estimates in the tables are rounded to the nearest £10m/10,000 in tables 2, 4, 5, and for all the overall totals in the other tables. The breakdowns in the other tables are rounded to the nearest £5m/5,000. The error and fraud rates are rounded to the nearest 0.1% in tables 1 and 3. The estimates presented are the central estimates derived from the sample taking account of the methodological approach set out below. Since these estimates are based on a sample they are subject to sampling errors. These margins of error have been expressed by calculating a 95 per cent confidence interval around the estimates. These have been calculated and are shown in tables 1 to 4.

15. Confidence intervals are calculated using the variance of the values in the closed case data. The uncertainty around the open case projections is assumed to be the same as the closed cases.

Methodology

16. The following section sets out a number of different methodological issues - such as how we process the data, how cases in the sample have been scaled up to represent population estimates, how certain cases have been treated, etc.

Processing

17. The underlying data are recorded by the compliance officers who carried out the enquiries; it then undergoes a number of steps where it is checked and processed before it is used to calculate the figures in this publication. Compliance officer decisions are checked at the case closure stage by reviewing all supporting evidence used to make the decision, both that supplied by the caseworker and contained in HMRC systems. All calculations are also checked for financial accuracy at the case closure stage.

18. The final data used are created by cross checking the information held in our compliance management information system against that held in the main tax credit computer system and against information recorded about the case by the compliance officer who worked it. The data is corrected if there is a discrepancy between the systems to assure all of the data is correct before completing the analysis.

19. Each award has a number of entitlement sub-periods[1] and it is clear that some of these sub-periods cannot be associated with certain types of error/fraud that are recorded, for example if 25 per cent of an award's time is spent in a WTC only sub-period and 75 per cent of its time in sub-periods relating to CTC then a claimant favour error/fraud relating to a child could only have occurred in the latter 75 per cent of the award. We therefore allocate the error to the sub-periods that it could be associated with, so in the earlier example the child error would be allocated to the 75 per cent of the award spent in sub-periods relating to CTC. Error favouring HMRC has been reallocated between sub-periods based on the proportion of that award spent in that sub-period.

Classification of the 4,000 sample

20. The EFAP cases can either end with a claimant favour, revenue favour, or no adjustment after the intervention. We will receive information from the claimant through the enquiry in the majority of cases with a number not responding to the investigation. Table A2 sets out how the 2018/19 cases are broken down.

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[1] See paragraph 8 for an explanation of entitlement sub-periods.

Table A2: Breakdown of EFAP cases by response and outcome

	Net Claimant Favour	Net HMRC Favour	Total
Responded:			
with error and fraud	470	345	820
without error and fraud	-	-	1,854
No Response:			
with error and fraud	209	5	214
without error and fraud	-	-	806
Not Taken Up	-	-	114
Open	-	-	192
		Total	**4,000**

21. Cases can have both claimant favour and HMRC favour error and fraud. Table A2 shows the net position of those cases, where a case with a total claimant favour adjustment is classed as in claimant favour and a case with a total HMRC favour classed as HMRC favour. Cases that do not have error and fraud, and have not been worked or are still open will not be in either Claimant or HMRC favour and so no breakdown is provided in the table. Note that it is possible for a case to contain equal values of claimant favour error and fraud and HMRC favour error, meaning that although the case contains error and fraud, the net value of error and fraud is 0, and is neither in net claimant or HMRC favour.

Non-response

22. Approximately 25 per cent of claimants in the sample that is used to compile this estimate do not respond to HMRC's investigations. The issue of non-response is monitored in several ways, including ensuring that compliance officers are in a position to make a valid decision without a response, completion of extensive quality checks of compliance officers' decisions and monitoring of the outcome of non-response cases against those where claimants do respond.

23. Follow-up analysis has shown that non-response cases are no more or less likely to contain error and fraud favouring the claimant than cases where the claimant does respond. Consequently, we are satisfied that compliance officers are able to make a valid decision on non-response cases by using information held by HMRC. No adjustment is made to the estimate of error and fraud favouring the claimant to account for non-response.

24. Error favouring HMRC is more likely to be identified in cases where the claimant does respond. It is not possible to determine whether the non-response cases do in fact

contain higher levels of error and fraud than we have identified but we hold no evidence to suggest that they do. No adjustment is made to the estimate of error favouring HMRC to account for non-response.

