HM Revenue
& Customs

Annual Report and Accounts 2015-16

Financial statements

Contents

Trust Statement

Statement of Revenue, Other Income and Expenditure

For the year ended 31 March	Note	2016 £bn	2015 £bn
Taxes and duties			
Income tax	2.1	169.4	163.1
Value Added Tax	2.2	116.0	113.9
Corporation Tax	2.3	45.5	41.4
Hydrocarbon oils duties	2.4	27.7	27.2
Stamp taxes	2.5	14.5	13.5
Alcohol duties	2.6	10.7	10.7
Tobacco duties	2.7	9.1	9.3
Other taxes and duties	2.8	29.0	27.2
Total taxes and duties		**421.9**	**406.3**
Other revenue and income			
National Insurance Contributions	3.1	112.0	108.0
Student Loan recoveries	3.3	1.9	1.8
Fines and penalties	3.4	1.0	1.6
Total other revenue and income		**114.9**	**111.4**
Total revenue		**536.8**	**517.7**
Expenditure			
Impairment charges	4.3	(2.2)	(6.1)
Movement in provisions	7.1	(0.2)	(6.6)
Total expenditure		**(2.4)**	**(12.7)**
Disbursements			
National Insurance Contributions due to the National Insurance Funds and National Health Services	3.1	(111.6)	(107.5)
Appropriation of revenue to Resource Account	3.2	(30.9)	(31.5)
Student Loan recoveries due to the Department for Business, Innovation and Skills	3.3	(1.9)	(1.8)
Taxation paid to Isle of Man	3.5	(0.1)	(0.2)
Total disbursements		**(144.5)**	**(141.0)**
Total expenditure and disbursements		**(146.9)**	**(153.7)**
Net revenue for the Consolidated Fund		**389.9**	**364.0**

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

The notes at pages 163 to 178 form part of this statement.

Statement of Financial Position

As at 31 March	Note	2016 £bn	2015 £bn
Non-current assets			
Receivables falling due after one year	4.1	0.9	0.9
Current assets			
Receivables	4.1	18.9	16.6
Accrued revenue receivable	4.1	95.7	89.7
Total current assets		**114.6**	**106.3**
Total assets		**115.5**	**107.2**
Current liabilities			
Payables	5	16.8	17.4
Accrued revenue payable	5	31.2	29.8
Deferred revenue	5	1.5	1.0
Cash and other payables	5.1	1.6	1.3
Total current liabilities		**51.1**	**49.5**
Assets less current liabilities		**64.4**	**57.7**
Non-current liabilities			
Provision for liabilities	7	12.8	14.7
Net assets		**51.6**	**43.0**
Movements on Consolidated Fund account:			
Balance on Consolidated Fund account as at 1 April		43.0	53.0
Net revenue for the Consolidated Fund		389.9	364.0
Less amount paid to Consolidated Fund		(381.3)	(374.0)
Balance on Consolidated Fund account		**51.6**	**43.0**

Jon Thompson
Accounting Officer
6 July 2016

The notes at pages 163 to 178 form part of this statement.

Statement of Cash Flows

For the year ended 31 March	Note	2016 £bn	2015 £bn
Net cash flow from operating activities	A	381.0	373.9
Cash paid to the Consolidated Fund		(381.3)	(374.0)
Increase/(decrease) in cash in this period	B	**(0.3)**	**(0.1)**

Notes to the Statement of Cash Flows

A: Reconciliation of net cash flow to movement in net funds

For the year ended 31 March	2016 £bn	2015 £bn
Net revenue for the Consolidated Fund	389.9	364.0
(Increase)/decrease in non-cash assets	(8.3)	(0.2)
Increase/(decrease) in current liabilities	1.3	3.9
Increase/(decrease) in provision for liabilities	(1.9)	6.2
Net cash flow from operating activities	**381.0**	**373.9**

B: Analysis of changes in net funds

For the year ended 31 March	2016 £bn	2015 £bn
Increase/(decrease) in cash in this period	(0.3)	(0.1)
Net funds as at 1 April (opening bank balance)	(1.3)	(1.2)
Net funds as at 31 March (closing bank balance)	**(1.6)**	**(1.3)**

Notes to the Trust Statement

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 2015-16 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 2015-16. 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, and revenue losses 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. 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 7 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 Income tax

For the year ended 31 March	2016 £bn	2015 £bn
Self Assessment	27.6	23.0
Other income tax revenue (including PAYE)	141.8	140.1
Total	**169.4**	**163.1**

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 31.6% of total revenue and increased 3.9% compared to 2014-15. This increase in PAYE and SA receipts was largely as a result of growth in the economy leading to higher levels of employment and higher wages.

2.2 Value Added Tax

For the year ended 31 March	2016 £bn	2015 £bn
Gross revenue	195.9	191.3
Less: revenue repayable	(79.9)	(77.4)
Net revenue	**116.0**	**113.9**

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 21.6% of total revenue and increased 1.8% compared to 2014-15, as a result of significant increases in receipts for the automotive, business services and utilities sectors. Additionally, the growth in wages has also led to an increase in household consumer spending on goods and services, increasing VAT receipts.

2.3 Corporation Tax

For the year ended 31 March	2016 £bn	2015 £bn
Total	**45.5**	**41.4**

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

Corporation Tax accounted for 8.5% of total revenue and increased 9.9% compared to 2014-15.

Legislation was introduced in the Finance (No.2) Act 2015 to introduce the Bank Surcharge. The measure imposes a surcharge of 8% on the profits of banking companies from 1 January 2016. Included in Corporation Tax for 2015-16 are Bank Surcharge receipts and an estimate of accrued revenue receivable totalling £0.3 billion.

2.4 Hydrocarbon oils duties

For the year ended 31 March	2016 £bn	2015 £bn
Total	**27.7**	**27.2**

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 5.2% of total revenue and increased 1.8% compared to 2014-15, due to a reduction in pump prices for the majority of the year, increasing the amount of fuel purchased. This has resulted in an increase in revenues.

2.5 Stamp taxes

For the year ended 31 March	2016 £bn	2015 £bn
Stamp Duty Land Tax	11.0	10.5
Stamp Duty Reserve Tax	2.6	2.6
Stamp Duty	0.7	0.3
Annual Tax on Enveloped Dwellings	0.2	0.1
Total	**14.5**	**13.5**

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. The taxable event is based on the market value of the relevant property (or properties) being greater than £1 million at 1 April each year (reduced from £2 million in 2014-15).

Stamp taxes accounted for 2.7% of total revenue and increased 7.4% compared to 2014-15. The increase is primarily due to an increase in the number of property transactions and higher prices in both residential and commercial markets.

2.6 Alcohol duties

For the year ended 31 March	2016 £bn	2015 £bn
Wine, cider and perry	4.4	4.2
Beer	3.2	3.4
Spirits	3.1	3.1
Total	**10.7**	**10.7**

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 2.0% of total revenue and remained static. Although there has been a small increase in consumer purchases for home consumption, this has been offset by a slight duty decrease for Spirits, Beers and Cider.

2.7 Tobacco duties

For the year ended 31 March	2016 £bn	2015 £bn
Cigarettes	7.9	8.1
Hand rolling tobacco	1.1	1.1
Cigars	0.1	0.1
Total	**9.1**	**9.3**

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 1.7% of total revenue and decreased 2.2% compared to 2014-15, as a result of a continuing decline in the usage of tobacco products.

2.8 Other taxes and duties

For the year ended 31 March	Note	2016 £bn	2015 £bn
Capital Gains Tax[1]	2.8.1	7.3	5.7
Inheritance Tax[1]	2.8.2	4.1	3.8
Insurance Premium Tax	2.8.3	3.7	2.9
Air Passenger Duty		3.0	3.2
Customs Duties		2.9	3.2
Bank Levy		2.8	2.7
Betting and gaming duties	2.8.4	2.7	2.3
Climate Change Levy		1.8	1.8
Landfill Tax		0.9	1.1
Aggregates Levy		0.4	0.4
Capital taxes (UK Swiss Agreement)		-	0.1
Petroleum Revenue Tax	2.8.5	(0.6)	0.0
Total		**29.0**	**27.2**

1 Repayments for Capital Gains Tax and Inheritance Tax are made principally on a cash basis – these are recognised in the period the repayment is made.

Other taxes and duties accounted for 5.4% of total revenue and increased 6.6% compared to 2014-15. Significant year-on-year changes are further explained below:

2.8.1 Capital Gains Tax (CGT) increased by 28.1%. This was as a result of higher house prices and an increase in the volumes of house transactions on which CGT is chargeable.

2.8.2 Inheritance Tax (IHT) increased by 7.9%, as a result of the continuing rise in the value of assets commonly included in the estates of the deceased, such as property, savings and shares.

2.8.3 Insurance Premium Tax (IPT) increased by 27.6%, due to rises in the cost of insurance policy premiums and an increase in the standard rate of IPT which came into effect from the 1 November 2015.

2.8.4 Betting and Gaming increased by 17.4%, due to the Gambling Tax Reforms resulting in a higher number of suppliers paying UK tax.

