



HM Revenue
& Customs

HM REVENUE AND CUSTOMS
KAI: Benefits & Credits

Child and Working Tax Credits

**Error and Fraud Statistics
(Revision)**

2013-14

Estimates of error and fraud in Tax Credits 2013-14

Introduction

1. Child Tax Credit (CTC) and Working Tax Credit (WTC) were introduced in April 2003. They are a flexible system of financial support designed to deliver support as and when a family needs it, tailored to their specific circumstances. They are part of wider government policy to provide support to parents returning to work, reduce child poverty and increase financial support for all families. The flexibility of the design of the system means that as families' circumstances change, so (daily) entitlement to Tax Credits changes. This means Tax Credits can respond quickly to families' changing circumstances, providing support to those that need it most. Tax Credits are based on household circumstances and can be claimed jointly by members of a couple, or by singles. Entitlement is based on the following factors: age, income, hours worked, number and age of children, childcare costs and disabilities. For further information on who can claim tax credits please refer to the GOV.UK website: <https://www.gov.uk/topic/benefits-credits/tax-credits>
2. This report presents results from the Tax Credits Error & Fraud Analytical Programme (EFAP), which is designed to measure error and fraud in finalised awards across the Tax Credits population. This publication will be of particular interest to the National Audit Office (as part of their overall review of HMRC's accounts), academics and think-tanks and operationally within HMRC.
3. For 2013-14 tax year, this exercise took a stratified random sample of 4000 cases which were selected to be representative of the tax credit population. At the time of this publication, the enquiries on all the cases were completed. The results from these sample cases have been scaled up to population numbers to estimate the overall level of error and fraud in the Tax Credit system. It is a principle of this publication to republish the estimates if new information changes the central estimate favouring the claimant by +/- 0.2 percentage points.
4. Because of the size and diversity of the claimant population, and the possible variation in compliance risk, the sample has been stratified. This is so that we can measure the level of compliance for various claimant groups, as well as for claimants as a whole. More details about the sampling methodology used can be found in Annex A.
5. In the 2013-14 revision, the level of error and fraud favouring the claimant was around £1.35 billion or 4.7% of finalised Tax Credit entitlement. The value of

finalised Tax Credit entitlement used for the percentage rate estimate is £28.5 billion¹. Headline results from previous exercises are shown in Annex A.

Reason for Revision

6. In line with the Code of Practice for Official Statistics, it is the revision policy of this publication to republish the error and fraud estimates if new information changes the central estimate favouring the claimant by +/- 0.2 percentage points. The following reasons have led to a change in the central estimate favouring the claimant by more than 0.2 percentage points:
7. In June 2015 when the original 2013-14 EFAP was published, the estimated error and fraud favouring the claimant was 4.4% of finalised entitlement. The sample used for that publication included the outcome of settled cases and cases that were not settled. The outcome of the cases that were not settled were estimated. The cases that were not settled have now been settled and they were found to contain more error and fraud than was originally estimated. More information on how the outcomes of the cases that were not settled were estimated can be found in Annex A (Projections).
8. In addition, some of the cases in the original 2013-14 EFAP sample have had their outcomes changed, due to new evidence that became available to the compliance officers after the original 2013-14 EFAP publication. The revised outcomes have been used in this publication.

¹ This is equivalent to £28.4 billion of finalised tax credit entitlement statistics published for the same period.

Section 1: Likely levels of Error and Fraud

9. The details presented in the following tables are based on a sample of cases and hence there are margins of error associated with these estimates. Therefore, Tables 1 to 4 also show the 95% confidence intervals associated with these central estimates – and note that the estimates presented in the rest of the tables are the central estimates.

Table 1: Total Error and Fraud as a Proportion of Finalised Entitlement (%), 2013-14

	Error and fraud as a percentage of finalised entitlement		
	Lower bound	Central estimate	Upper bound
<i>Estimated error & fraud favouring the claimant</i>	4.2	4.7	5.2
<i>Estimated error favouring HMRC</i>	0.6	0.7	0.9

10. Table 1 shows for 2013-14 the proportion of finalised tax credit entitlement that was accounted for by error and fraud.