Not taken up cases

25. In this year's exercise 114 cases were not taken up for enquiry for reasons including death or other exceptional circumstances. This number is in line with the amount of cases not taken up in previous years. These cases have been excluded from the results, implicitly assuming that if they had been worked they would have the same incidence of error and fraud as the cases that have been successfully completed.

26. Cases are also not taken up if they fall under special customer records policy. These cases are deemed to require additional protection. Because of this both EFAP caseworkers and analysts do not have the required permissions to access the customer information. These cases are therefore removed from the sample. Types of special customer records can include: Members of the Royal Household, members of UK legislative bodies including Scottish and Welsh Assemblies, VIPs and those in high–risk employment, victims of domestic violence and other high-risk individuals.

Open cases

27. As shown in table A2 there were 192 cases which had been opened but not completed when the first estimate was made. This is in line with expected numbers based on previous years, and a projection has been made to cover the estimated additional amount of extra error/fraud these cases will provide.

28. It is assumed in this analysis that these incomplete cases exhibit the same characteristics, on average, to those that had been settled most recently and assumed that the cases left to work to the end will on average exhibit this average level of non-compliance. Where there is only a small number of sample cases for recently settled cases, the average level over a longer time period is used.

Projections for mandatory reconsiderations

29. Claimants that have been found to be in error and fraud are able to appeal the decision within 30 days of receiving the award notice unless there are exceptional circumstances. These are known as Mandatory Reconsiderations (MRs) and can change the estimated levels of error and fraud by removing amounts of error and fraud from closed cases.

30. Any MRs that are known before the results are estimated are incorporated into the analysis. To ensure the estimate in this publication is central, a projection is made to take into account MRs that are likely to be received after the publication of the results. Due to the impact of COVID-19, there has been a longer period of time between the

majority of the sample cases being worked and the publication of the first estimate. To account for the impact of this on MRs, distribution of the date of MRs already received and date of cases closed across the EFAP period in 2018-19 was compared to the distribution for the 2017-18 EFAP exercise, and a projection for remaining MRs in 2018-19 was based on this comparison. This reduces the claimant favour error and fraud rate by around 0.1 percentage points for 2018-19.

Grossing

31. The sample results of the cases that have been worked to completion plus the projected results from the cases still being worked have been grossed to reflect population estimates. Grossing factors have been applied depending on the value of the finalised award and the characteristics of the claimant during the year.

32. Sample results are grossed to the total of entitlement sub-periods for the population over the whole year rather than to the single entitlement sub-period present at the end of the year.

33. The sub-periods are grossed up to the position of the award on each of the sample strata which gives increased accuracy over groups with potentially differing rates of error and fraud.

Annex B: Historical Tax Credits Error and Fraud Analytical Programme (EFAP) results since 2006-07

Table A3: Historical error and fraud rates since 2006-07 as a percentage of finalised entitlement (%)

	Year of EFAP	Lower bound	**Central estimate**	Upper bound
Estimated error and fraud favouring the claimant	2006-07	7.2	**7.8**	8.4
	2007-08	8.3	**9.0**	9.7
	2008-09	8.3	**8.9**	9.6
	2009-10	7.0	**7.8**	8.6
	2010-11	7.5	**8.1**	8.8
	2011-12	6.6	**7.3**	7.9
	2012-13	4.7	**5.3**	6.0
	2013-14	4.2	**4.7**	5.2
	2014-15	4.0	**4.4**	4.8
	2015-16	4.3	**4.8**	5.2
	2016-17	4.3	**4.7***	5.1
	2017-18	5.0	**5.5***	6.1
	2018-19	4.4	**4.9***	5.4
Estimated error and fraud favouring HMRC	2006-07	1.3	**1.7**	2.1
	2007-08	1.0	**1.3**	1.6
	2008-09	0.8	**1.1**	1.3
	2009-10	0.9	**1.4**	2.0
	2010-11	0.6	**0.8**	1.0
	2011-12	0.6	**0.9**	1.2
	2012-13	0.2	**0.5**	0.7
	2013-14	0.6	**0.7**	0.9
	2014-15	0.5	**0.6**	0.7
	2015-16	0.5	**0.6**	0.7
	2016-17	0.6	**0.7**	0.9
	2017-18	0.6	**0.7**	0.8
	2018-19	0.6	**0.7**	0.8

*Including C&P test