2.8.5 Petroleum Revenue Tax (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). A continued fall in oil and gas prices combined with closures of oil fields, a decline in production from older oil fields and the change to permanently zero rated PRT for all chargeable periods ending after 31 December 2015 in the March 2016 Budget, has led to a decrease in revenue. These factors have contributed to lower profits and some losses, resulting in PRT repayments exceeding receipts in 2015-16.

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

3.1 National Insurance Contributions

For the year ended 31 March	Note	2016 £bn	2015 £bn
National Insurance Fund Great Britain (NIF GB)		87.0	84.0
National Insurance Fund Northern Ireland (NIF NI)		1.8	1.7
National Health Services (NHS)		23.2	22.3
Total National Insurance Contributions (NICs)		**112.0**	**108.0**
NIC losses	4.4	(0.4)	(0.5)
NICs due to NIF and NHS		**111.6**	**107.5**

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. They are payable to the NIF 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 20.9% of total revenue and increased 3.7% compared to 2014-15. The increase is due to the growth in the economy which has led to higher levels of employment and growth in wages.

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.

Please see the Resource Accounts, Consolidated Statement of Changes in Taxpayer's Equity, **page 183.**

3.3 Student Loan recoveries

	2016 £m	2015 £m
Balance at 1 April	89	(115)
Receipts included in 'Other revenue and income'[1]	1,949	1,795
Payments made to the Department for Business, Innovation and Skills (BIS)	(1,830)	(1,540)
Adjustment for prior year estimates	-	(51)
Balance at 31 March — included in (receivables)/payables	**208**	**89**

1 This is the amount due to BIS and therefore reflected as a disbursement in the Statement of Revenue, Other Income and Expenditure.

HMRC collects Student Loans on behalf of the Department for Business, Innovation and Skills. 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. The balance at year end is shown as a payable (note 5 – other revenue payables).

3.4 Fines and Penalties

This consists of income arising from the levying of tax fines and penalties. Penalties relating to NICs are accounted for as NIC income and paid over to the National Insurance Fund.

3.5 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.

For 2015-16, payments to the IoM totalled £137 million (2014-15: £144 million).

4. Receivables, accrued revenue receivable and impairment charges

4.1 Receivables and accrued revenue receivable (ARR)

	Receivables as at 31 March 2016 £bn	Accrued revenue receivable as at 31 March 2016 £bn	Total as at 31 March 2016 £bn	Total as at 31 March 2015 £bn
Non-current assets				
Receivables due after one year:				
Inheritance Tax	0.9	-	0.9	0.9
Non-current assets before impairment	**0.9**	**–**	**0.9**	**0.9**
Current assets				
Receivables and ARR due within one year:				
Income tax	5.4	33.6	39.0	36.3
Value Added Tax	7.4	29.6	37.0	37.5
Corporation Tax	2.8	13.5	16.3	14.0
National Insurance Contributions	3.6	12.1	15.7	14.6
Other taxes and duties	6.6	6.9	13.5	12.4
Current assets before impairment	**25.8**	**95.7**	**121.5**	**114.8**
Less impairment of receivable (note 4.2)	(6.9)	–	(6.9)	(8.5)
Total current assets after impairment	**18.9**	**95.7**	**114.6**	**106.3**
Total assets before impairment	**26.7**	**95.7**	**122.4**	**115.7**
Less impairment of receivable (note 4.2)	(6.9)	-	(6.9)	(8.5)
Total assets after impairment	**19.8**	**95.7**	**115.5**	**107.2**

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. Receivables are shown net of impairments in accordance with the requirements of IAS 39.

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 £1.4 billion (2014-15: £0.8 billion) has been included in accrued revenue receivables.

4.2 Impairment of receivables

For the year ended 31 March	2016 £bn	2015 £bn
Balance as at 1 April	8.5	6.6
Increase/(decrease) in impairment of receivables	(1.6)	1.9
Balance as at 31 March	**6.9**	**8.5**

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 year's impairments balance has reduced by 18.8% as a result of continued improvements to HMRC's debt collection performance, meaning that more debts are collected resulting in less impairments.

4.3 Breakdown of impairment charges

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

For the year ended 31 March	Note	2016 £bn	2015 £bn
Increase/(decrease) in impairment of receivables	4.2	(1.6)	1.9
Revenue losses	4.4	3.8	4.2
Total impairment charges		**2.2**	**6.1**

4.4 Revenue losses

For the year ended	Remissions 31 March 2016 £m	Write-offs 31 March 2016 £m	Total 31 March 2016 £m	Remissions 31 March 2015 £m	Write-offs 31 March 2015 £m	Total 31 March 2015 £m
Income tax	136	522	658	181	868	1,049
Value Added Tax	87	1,475	1,562	10	1,426	1,436
Corporation Tax	3	323	326	5	580	585
Alcohol duties	12	23	35	3	70	73
Tobacco duties	2	12	14	1	2	3
Capital Gains Tax	8	33	41	8	32	40
National Insurance Contributions	41	350	391	66	396	462
Fines and penalties	310	414	724	91	343	434
Other remissions and write-offs	5	19	24	7	148	155
Total revenue losses	**604**	**3,171**	**3,775**	**372**	**3,865**	**4,237**

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 are 20 cases (27 cases in 2014-15) where the loss exceeded £10 million, totalling £790 million (£686 million in 2014-15). Specific details are shown below:

There were seven write-offs (eight cases in 2014-15) of VAT, interest, surcharge and penalties relating to Missing Trader Intra-Community Fraud (MTIC) over £10 million each, totalling £308 million (£158 million in 2014-15). All MTIC cases are assessed to establish if there is potential to recover revenue and, where appropriate, proactive insolvency action is initiated.

There were eight write-offs (18 cases in 2014-15) relating to Insolvency over £10 million each. They were for VAT, Corporation Tax, income tax, National Insurance Contributions, Customs Duty and Tobacco Duty including interest, surcharge and penalties totalling £145 million (£515 million in 2014-15).

There was one write-off case of £11 million relating to a VAT foreign registered company with no assets. The trader is untraceable and therefore enforcement action is not possible.

There was one remission case of £10.9 million relating to Excise Duty where there was a legitimate accidental loss by the trader. This was remitted in accordance with the legislation in the Customs & Excise Management Act 1979 (CEMA).

There was a bulk remission of £17.7 million for VAT in respect of 16,517 cases. These related to financial years 2012 and prior where collection action had been attempted and was unsuccessful. There was a low likelihood of recovery and they were therefore progressed on a value for money basis.

There was a bulk remission of £36.5 million for VAT in respect of 228 cases. This relates to historic supplies of residential care services and is in line with guidance originally given in Business Brief 28/04, where HMRC stated it would not pursue tax on these supplies.

There was a bulk remission for SA penalties of £260.4 million relating to 938,197 cases, where it had been identified customers had not filed returns for at least three consecutive years. These customers were therefore removed from the SA regime and are no longer liable for SA. This has contributed to the overall increase in revenue losses for fines and penalities (table 4.4).

5. Payables, accrued revenue payable and deferred revenue

	Payables as at 31 March 2016 £bn	Accrued revenue payable as at 31 March 2016 £bn	Deferred revenue as at 31 March 2016 £bn	Total as at 31 March 2016 £bn	Total as at 31 March 2015 £bn
Value Added Tax	2.4	11.6	-	14.0	13.3
Corporation Tax	8.7	0.7	0.2	9.6	10.1
Income tax	1.8	3.3	-	5.1	3.2
National Insurance Funds and the NHS	0.5	15.3	-	15.8	18.3
Other revenue payables	1.0	0.3	1.3	2.6	1.2
Payments on account	2.4	-	-	2.4	2.1
Current liabilities before cash and cash equivalents	**16.8**	**31.2**	**1.5**	**49.5**	**48.2**
Cash and other payables	1.6	–	–	1.6	1.3
Total current liabilities	**18.4**	**31.2**	**1.5**	**51.1**	**49.5**

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 Services
- 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 other payables

This reflects the net position of cash in HMRC bank accounts and payments that have been authorised to issue but the money has not cleared through the banking process as of the 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 2016 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, and any total understatement or overstatement is unlikely to exceed £4 billion, which does not affect significantly the reported position and is less than 1% 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 2016 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 IT 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 2015-16 where payment is not yet due at 31 March 2016. The estimation process has three stages:

(i) Estimation of accrued tax liabilities for 2015-16. Due to the nature of the Self Assessment regime, information from actual Self Assessment returns or associated tax payments relating to 2015-16 are not available at the point of estimation. The March 2016 Budget IT and NICs Class 4 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 2016. 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 of a given year. 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 changes in North Sea companies' Corporation Tax liabilities.

7. 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.

The contingent liabilities relate to legal cases for which the outcome is uncertain and HMRC consider that there is only a possible rather than probable likelihood that they will be required to make a payment, or the amount cannot be reliably measured.