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

Table 2: Overall Level of Error and Fraud, 2013-14

	Number ('000)			Amount (£m)		
	Lower bound	Central estimate	Upper bound	Lower bound	Central estimate	Upper bound
Estimated error and fraud favouring the claimant	770	830	890	1,210	1,350	1,500
Estimated error favouring HMRC	280	320	360	170	210	250

12. Table 2 shows central estimates and their associated 95% confidence intervals for the overall levels of error and fraud for 2013-14.

Table 3: Error and Fraud Favours the Claimant as a Proportion of Finalised Entitlement (%), 2013-14

	Error and fraud as a percentage of finalised entitlement		
	Lower bound	Central estimate	Upper bound
<i>Estimated error favouring the claimant</i>	2.2	2.5	2.9
<i>Estimated fraud favouring the claimant</i>	1.8	2.2	2.6

13. Table 3 shows for 2013-14 the proportion of finalised Tax Credit entitlement that was accounted for by error in the claimant's favour and the proportion that was accounted for by fraud in the claimant's favour.

Table 4: Level of Error and Fraud Favours the Claimant, 2013-14

	Number ('000)			Amount (£m)		
	Lower bound	Central estimate	Upper bound	Lower bound	Central estimate	Upper bound
Estimated error favouring the claimant	550	600	650	640	730	810
Estimated fraud favouring the claimant	190	220	250	520	630	730

14. Table 4 shows the central estimates and their associated 95% confidence intervals split by the levels of error and fraud in the claimant's favour.

15. For the central estimate, the level of error can be further broken down between claimant error and HMRC error. This is set out in table 5 below.

Table 5 – Overall Level of Error split between Claimant Error and HMRC Error - central estimates, 2013-14

	Claimant error		HMRC error	
	Numbers ('000)	Amounts (£m)	Numbers ('000)	Amounts (£m)
Estimated error favouring the claimant	590	720	10	10
Estimated error favouring HMRC	270	180	30	20

Table 6 - Breakdown of Error and Fraud by type of Tax Credit Award - central estimates, 2013-14²

Estimated error and fraud favouring the claimant	Numbers ('000)	Amounts (£m)
Nil award	-	-
Out of work	120	210
In work, children, more than family element	570	1,000
In work, children, family element or less	10	10
WTC only	130	140
Total	830	1,350
Estimated error favouring HMRC		
Nil award	-	-
Out of work	40	30
In work, children, more than family element	250	160
In work, children, family element or less	-	-
WTC only	40	20
Total	320	210

² To compare these figures to those presented in Table 3 of the 2003-04 publication and Table 4 of the 2004-05 publication then 'In work, children, family element or less' is equivalent to 'Flat rate' and the summation of 'Out of work', 'In work, children, more than family element' and 'WTC only' is equivalent to 'Others'.

Table 7 - Distribution of Error and Fraud by Value - central estimates, 2013-14

Value of error and fraud	Estimated error and fraud favouring the claimant		Estimated error favouring HMRC	
	Number ('000)	Amount (£m)	Number ('000)	Amount (£m)
Less than £100	110	5	100	5
£100 to £499	190	60	100	25
£500 to £999	150	115	50	35
£1,000 or more	380	1,175	80	150
Total	830	1,350	320	210

Table 8- Distribution of Error and Fraud by Value of Finalised Award - central estimates, 2013-14

Value of award	Estimated error and fraud favouring the claimant		Estimated error favouring HMRC	
	Number ('000)	Amount (£m)	Number ('000)	Amount (£m)
£0	-	-	-	-
Under £1,000	80	30	25	5
£1,000 to £1,999	100	80	35	15
£2,000 to £2,999	80	105	45	30
£3,000 to £3,999	70	95	30	30
£4,000 to £4,999	70	90	30	25
£5,000 to £5,999	60	115	35	25
£6,000 to £6,999	75	140	30	25
£7,000 and over	300	695	80	55
Total	830	1,350	320	210

16. Note that the value of the award shown in Table 9 is the value of the finalised award when the EFAP sample was drawn.

Table 9 Reasons for Error and Fraud - central estimates, 2013-14

Reason	Estimated error and fraud favouring the claimant		Estimated error favouring HMRC	
	Number ('000)	Amount (£m)	Number ('000)	Amount (£m)
Income	315	255	245	150
Undeclared Partner	170	460	10	-
Childcare costs	125	150	15	10
Children	95	160	15	15
Work and hours	220	275	50	30
Disability	30	55	5	5
Total	950	1,350	340	210

17. Note that in Table 9 some claimants will have more than one reason for adjustment so the numbers will not necessarily sum to the total number of awards presented in the other tables.