Provision for liabilities

	Legal claims £bn	Oil and gas field decommissioning £bn	Total 2015-16 £bn	Total 2014-15 £bn
Balance at 1 April 2015	7.2	7.5	14.7	8.5
Provided in the year	1.1	-	1.1	9.3
Provision not required written back	(0.5)	(0.4)	(0.9)	(2.7)
Provision utilised in the year	(1.9)	(0.2)	(2.1)	(0.4)
Balance at 31 March 2016	**5.9**	**6.9**	**12.8**	**14.7**

7.1 Expenditure – movement in provisions

	Legal claims £bn	Oil and gas field decommissioning £bn	Total 2015-16 £bn	Total 2014-15 £bn
Total provided in the year	1.1	-	1.1	9.3
Provision not required written back	(0.5)	(0.4)	(0.9)	(2.7)
Net movement	**0.6**	**(0.4)**	**0.2**	**6.6**

7.2 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 2015-16. Of the sum of £7.2 billion provided last year £1.9 billion was paid out during the year and it was identified that £0.5 billion was no longer required. New provisions totalling £1.1 billion have been included, giving a carried forward balance of £5.9 billion – a £1.3 billion decrease on last year. The table above shows the provision we have made for more likely than not outcomes.

Contingent liabilities

HMRC currently has 23 cases estimated at £49.1 billion (24 cases £35.6 billion as at 31 March 2015) where the maximum potential tax revenue, before losses, capital allowances and other reliefs, is over £100 million. Each case may include a lead case with follower claimants and covers a range of heads of duty, including Corporation Tax, income tax and VAT.

The increase of £13.5 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, the calculation of interest to estimated finalisation dates also increased the value.

7.3 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 arose, 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 and gas 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 2020-21 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 2020-21 the picture is even less clear.

The total decommissioning cost for UK/UK Continental Shelf oil and gas fields and upstream assets is estimated at £43.7 billion over the period 2016-17 to 2041-42. Of this amount, £23.7 billion relates to installations given development consent prior to 16 March 1993 (fields liable for PRT).

7.3.1 Provision for decommissioning

Industry data on decommissioning costs are assumed to be the best available, though where provisions are shown in company accounts, the considerable level of uncertainty inherent in the cost estimating process is made clear. HMRC's most recent analysis of the decommissioning costs for PRT fields (based on the Oil and Gas UK survey as well as annual totals from the OBR's 'Economic and Fiscal Outlook 2016' and the 'Fiscal Sustainability Report 2015') are £6.3 billion for the period 2016-17 to 2020-21 and £17.4 billion for years 2021-22 to 2041-42.

From this information, the impact of PRT oil and gas field decommissioning costs for the two periods is estimated to be a cost to the Exchequer of £1.7 billion and £5.2 billion respectively. This gives a total provision estimate of £6.9 billion which represents a small decrease on the 2014-15 provision estimate of £7.5 billion.

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 £225 million is the Exchequer cost from decommissioning spend in 2015-16, which has been measured by identification of PRT repayments arising from the utilisation of decommissioning losses.

8. Certificates of tax deposits

	CTD issues 2015-16 £m	CTD redemptions 2015-16 £m	CTD total 2015-16 £m	CTD total 2014-15 £m
Receipts	1,502	1,413	2,915	1,460
Payments	(1,224)	(1,681)	(2,905)	(1,476)
Net receipts/(payments)	-	-	10	(16)
Balance at 1 April	-	-	(16)	-
Balance at 31 March — included in (receivables)/payables			**(6)**	**(16)**

Under the Certificate of Tax Deposits (CTD) scheme, HMRC accepts deposits from people liable to UK taxes and other liabilities. 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.

Full information about the relevant taxes and liabilities can be found on the HMRC website: **www.gov.uk**

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.

9. 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. The company's parent undertaking and controlling party is HMRC.

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. There is no designation order requiring R.N. Limited's financial statement to be consolidated within HMRC's Accounts. R.N. Limited's accounts can be viewed at Companies House.

10. 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 holds Euro deposits in relation to traders who have registered with HMRC to use the VAT Mini One Stop Shop (VAT MOSS) scheme. This entails the making of a single quarterly payment to HMRC who will then forward any relevant amounts onto the tax authorities in the member state(s) where the consumers of telecommunications, broadcasting and e-services are subsequently located. Neither the department nor the government have any beneficial interest in these funds.

11. 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.

12. Events after the reporting period

HMRC have considered the result of the referendum held on 23 June 2016 which was in favour of the UK leaving the European Union and whether the vote has any impact on these financial statements. We have concluded that this is a non-adjusting event. There are no other reportable adjusting or non-adjusting events after the reporting period. The financial statements were authorised for issue by the Accounting Officer on 12 July 2016.

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 2016 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 2015-16.
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.

Michael Sunderland
Acting Deputy Director
Government Financial Reporting
HM Treasury

18 December 2015

Resource Accounts

Consolidated Statement of Comprehensive Net Expenditure

for the year ended 31 March 2016

This statement summarises the expenditure incurred and income generated on an accruals basis. Other comprehensive expenditure and income includes changes to the values of non-current assets that cannot yet be recognised as income or expenditure.

Consolidated Statement of Comprehensive Net Expenditure

	Note	2015-16 £m Departmental group	2014-15 £m Departmental group
Personal tax credits	4.1	28,450.2	29,123.2
Corporation tax reliefs	4.4	2,895.5	1,988.8
Child Benefit		11,703.5	11,604.1
National Insurance Fund top-up		9,852.0	4,720.0
Staff and related costs		2,347.8	2,287.0
Service charges		674.0	649.0
Goods and services		413.6	323.9
Payments in lieu of tax relief and rates		147.3	176.2
Other cash expenditure		217.1	225.1
Non-cash items		341.5	354.7
Total operating expenditure	2	**57,042.5**	**51,452.0**
Total operating income	5	**(415.1)**	**(335.8)**
Net operating expenditure		**56,627.4**	**51,116.2**
Other comprehensive net expenditure			
Items that will not be reclassified to net operating costs:			
(Gain) on:			
- revaluation of property, plant and equipment		(13.2)	(94.9)
- revaluation of intangible assets		(19.3)	(26.8)
Total comprehensive expenditure for the year		**56,594.9**	**50,994.5**

The notes on pages 185 to 214 form part of these accounts.

Consolidated Statement of Financial Position

as at 31 March 2016

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

	Note	2015-16 £m Departmental group	2014-15 £m Departmental group
Non-current assets:			
Property, plant and equipment	6	536.9	530.1
Intangible assets	7	1,181.1	1,202.9
Receivables	11	1,631.0	1,740.6
Total non-current assets		**3,349.0**	**3,473.6**
Current assets:			
Inventories		2.0	2.3
Trade and other receivables	11	1,482.7	1,320.3
Cash and cash equivalents	12	38.9	25.7
Total current assets		**1,523.6**	**1,348.3**
Total assets		**4,872.6**	**4,821.9**
Current liabilities:			
Trade and other payables	13	(3,363.6)	(2,837.7)
Provisions	14	(81.1)	(101.2)
Total current liabilities		**(3,444.7)**	**(2,938.9)**
Total assets less current liabilities		**1,427.9**	**1,883.0**
Non-current liabilities:			
Payables	13	(307.8)	(311.2)
Provisions	14	(70.6)	(51.5)
Pension liability	15	(7.9)	(8.7)
Total non-current liabilities		**(386.3)**	**(371.4)**
Total assets less total liabilities		**1,041.6**	**1,511.6**
Taxpayers' equity and other reserves:			
General fund		911.7	1,319.3
Revaluation reserve		137.7	201.0
Pension reserve		(7.8)	(8.7)
Total equity		**1,041.6**	**1,511.6**

Jon Thompson
Accounting Officer
6 July 2016

The notes on pages 185 to 214 form part of these accounts.

Consolidated Statement of Cash Flows

for the year ended 31 March 2016

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	2015-16 £m	2014-15 £m
Cash flows from operating activities			
Net operating expenditure		(56,627.4)	(51,116.2)
Adjustments for non-cash transactions	2	341.5	354.7
(Increase)/decrease in trade and other receivables[1]		(62.5)	(529.7)
(Increase)/decrease in inventories		0.3	(0.1)
Increase/(decrease) in trade and other payables[1]		506.8	124.9
Use of provisions	14	(29.8)	(31.1)
Net cash outflow from operating activities		**(55,871.1)**	**(51,197.5)**
Cash flows from investing activities			
Additions to property, plant and equipment	6	(71.8)	(47.5)
Less additions to leased property, plant and equipment		35.1	7.2
Additions to intangible assets	7	(192.2)	(198.0)
Less additions to leased intangible assets		–	0.5
Proceeds of disposal of property, plant and equipment		0.2	0.6
Proceeds of disposal of intangible assets		–	–
Net cash outflow from investing activities		**(228.7)**	**(237.2)**
Cash flows from financing activities			
From the Consolidated Fund (Supply) – current year		24,931.7	19,719.5
From the Consolidated Fund (Supply) – prior year		–	–
From the Consolidated Fund (non-Supply)		–	–
From the Trust Statement		30,873.1	31,432.8
From the National Insurance Fund		343.1	319.6
Net financing from the Contingencies Fund and the National Loans Fund		–	–
Capital element of payments in respect of finance leases and on-Statement of Financial Position PFI contracts		(32.2)	(33.6)
Net financing		**56,115.7**	**51,438.3**
Net increase/(decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund		**15.9**	**3.6**
Payments of amounts due to the Consolidated Fund		(2.7)	(0.5)
Excess cash paid to the Consolidated Fund		–	–
Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund		**13.2**	**3.1**
Cash and cash equivalents at the beginning of the period	12	**25.7**	**22.6**
Cash and cash equivalents at the end of the period	12	**38.9**	**25.7**

1 Figures are net of items not passing through the Consolidated Statement of Comprehensive Net Expenditure.

The notes on pages 185 to 214 form part of these accounts.

Consolidated Statement of Changes in Taxpayers' Equity

for the year ended 31 March 2016

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. The pension reserve represents changes in the underlying assumptions used by the actuaries to determine the valuation of pension scheme liabilities, such as financial assumptions, market expectations, mortality rates and projected salaries.

Consolidated Statement of Changes in Taxpayers' Equity

		Departmental group			
	Note	General Fund £m	Revaluation reserve[1] £m	Pension reserve[2] £m	Total reserves £m
Balance at 31 March 2014		**907.4**	**124.7**	**(37.7)**	**994.4**
Net Parliamentary funding – drawn down		19,719.5	–	–	19,719.5
Net Parliamentary funding – deemed[3]		22.5	–	–	22.5
Funding from Trust Statement[4]		31,432.8	–	–	31,432.8
National Insurance Fund		330.5	–	–	330.5
Supply (payable)/receivable adjustment		(23.9)	–	–	(23.9)
Payments to the Consolidated Fund		(2.2)	–	–	(2.2)
Net expenditure for the year		(51,116.2)	–	–	(51,116.2)
Other net comprehensive expenditure:					
Revaluation of property, plant and equipment		–	94.9	–	94.9
Revaluation of intangible assets		–	26.8	–	26.8
Transfer between reserves		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
Non-cash charges – auditor's remuneration	2	1.9	–	–	1.9
Balance at 31 March 2015		**1,319.3**	**201.0**	**(8.7)**	**1,511.6**

Continued

	Note	General Fund £m	Revaluation reserve[1] £m	Pension reserve[2] £m	Total reserves £m
					Departmental group
Balance at 31 March 2015		**1,319.3**	**201.0**	**(8.7)**	**1,511.6**
Net Parliamentary funding – drawn down		24,931.7	–	–	24,931.7
Net Parliamentary funding – deemed[3]		23.9	–	–	23.9
Funding from Trust Statement[4]		30,873.1	–	–	30,873.1
National Insurance Fund		331.0	–	–	331.0
Supply (payable)/receivable adjustment		(37.4)	–	–	(37.4)
Payments to the Consolidated Fund		(2.0)	–	–	(2.0)
Net expenditure for the year		(56,627.4)	–	–	(56,627.4)
Other net comprehensive expenditure:					
Revaluation of property, plant and equipment		–	13.2	–	13.2
Revaluation of intangible assets		–	19.3	–	19.3
Transfer between reserves		97.7	(95.8)	(1.9)	–
Pension reserve actuarial (losses)/gains		–	–	2.1	2.1
Contributions to LGPS pension fund by DWP		–	–	0.7	0.7
Non-cash charges – auditor's remuneration	2	1.8	–	–	1.8
Balance at 31 March 2016		**911.7**	**137.7**	**(7.8)**	**1,041.6**

1 The 31 March 2016 balance comprised £67.3 million in relation to tangible assets (31 March 2015 £126.8 million, 31 March 2014 £55.8 million) and £70.4 million in relation to intangible assets (31 March 2015 £74.2 million, 31 March 2014 £68.9 million).
2 The pension reserve is in respect of VOA employees who are members of the Local Government Pension Scheme (LGPS).
3 This is any Supply drawn down in the previous year but not spent at that year-end and, therefore, is available to be spent in this financial year.
4 Personal tax credits and corporation tax reliefs are funded out of tax receipts from the Trust Statement.

For further details about funding of personal tax credits and corporation tax reliefs please see the Statement of Revenue, Other Income and Expenditure in the Trust Statement, **page 160.**

The notes on pages 185 to 214 form part of these accounts.

Notes to the departmental Resource Accounts

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 2015-16 *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 located in the Accountability Section. These 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 on an accruals basis 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

This account consolidates the results of the bodies that fall within the departmental boundary as defined by the *FReM*. For HMRC these are the results of core department, VOA and Revenue and Customs Digital Technology Services Limited (RCDTS Ltd). All transactions between these three bodies are eliminated from the figures shown in the 'Departmental group' column.

1.4 Simplifying and streamlining

The layout of some statements and notes within these accounts has been revised to reflect changes due to implementation of the HM Treasury Simplifying and Streamlining Accounts project. These changes predominantly affect the Consolidated Statement of Net Expenditure and the Expenditure note. Where comparatives have been reclassified, the underlying figures are unchanged. This disclosure is in accordance with IAS 1.41.

1.5 Tax credits

1.5.1 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 we have an existing receivable balance for a customer the underpayment is offset against the receivable. Overpayments are treated as 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 4.

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 in the Losses Statement.

1.5.2 Corporation tax reliefs

The value of corporation tax reliefs (see note 4.4) 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.

1.6 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 in the Losses Statement.

The Losses Statement is reported in the Accountability Section on **page 150.**

1.7 Non-Current assets

1.7.1 Depreciation/amortisation

Non-current assets are depreciated/amortised 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:

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	Remainder 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
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

1.7.2 Review of useful economic life

The useful economic life of all assets are considered on an annual basis and changed if required.

1.7.3 Impairments

An impairment review is undertaken on an annual basis for buildings, accommodation refurbishments and developed computer software assets.

1.8 Property, plant and equipment

1.8.1 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.

1.8.2 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 contract. 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 9.2). 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.

1.8.3 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.

From 1 December 2015, RCDTS Ltd have taken over the provision of the management of Aspire third-party supplier contracts for IT hardware, software, service and consumables from our IT partners. As part of this service IT hardware assets are purchased by RCDTS Ltd on behalf of the department and are capitalised within these Accounts.

1.8.4 Tangible assets under construction

Assets under construction are separately reported in note 6. Costs are accumulated until the asset is available for use whereupon it is transferred to the relevant asset class and depreciation commences.

1.9 Intangible assets

1.9.1 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.

1.9.2 Intangible assets under construction

Intangible assets under construction relate to software development by the department, our IT Partners and RCDTS Ltd. The latter is in relation to IT software development for Case Management and Customs and International (Excite) services transferred over to RCDTS Ltd on 1 December 2015. Intangible assets under construction are separately reported in note 7. Costs are accumulated until the asset is available for use whereupon it is transferred to the relevant asset class and amortisation commences.

1.10 Pensions

1.10.1 Civil Service Pension Schemes

The Principal Civil Service Pension Scheme (PCSPS) and the Civil Servants and Others Pension Scheme (CSOPS) known as alpha, are unfunded and contributory. The departmental group recognises the expected cost of these elements. This is determined systematically and rationally over the period during which we benefit from employees' services by payment to the PCSPS and CSOPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS and CSOPS.

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 468) that can be viewed at: **www.gov.uk/government/organisations/valuation-office-agency**

1.10.3 Aviva Friends Life plc

A number of RCDTS Ltd employees are members of the Aviva Friends Life plc pension scheme.

Further information will be found within the RCDTS Ltd accounts available at Companies House at: **www.gov.uk/governemnt/organisations/companies-house** by 31 December 2016

1.11 Provisions

Under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, the department provides for probable legal or constructive obligations which are of uncertain timing or amount at Consolidated Statement of Financial Position date, on the basis of the best estimate of the expenditure required to settle the obligation.

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 1.37% as set by HM Treasury (2014-15: 1.3%).

1.13 Contingent liabilities

In addition to contingent liabilities disclosed in accordance with IAS 37, the department discloses possible legal or constructive obligations of uncertain value or timing at Consolidated Statement of Financial Position date on the basis of the best estimate of the expenditure required to settle the obligation.

For Parliamentary reporting and accountability purposes certain statutory and non-statutory contingent liabilities where the likelihood of a transfer of economic benefit is remote, are disclosed separately. In accordance with the requirements of *Managing Public Money.*

Remote contingent liabilities are reported in the Accountability Section on **page 153.**

Where the time value of money is significant, contingent liabilities are stated at discounted amounts, and the amount reported to Parliament separately noted.

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 15 Revenue, effective 1 January 2017 (not yet EU adopted). IFRS 15 establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The disclosure requirements under the new Standard are more extensive than the current requirements included within IAS 18. HM Treasury will review the implications of this amendment nearer to the EU adoption date with a view to include in the 2018-19 FReM.
- IFRS 16 Leases, effective 1 January 2019 (not yet EU adopted). IFRS 16 will provide a single model for all leases that will bring all leases on Statement on Financial Position unless the lease term is 12 months of less or the underlying asset has a low value. HM Treasury will review the implications of this amendment nearer to the EU adoption date with a view to include in the 2018-19 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 Child Tax Credits and Working 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 4.2 represents the mid-point of the range (see note 1.5.1). Tax credits can comprise of 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. They can also contain an element that is in excess of the tax liability, which is treated as a payment of entitlement. Estimates for the split of Child Tax Credits and Working Tax Credits and the apportionment of costs to negative taxation and payments of entitlement are also provided. The apportionments are estimated by modelling the tax credits systems and financial data (see note 4).

Corporation tax reliefs

As stated in note 1.5.2, 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 4.4).

Impairment of receivables

Receivables in the Statement of Financial Position are reported after impairment, which is estimated based on our analysis of existing receivables and historical trends in debt recovery, losses, discharges, amendments and cancellations. We assess 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 view of receivables, in effect reducing them to a value that is likely to be collected and providing for non-collectable debt.

The following receivables balances have been impaired: personal tax credits, Child Benefit, law costs, and other receivables (see note 11).

The impairment of personal tax credits receivables is estimated by using a model that tracks historic recoveries. The impairment rates are calculated for each receivables category, taking into account actual recovery rates. These rates are then applied to the gross carrying value of receivables for each category to provide an estimate of the recoverable amount.

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 band. Following this process through each of the bands provides the value of the Child Benefit impairment.

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. Expenditure

	Note	2015-16 £m Departmental group	2014-15 £m Departmental group
Personal tax credits	4.1	**28,450.2**	**29,123.2**
Corporation tax reliefs	4.4	**2,895.5**	**1,988.8**
Child Benefit			
Child Benefit[1]		11,701.4	11,602.0
Guardian's Allowance (funded from National Insurance Fund)		2.1	2.1
		11,703.5	**11,604.1**
National Insurance Fund top-up[2]		**9,852.0**	**4,720.0**
Staff and related costs	Page 119		
Wages and salaries		1,779.7	1,743.2
Social security costs		125.8	123.7
Other pension costs		356.2	314.8
Less capitalised costs		(7.3)	(6.0)
Travel, subsistence and hospitality		60.6	57.6
Recruitment and training		26.7	21.6
Early severance schemes		6.1	32.1
		2,347.8	**2,287.0**
Service charges			
IT Public Private Partnership contract payments		497.2	499.6
Accommodation PFI and non-PFI contract payments		135.4	108.0
Indexation of liability on PFI deals		2.4	2.4
IT Public Private Partnership interest charges		5.4	3.8
Accommodation interest charges		33.6	35.2
		674.0	**649.0**
Goods and services			
Printing, postage, stationery and office supplies		66.0	68.8
Consultancy		2.5	2.8
Contracted out services		84.3	43.4
Publicity		6.4	10.6
Post Office services		7.6	11.6
Bank charges		24.6	20.6
IT services and consumables		95.1	40.9
Telephone expenses		65.1	62.2
Legal and investigation		42.8	43.4
Enforcement costs		19.2	19.6
		413.6	**323.9**

Continued

	Note	2015-16 £m Departmental group	2014-15 £m Departmental group
Payments in lieu of tax relief and rates			
Life Assurance Premium Relief, MIRAS		1.6	8.6
Transitional payments to charities		45.0	42.6
Stakeholder pensions		30.0	55.0
Payments of local authority rates		70.7	70.0
		147.3	**176.2**
Other cash expenditure			
Accommodation expenses		85.8	103.8
National Insurance Fund other government department collection service		53.2	56.3
Shipbuilders' Relief		17.9	1.2
Hire of plant and machinery		0.3	0.4
Other operating leases		32.4	34.0
Payments to add capacity		–	2.7
Losses – excluding Child Benefit and tax credits		0.4	0.5
Special Payments		4.7	5.2
Other		22.4	21.1
		217.1	**225.2**
Non-cash items:			
Depreciation, amortisation and impairments			
Depreciation		75.6	69.7
Amortisation		229.4	206.1
Loss on impairment of non-current assets	8	2.0	6.0
		307.0	**281.8**
Provisions for liabilities and charges	14	**28.8**	**67.4**
Other non-cash			
Pension finance costs		1.9	1.6
Auditor's remuneration and expenses		1.8	1.9
(Profit)/loss on disposal of non-current assets		2.0	2.4
Net revaluation (gain)/loss		–	(0.4)
		5.7	**5.5**
Total non-cash items		**341.5**	**354.7**
Total operating expenditure		**57,042.5**	**51,452.1**

1 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 £475 million (2014-15: £450 million) will be recovered via future income tax charges arising from payments of Child Benefit to those earning over £50,000 in 2015-16. These income tax charges are accounted for in the Trust Statement.

2 Top-up payments were made to the National Insurance Fund as a result of the government convention that the balance on the fund will not be allowed to fall below one sixth of the annual benefit expenditure.

3. Statement of operating expenditure 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 using relevant management information. This covers expenditure and income and is used by the Board to inform decisions.

3.1 Expenditure and income by reportable segment

			2015-16 £m			2014-15 £m
	Gross expenditure	Income	Net expenditure	Gross expenditure	Income	Net expenditure
Reportable segment						
Enforcement and Compliance	1,055.9	53.6	1,002.3	1,018.0	30.8	987.2
Chief Digital and Information Officer	873.0	40.1	832.9	853.1	28.4	824.7
Personal Tax	556.7	21.4	535.3	543.7	12.9	530.8
Chief Finance Officer Group	388.8	25.6	363.2	382.4	23.3	359.1
Business Tax	224.6	4.6	220.0	203.0	2.4	200.6
Change Investment Funding	215.4	1.0	214.4	118.1	0.1	118.0
Benefits and Credits Delivery	146.2	0.3	145.9	154.7	0.5	154.2
Chief People Officer Group	94.0	0.8	93.2	130.8	1.5	129.3
Central Tax and Strategy	79.3	1.3	78.0	63.4	1.0	62.4
Legal	56.3	4.2	52.1	59.9	4.6	55.3
HMRC Central	34.8	–	34.8	44.0	1.4	42.6
HMRC Transformation	4.0	–	4.0	4.0	–	4.0
Data Management and Exploitation[1]	1.1	–	1.1	–	–	–
Civil Service Resourcing	62.0	63.0	(1.0)	42.0	42.2	(0.2)
Total	**3,792.1**	**215.9**	**3,576.2**	**3,617.1**	**149.1**	**3,468.0**

1 This segment was introduced in 2015-16. The activities undertaken by Data Management and Exploitation were previously reported under Enforcement and Compliance.

3.2 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 it is not included in the Financial Pack as it is typically demand-led and therefore is not delegated.

Reconciliation between operating segments and Consolidated Statement of Comprehensive Net Expenditure

	2015-16 £m	2014-15 £m
Total net expenditure reported for operating segments	**3,576.2**	**3,468.0**
Valuation Office Agency	1.5	(1.4)
Payments in lieu of tax relief[1]	76.6	106.2
Payments of local authority rates	67.0	65.9
Child Benefit and Child Trust Fund	11,700.9	11,602.0
Personal tax credits	28,450.2	29,123.2
Corporation tax reliefs	2,895.5	1,988.8
IFRS elements not included in the management accounts	6.9	1.6
Remaining reconciling items	0.6	41.9
Non-budget voted NIF	9,852.0	4,720.0
Total net expenditure per the Consolidated Statement of Comprehensive Net Expenditure	**56,627.4**	**51,116.2**

1 Of the comparative value, £8.6 million was previously shown against 'Other income tax reliefs'.

4. Tax credits

Since 2011-12 both personal tax credits expenditure and certain corporation tax reliefs are reported in these Resource Accounts. Tax credits can comprise of 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. They can also contain an element that is in excess of the tax liability, which is treated as a payment of entitlement. Under National Accounts, credits which are not integral to the tax system should be treated as public expenditure on social benefits.

4.1 Analysis of personal tax credits expenditure

Personal tax credits consist of Child Tax Credit and Working Tax Credit.

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 subsequent year.

Analysis of personal tax credits expenditure

	Child Tax Credit	Working Tax Credit	2015-16 £m Total tax credits	Child Tax Credit	Working Tax Credit	2014-15 £m Total tax credits
Tax credits treated as negative taxation	1,894.8	514.5	2,409.3	1,947.4	532.1	2,479.5
Tax credits treated as payments of entitlement	20,253.9	5,498.9	25,752.8	20,816.4	5,687.5	26,503.9
	22,148.7	**6,013.4**	**28,162.1**	**22,763.8**	**6,219.6**	**28,983.4**
Movement in impairment for receivables	137.6	31.9	169.5	(16.7)	(14.1)	(30.8)
Remissions/write-offs	82.7	35.9	118.6	117.6	53.0	170.6
Total tax credits	**22,369.0**	**6,081.2**	**28,450.2**	**22,864.7**	**6,258.5**	**29,123.2**

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.

Background about the operation of personal tax credits can be found at:
www.gov.uk/government/organisations/hm-revenue-customs

4.2 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 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	2015-16 £m	2014-15 £m
Receivables as at 1 April		**6,925.5**	**6,485.8**
Adjustment to prior year finalisation estimate		(114.4)	(141.3)
Estimated overpayment of awards prior to finalisation[1]		800.0	850.0
Overpayments identified from change of circumstances in year		977.6	932.6
Recoveries made		(1,372.0)	(1,031.0)
Remissions/write-offs		(118.6)	(170.6)
Receivables as at 31 March		**7,098.1**	**6,925.5**
Provision for impairment for receivables		(4,234.5)	(4,065.0)
Net		**2,863.6**	**2,860.5**
Of which:			
Amounts expected to be recovered within one year	11	1,232.6	1,119.9
Amounts expected to be recovered in more than one year	11	1,631.0	1,740.6
Total		**2,863.6**	**2,860.5**

1 The range of the estimate is £600 million to £1,000 million (2014-15: £650 million to £1,050 million).

4.3 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. HMRC use a tried and tested estimation methodology for the calculation of the finalisation estimate supported by annual review.

In June 2016, HMRC completed its testing on finalised awards for 2014-15, based on a random sample of some 5,000 enquiries. As a result, HMRC estimates that error and fraud resulted in overpayments of between £1.26 billion and £1.48 billion (4.4% to 5.2% 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 of awards to which claimants were entitled of between £0.17 billion and £0.22 billion (0.6% to 0.8% of the final award by value).

4.4 Corporation tax reliefs

In certain circumstances, companies are permitted to reduce their tax liability by making a claim for corporation tax reliefs. In order to claim a relief, a company must be undertaking specific activities and meet the criteria set out for that relief. 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), by virtue of their design, a payable element that is in excess of any negative taxation. In this case both the payable element and the negative taxation 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 taxation it remains in the Trust Statement.

Corporation tax reliefs

			2015-16 £m			2014-15 £m
	Negative taxation	Payments of entitlement	Total	Negative taxation	Payments of entitlement	Total
Research and development tax credits – Large Companies 'Above the Line' (ATL)	322.2	1,034.1	1,356.3	306.5	502.9	809.4
Research and development tax credits – Small and Medium Enterprises	388.4	605.8	994.2	390.4	348.0	738.4
Film Tax Relief	–	326.8	326.8	–	257.4	257.4
Video Games Tax Relief	–	36.4	36.4	–	35.6	35.6
High-end Television Tax Relief	–	104.4	104.4	–	91.9	91.9
Children's Television Tax Relief[1]	–	6.3	6.3	–	–	–
Animation Tax Relief	–	10.9	10.9	–	7.3	7.3
Theatre Tax Relief	–	32.8	32.8	–	21.4	21.4
Land Remediation Relief	22.4	3.0	25.4	22.4	3.0	25.4
Vaccine Research Relief	2.0	–	2.0	2.0	–	2.0
Enhanced Capital Allowance	–	–	–	–	–	–
Total	**735.0**	**2,160.5**	**2,895.5**	**721.3**	**1,267.5**	**1,988.8**

1 This relief was introduced in 2015-16.

5. 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

	2015-16 £m Departmental group	2014-15 £m Departmental group
Administration services	118.5	85.1
Banking services	17.9	16.2
VOA services	198.9	184.0
Other income types	34.3	22.4
Subscriptions and fees	27.0	19.1
IT and telephony charges	18.5	9.0
	415.1	**335.8**
Of which:		
Income from services	335.3	285.2
Other operating income	79.8	50.6
Total	**415.1**	**335.8**

6. Property, plant and equipment

	Land[1] £m	Buildings[1] £m	Accommodation refurbishments[1] £m	Office and computer equipment £m	Vehicles £m	Furniture and fittings £m	Assets under construction £m	Scientific Aids £m	Total £m
Cost or valuation									
At 1 April 2015	50.0	523.7	163.8	288.9	20.3	49.7	11.4	5.5	1,113.3
Additions	–	–	–	40.0	0.8	3.2	27.7	0.1	71.8
Disposals	–	(1.7)	(2.5)	(10.3)	(0.9)	(2.3)	–	(0.5)	(18.2)
Impairments	–	(1.4)	–	–	–	(0.1)	–	–	(1.5)
Reclassifications	–	–	5.2	8.0	–	0.2	(13.4)	–	–
Revaluations[2]	2.5	7.6	–	–	–	0.1	–	–	10.2
At 31 March 2016	**52.5**	**528.2**	**166.5**	**326.6**	**20.2**	**50.8**	**25.7**	**5.1**	**1,175.6**
Depreciation									
At 1 April 2015	–	(241.7)	(98.8)	(204.7)	(10.6)	(23.5)	–	(3.9)	(583.2)
Charged in year	–	(19.2)	(12.1)	(37.4)	(2.6)	(3.4)	–	(0.9)	(75.6)
Disposals	–	1.1	2.5	9.7	0.8	1.6	–	0.5	16.2
Impairments	–	0.9	–	–	–	–	–	–	0.9
Reclassifications	–	–	–	(0.5)	–	0.5	–	–	–
Revaluations[2]	–	3.0	–	–	–	–	–	–	3.0
At 31 March 2016	**–**	**(255.9)**	**(108.4)**	**(232.9)**	**(12.4)**	**(24.8)**	**–**	**(4.3)**	**(638.7)**
Carrying amount at 31 March 2015	50.0	282.0	65.0	84.2	9.7	26.2	11.4	1.6	530.1
Carrying amount at 31 March 2016	**52.5**	**272.3**	**58.1**	**93.7**	**7.8**	**26.0**	**25.7**	**0.8**	**536.9**
The assets are financed as follows:									
Owned	52.5	–	58.1	56.9	7.8	26.0	25.7	0.8	227.8
Finance leased	–	–	–	36.8	–	–	–	–	36.8
PFI contracts	–	272.3	–	–	–	–	–	–	272.3
Carrying amount at 31 March 2016	**52.5**	**272.3**	**58.1**	**93.7**	**7.8**	**26.0**	**25.7**	**0.8**	**536.9**
Of the total:									
Core department	52.5	271.9	55.6	88.8	7.8	23.5	24.9	0.8	525.7
Valuation Office Agency	–	0.4	2.5	4.6	–	2.5	0.8	–	10.9
Revenue and Customs Digital Technology Services Limited	–	–	–	0.3	–	–	–	–	0.3
Carrying amount at 31 March 2016	**52.5**	**272.3**	**58.1**	**93.7**	**7.8**	**26.0**	**25.7**	**0.8**	**536.9**

Continued

	Land[1] £m	Buildings[1] £m	Accommodation refurbishments[1] £m	Office and computer equipment £m	Vehicles £m	Furniture and fittings £m	Assets under construction £m	Scientific Aids £m	Total £m
Cost or valuation									
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[2]	21.1	83.0	–	–	–	–	–	–	104.1
At 31 March 2015	**50.0**	**523.7**	**163.8**	**288.9**	**20.3**	**49.7**	**11.4**	**5.5**	**1,113.3**
Depreciation									
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[2]	–	(8.8)	–	–	–	–	–	–	(8.8)
At 31 March 2015	**–**	**(241.7)**	**(98.8)**	**(204.7)**	**(10.6)**	**(23.5)**	**–**	**(3.9)**	**(583.2)**
Carrying amount at 31 March 2014	28.9	232.3	75.2	66.3	9.7	26.1	23.1	2.7	464.3
Carrying amount at 31 March 2015	**50.0**	**282.0**	**65.0**	**84.2**	**9.7**	**26.2**	**11.4**	**1.6**	**530.1**
The assets are financed as follows:									
Owned	50.0	–	65.0	63.8	9.7	26.2	11.4	1.6	227.7
Finance leased	–	–	–	20.4	–	–	–	–	20.4
PFI contracts	–	282.0	–	–	–	–	–	–	282.0
Carrying amount at 31 March 2015	**50.0**	**282.0**	**65.0**	**84.2**	**9.7**	**26.2**	**11.4**	**1.6**	**530.1**
Of the total:									
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
Revenue and Customs Digital Technology Services Limited	–	–	–	–	–	–	–	–	–
Carrying amount at 31 March 2015	**50.0**	**282.0**	**65.0**	**84.2**	**9.7**	**26.2**	**11.4**	**1.6**	**530.1**

1 See note 1.8.2 for the accounting policy for property assets.
2 See notes 1.2 and 1.8 for the accounting policy regarding revaluation of property, plant and equipment.

Property revaluation

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.

7. Intangible assets

	Licences £m	Software £m	Website development £m	Assets under construction £m	Total £m
Cost or valuation					
At 1 April 2015	33.5	2,807.5	9.1	172.0	3,022.1
Additions	0.1	0.2	–	191.9	192.2
Disposals	(5.0)	(27.7)	–	(0.3)	(33.0)
Impairments	–	(8.0)	–	–	(8.0)
Reclassifications	0.7	151.9	3.3	(155.9)	–
Revaluation[1]	–	52.6	–	–	52.6
At 31 March 2016	**29.3**	**2,976.5**	**12.4**	**207.7**	**3,225.9**
Amortisation					
At 1 April 2015	(29.1)	(1,787.6)	(2.5)	–	(1,819.2)
Charged in year	(2.0)	(225.8)	(1.6)	–	(229.4)
Disposals	5.0	25.5	–	–	30.5
Impairments	–	6.6	–	–	6.6
Reclassifications	–	–	–	–	–
Revaluation[1]	–	(33.3)	–	–	(33.3)
At 31 March 2016	**(26.1)**	**(2,014.6)**	**(4.1)**	**–**	**(2,044.8)**
Carrying amount at 31 March 2015	4.4	1,019.9	6.6	172.0	1,202.9
Carrying amount at 31 March 2016	**3.2**	**961.9**	**8.3**	**207.7**	**1,181.1**
The assets are financed as follows:					
Owned	3.1	961.9	8.3	207.7	1,181.0
Finance leased	–	–	–	–	–
PFI contracts	0.1	–	–	–	0.1
Carrying amount at 31 March 2016	**3.2**	**961.9**	**8.3**	**207.7**	**1,181.1**
Of the total:					
Core department	3.2	950.6	8.3	203.4	1,165.5
Valuation Office Agency	–	11.3	–	4.3	15.6
Revenue and Customs Digital Technology Services Limited	–	–	–	–	–
Carrying amount at 31 March 2016	**3.2**	**961.9**	**8.3**	**207.7**	**1,181.1**

Continued

	Licences £m	Software £m	Website development £m	Assets under construction £m	Total £m
Cost or valuation					
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[1]	–	69.6	–	–	69.6
At 31 March 2015	**33.5**	**2,807.5**	**9.1**	**172.0**	**3,022.1**
Amortisation					
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[1]	–	(42.7)	–	–	(42.7)
At 31 March 2015	**(29.1)**	**(1,787.6)**	**(2.5)**	**–**	**(1,819.2)**
Carrying amount at 31 March 2014	6.7	1,020.7	5.2	160.2	1,192.8
Carrying amount at 31 March 2015	**4.4**	**1,019.9**	**6.6**	**172.0**	**1,202.9**
The assets are financed as follows:					
Owned	3.6	1,019.9	6.6	172.0	1,202.1
Finance leased	–	–	–	–	–
PFI contracts	0.8	–	–	–	0.8
Carrying amount at 31 March 2015	**4.4**	**1,019.9**	**6.6**	**172.0**	**1,202.9**
Of the total:					
Core department	4.4	1,005.0	6.6	168.7	1,184.7
Valuation Office Agency	–	14.9	–	3.3	18.2
Revenue and Customs Digital Technology Services Limited	–	–	–	–	–
Carrying amount at 31 March 2015	**4.4**	**1,019.9**	**6.6**	**172.0**	**1,202.9**

1 See notes 1.2 and 1.9 for the accounting policy regarding revaluation of intangible assets.

8. Impairments

The department has incurred the following impairments to non-current assets and assets held for sale during the financial year.

	2015-16 £m Departmental group	2014-15 £m Departmental group
Charged to Statement of Comprehensive Net Expenditure		
Property, plant and equipment	0.5	–
Intangible assets	1.5	6.1
Assets held for sale	–	–
Impairment charged	**2.0**	**6.1**
Transferred from revaluation reserve		
Property, plant and equipment	–	–
Intangible assets	0.1	–
Assets held for sale	–	–

See note 1.7.3 for the accounting policy for impairments.

9. Capital and other commitments

9.1 Commitments under leases

Leases are categorised as either operating or finance leases. A lease is classified as a finance lease if it transfers substantially all risks and rewards incidential to ownership, whereas an operating lease doesn't. 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.

9.1.1 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 other commitments relate to a number of IT and vehicle leasing contracts.

Obligations under operating leases

	2015-16 £m Departmental group	2014-15 £m Departmental group
Land and buildings		
Due within one year	93.5	95.4
Due between one year and five years	315.9	328.9
Due later than five years	42.4	118.5
	451.8	**542.8**
Other		
Due within one year	7.7	7.2
Due between one year and five years	4.2	9.8
Due later than five years	–	–
	11.9	**17.0**

9.1.2 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.

Obligations under finance leases

	2015-16 £m Departmental group	2014-15 £m Departmental group
Buildings		
Due within one year	2.7	3.0
Due between one year and five years	10.3	11.8
Due later than five years	1.7	4.5
	14.7	**19.3**

9.2 Commitments under PFI and other service concession arrangements

9.2.1 Off-Statement of Financial Position

The department has no off-Statement of Financial Position PFI contracts.

9.2.2 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 St. John's House, Bootle. They also include commitments for IT assets owned by Capgemini and Fujitsu to deliver the IT service contract.

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 £635.0 million[1] (2014-15: £610.0 million).

1 This amount is included within the figures reported in note 2 as PPP and PFI service charges.

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 obligations for lease payments

	2015-16 £m Departmental group	2014-15 £m Departmental group
Minimum lease payments:		
Due within one year	62.4	56.1
Due between one year and five years	201.8	191.0
Due later than five years	342.2	384.1
Total minimum lease payments due in future periods	**606.4**	**631.2**

Details of the obligations for service elements

	2015-16 £m Departmental group	2014-15 £m Departmental group
Service elements due in future periods:		
Due within one year	412.4	489.7
Due between one year and five years	451.9	820.0
Due later than five years	367.0	428.7
Total service elements due in future periods	**1,231.3**	**1,738.4**
Total commitments	**1,837.7**	**2,369.6**

9.3 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

	2015-16 £m Departmental group	2014-15 £m Departmental group
Property, plant and equipment	0.6	0.9
Intangible assets	39.5	41.8
	40.1	**42.7**

9.4 Other financial commitments

During 2015-16 the department had no non-cancellable contracts (which are not leases, PFI contracts or other service concession arrangements).

10. Assets held for sale

The department had no assets held for sale.

11. Trade receivables, financial and other assets

	2015-16 £m Departmental group	2014-15 £m Departmental group
Amounts expected to be recovered in more than one year:		
Personal tax credits[1]	1,631.0	1,740.6
	1,631.0	**1,740.6**
Amounts expected to be recovered within one year:		
Personal tax credits[1]	1,232.6	1,119.9
Child Benefit[2]	23.4	21.6
Trade receivables	8.6	5.6
Other receivables[3]	14.4	7.6
Deposits and advances	54.2	23.2
Value Added Tax	36.7	16.6
Prepayments – Child Benefit	41.2	68.2
Accrued income, other prepayments	71.6	57.6
	1,482.7	**1,320.3**

1 This figure is net of provision for impairment amounting to core department: £4,234.5 million (2014-15 core department: £4,065.0 million) (see note 4).
2 This figure is net of provision for impairment amounting to core department: £30.4 million (2014-15 core department: £19.8 million).
3 This figure is net of provision for impairment amounting to core department: £18.1 million, departmental group: £19.2 million (2014-15 core department: £16.2 million, departmental group: £16.5 million).

HMRC has funded RCDTS Ltd with £6.0 million for general working capital and investment purposes. This has been accounted for as a long-term loan arrangement.

12. 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

	2015-16 £m Departmental group	2014-15 £m Departmental group
Balance at 1 April	25.7	22.6
Net change in cash and cash equivalent balances	13.2	3.1
Balance at 31 March	**38.9**	**25.7**
Of which balances were held at:		
Government Banking Service	37.6	24.7
Commercial banks and cash in hand	1.3	1.0
Balance at 31 March	**38.9**	**25.7**

13. Trade payables and other 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 99.7% (2014-15: 99.9%) 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 95.8% (2014-15: 94.8%) of supplier invoices within five days. The legal requirement remains at 30 days.

In 2015-16 interest paid under the Late Payment of Commercial Debts (Interest) Act 1988 was £11 (2014-15: £24).

The department's figures included above for prompt payment of invoices are not subject to audit.

Trade payables and other liabilities

	2015-16 £m Departmental group	2014-15 £m Departmental group
Amounts expected to be paid within one year:		
Personal tax credits	567.8	653.5
Child Benefit	9.1	8.7
Trade payables	74.7	57.0
Taxation and social security excluding VAT	38.7	37.6
IT Public Private Partnership	15.5	9.8
Accommodation PFI	12.4	11.7
Accommodation non-PFI	1.8	1.8
Other payables	5.8	0.8
Accruals – corporation tax reliefs	2,006.8	1,444.3
Accruals – Child Benefit	214.6	173.8
Deferred income, other accruals	378.0	413.0
Amounts issued from the Consolidated Fund for Supply but not spent at year end	37.4	23.9
Consolidated Fund Extra Receipts due to be paid to the Consolidated Fund		
received	1.0	1.8
receivable	–	–
	3,363.6	**2,837.7**
Amounts expected to be paid in more than one year:		
IT Public Private Partnership	24.1	13.7
Accommodation PFI	274.2	285.0
Accommodation non-PFI	9.5	12.5
	307.8	**311.2**

14. 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

		2015-16 £m Departmental group		2014-15 £m Departmental group
Balance at 1 April		**152.7**		**116.4**
Provided in the year	50.3		86.4	
Provisions not required written back	(21.7)		(19.6)	
Borrowing costs (unwinding of discounts)	0.2		0.6	
Net expenditure		28.8		67.4
Provisions utilised in the year		(29.8)		(31.1)
Balance at 31 March		**151.7**		**152.7**

14.1 Analysis of expected timing of discounted flows

	2015-16 £m Departmental group	2014-15 £m Departmental group
Not later than one year	81.1	101.2
Later than one year and not later than five years	67.9	50.1
Later than five years	2.7	1.4
Balance at 31 March	**151.7**	**152.7**

	Early departure costs £m	Child Trust Fund £m	Legal claims £m	Accommodation costs £m	Other £m	Total £m
Not later than one year	9.3	0.1	67.1	0.1	4.5	81.1
Later than one year and not later than five years	7.5	0.2	18.7	10.0	31.5	67.9
Later than five years	–	0.1	0.9	1.7	–	2.7
Balance at 31 March	**16.8**	**0.4**	**86.7**	**11.8**	**36.0**	**151.7**

14.2 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 1.37% in real terms, and updated annually to reflect the unwinding of the discount.

14.3 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 £0.4 million was retained for general CTF payments amounts forecast to become payable in respect of children qualifying for CTF endowments.

14.4 Legal claims

A provision of £86.7 million (2014-15: £78.9 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 per claim, where legal advice indicates that it is probable that the claim will be successful and the amount 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 16.

14.5 Accommodation costs

A provision of £11.8 million (2014-15: £0.9 million) has been made for the costs of restoring premises to the physical condition specified in the lease contracts.

14.6 Other

Provisions relating to various other claims against the department amount to £36.0 million (2014-15: £43.2 million). The decrease from 2014-15 is predominantly due to the utilisation of £4.1 million for administrative and IT development costs for Tax Free Childcare benefit and two on-going Fraud Investigation Services cases.

15. 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 181**).

Further information can be found within the Valuation Office Agency accounts (HC 468).

The Valuation Office Agency accounts can be viewed at:
www.gov.uk/government/organisations/valuation-office-agency

16. 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 £1.0 million (2014-15: £19.5 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 £92.9 million (2014-15: £68.1 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 £0.9 million, 72 cases (2014-15: £0.8 million, 81 cases).

Other – the department has a further number of contingent liabilities amounting to £11.3 million (2014-15: £10.0 million).

The department has not entered into any unquantifiable contingent liabilities.

17. 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 11 and 13. Personal tax credits can be seen in more detail in note 4. Assumptions on the recoverability of receivable balances are reviewed on an annual basis and appropriate adjustments for impairment are made.

18. Related-party transactions

The department is the parent of the Valuation Office Agency as well as Revenue and Customs Digital Technology Services Limited (RCDTS Ltd). These bodies are both regarded as a related-parties 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.

RCDTS Ltd provides a managed IT service to HMRC, funding is provided from HMRC to RCDTS Ltd.

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 party has undertaken any material transactions with the department during the year.

19. Entities within the departmental boundary

The Valuation Office Agency is a supply-financed agency, its Annual Report and Accounts are published separately.

Revenue and Customs Digital Technology Services Limited is an Arms Length Body created in 2015-16 and started trading 1 December 2015.

20. Revenue and Customs Digital Technology Services Limited

This company is financed by HMRC and has been created solely to provide managed IT services which directly contribute to the support and key purpose of HMRC. It assists the department to ensure the effective operation and management of IT services.

The company accounts will be available at Companies House at:
www.gov.uk/government/organisations/companies-house by 31 December 2016

To illustrate the impacts of this wholly-owned subsidiary, a summary of the key figures relating to RCDTS Ltd are provided below.

	2015-16 £m
Non-current assets	0.3
Current assets	10.9
Current liabilities	(5.2)
Non-current liabilities	(6.0)
Net assets	**–**
Staff and related costs	6.2
Running costs	1.9
Other expenditure	–
Total operating expenditure	**8.1**
Total operating income	**(8.1)**
Net operating expenditure	**–**

21. Investments in other public sector bodies

The department holds no loans, public dividend capital or other interests in public bodies outside the departmental boundary.

22. Events after the reporting period date

HMRC have considered the result of the referendum held on 23 June 2016 which was in favour of the UK leaving the European Union and whether the vote has any impact on these financial statements. We have concluded that this is a non-adjusting event. There are no other reportable adjusting or non-adjusting events after the reporting period. The financial statements were authorised for issue by the Accounting Officer on 12 July 2016.

Glossary to the financial statements

Accrued Revenue Payable (ARP) – there are three distinct types of ARP. These comprise:

- firstly, 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
- secondly, 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
- thirdly, amounts in respect of Corporation Tax and income tax likely to be repayable by HMRC pending finalisation of tax payer 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 measure of consumption of the value of intangible assets. It is recorded as operational expense on a systematic basis over their useful lives.

Annually Managed Expenditure (AME) – departments are allocated a separate annually managed spending limit (AME). This is demand-led and therefore more volatile than DEL (Departmental Expenditure Limit) expenditure. Examples include expenditure such as tax credits and Child Benefit.

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 Fund Extra Receipts (CFER) – this is income which the department is not entitled to retain and it is paid over to HM Treasury.

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 net assets between the beginning and end of a financial year.

Consolidated Statement of Comprehensive Net Expenditure (CSoCNE) – this is the performance statement, reporting a summary of expenditure, income, gains and losses for a financial year.

Consolidated Statement of Financial Position (CSoFP) – a statement which provides a snapshot of the assets, liabilities and reserves as at the beginning and end of a financial year.

Contingent liabilities – these 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.

Current assets – these are assets reported on the CSoFP that include cash, or any asset that is expected to be converted to cash within one year from the reporting date.

Current liabilities – these are obligations that are expected to be settled within one year of the reporting date.

Deferred income – this is income that relates to a future financial year and will be recorded in the CSoCNE of that future year.

Deferred revenue – this includes duties and taxes received in the current year that relate to future accounting periods.

Departmental Expenditure Limit (DEL) – departments are allocated a spending budget. This amount, and how it is split between Government departments, is set at Spending Reviews on a three yearly basis. It comprises capital and resource elements. Resource DEL includes the running of the services and the everyday cost of resources such as staff. Capital DEL is for the purchase of non-current assets.

Depreciation – this is the measure of consumption of the value of property, plant and equipment. It is recorded as operational expense on a systematic basis over their useful lives.

Excess Vote – is the means by which Parliament retrospectively authorises departmental overspends in terms of resources or cash and infringements of agreed protocols.

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 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', occurs.

Financial Reporting Manual (FReM) – this is the HM Treasury technical accounting guide to the preparation of the annual report and accounts for government.

IAS – International Accounting Standards. These were issued by the predecessor to the IASB.

IASB – International Accounting Standards Board.

IFRS – International Financial Reporting Standards. These are issued by the IASB. 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 Practice (UK GAAP).

IFRS Interpretations Committee (IFRIC) – body that develops guidance on appropriate accounting treatment of particular issues. They are approved by the IASB.

Impairment of receivables – is the process by which the collectability of receivables is assessed to determine a fair value for reporting purposes.

Indemnities – these 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 assets – these are non-physical items used in the business that are expected to have a useful life in excess of one year, for example, website development costs and certain software licences.

Losses – these are receivables that are determined to be uncollectable and comprise of remissions and write-offs. Remissions are receivables that we have decided not to pursue, typically 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 giving guidance on how to handle public funds.

Negative taxation – this is the element of tax relief payable that is less than or equal to the recipient's tax liability.

Net Cash Requirement – in the Estimate this represents the amount of funding that the department is entitled to draw down from the Consolidated Fund. The actual cash used during the year associated with resource or capital expenditure is described as the outturn Net Cash Requirement.

Non-current assets – these are assets reported on the CSoFP that are expected to be held for a period in excess of one year.

Non-current liabilities – these are obligations that are expected to be settled beyond one year of the reporting date.

Non-Voted expenditure – this is part of DEL and AME which is not authorised annually through the Supply Estimate. It occurs where Parliament has passed legislation that allows funding of a service on a continuing basis either directly from the Consolidated Fund or from other sources, e.g. the National Insurance Fund.

Payables – these are amounts recognised as owing by the department at the end of the reporting period but for which payment has not been made.

Payments of entitlement – this is the element of tax relief payable that is in excess of the recipient's tax liability, and is therefore in addition to any negative taxation element.

Private Finance Initiative (PFI) – is a method of establishing public-private partnerships (PPPs) by funding public infrastructure projects with private capital.

Programme expenditure – these are typically the costs that the department directly incurs in delivering its policy objectives. It includes the payments such as tax credits and Child Benefit. All expenditure and associated operating income for the Valuation Office Agency is treated as Programme.

Provisions for liabilities – these 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.

Public-Private Partnerships (PPPs) – are a form of PFI.

Receivables – these represent amounts recognised as being owed to the department at the end of the reporting period but for which 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 certain reliefs.

Statement of Parliamentary Supply (SoPS) – this is the primary parliamentary accountability statement and is unique to central government financial reporting. By expenditure category, it reports the total outturn (how much has been spent) for the departmental group compared with the amounts approved by Parliament through the Supply Estimates process.

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 liability – a suspended liability 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 Directorate 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 – this is part of DEL and AME which is authorised annually through the Supply Estimate.