Annex A

The 2013-14 Tax Credits Error and Fraud Analytical Programme (EFAP): Methodological and Technical Details

Introduction

1. The Tax Credits system is designed to respond to changes in income and circumstances as they happen. In 2013-14, a family's award was initially based on their circumstances (e.g. number of children, any disabilities, etc.) and income as held by HMRC on their 2012-13 award at April 2013.³ Once their 2012-13 award had been finalised then their 2013-14 award would be based on their finalised 2012-13 income; although, at any time they could provide an estimate for their current year income. At the end of 2013-14 a number of claimants are auto renewed. These claimants are only required to contact HMRC if they have had a change in income and are required to tell HMRC what their final income was for the year by 31 July 2014. However, some recipients who had only been able to provide an estimate by this date were given until 31 January 2015 to provide their final 2013-14 incomes.
2. The 2013-14 exercise could not start until recipients had provided HMRC with details of their final 2013-14 incomes, which meant that compliance officers were unable to start work on some cases until after 31 January 2015 (as an enquiry can only be opened once the award is finalised).

Error and Fraud

3. When Claimant Compliance Officers identified non-compliance, they were required to indicate whether they believed it was due to genuine error or fraud. To be classified as fraud, a caseworker needs to have found evidence that the claimant deliberately set out to misrepresent their circumstances to get money to which they are not entitled (e.g. claiming for a child that does not exist). Error covers instances where there is no evidence of the claimant deliberately trying to deceive HMRC. It covers a range of situations, including cases where a claimant inadvertently over-claims because they simply provided HMRC with the wrong information. It could also cover a situation where the correct information has been provided but this information has been incorrectly processed by HMRC.
4. The split between error and fraud in this publication changed due to the new penalty regime and associated guidance introduced in compliance on 6 April 2008. This is the sixth year that the results fully reflect the way that the new penalty regime distinguishes between error and fraud and therefore they are not comparable to

³ Unless 2013-14 is their first year of Tax Credit receipt in which case it will be based on their circumstances at the time of application and their 2012-13 income.

years prior to 2008-09. This has increased the amount of error and fraud classified as fraud.

5. Estimates of official error were published for the first time in 2006-07. As part of the working of each case compliance officers were asked not only to classify whether or not a case that was found to be incorrect was due to either error or fraud, but also whether or not the error was due to HMRC.
6. For cases where error or fraud have been identified the Claimant Compliance Officer also has to identify the causes of the error or fraud - and the monetary consequence of this - the adjustment categories are shown in Table 9. These categorise whether or not the income reported at finalisation is under or over-stated, likewise with childcare costs. Similarly, whether or not there is a partner in the household whose income has not been declared, whether or not a child claimed for is still in full time education and being cared for by the claimant, whether or not the adults in the claim are working and if so the number of hours that they are working and whether or not the adults and children in the claim are disabled or severely disabled⁴.
7. Due to the nature of organised fraud and HMRC compliance procedures the vast majority of organised fraud claims are stopped quickly and awards in payment are terminated. This means that organised fraud is more likely to be detected as overpayments rather than in the EFAP. Any overpayments that are not remitted during the year will be included in the annual National Statistics publication on under and overpayments.

Sampling

8. The sample for the 2013-14 EFAP is constructed from 4 strata of claimants; these strata, together with the sample sizes, are shown below:

Table A1: Sample Strata and Sample Sizes

Stratum	Sample size
Nil awards	98
End of the taper	13
WTC only	299
Others	3,590
Overall	4,000

9. The sample was stratified in this way to ensure that an appropriate number of both Nil, Other and WTC only awards were included in the sample. If a purely random

⁴ This last category also covers the small number of cases where the claimant or their partner were incorrectly reporting that they were in receipt of IS/JSA (passporting them to maximum CTC with no tapering).

sample had been used this would have consisted of a high number of Nil and Flat rate awards which show relatively low rates of non compliance, thus reducing the accuracy of the results of the EFAP. The use of a stratified sample allows for the levels of error and fraud in each stratum to be estimated more accurately by ensuring the number of cases in each strata is representative of the likelihood of fraud and error occurring in that strata of the population.

10. An individual award can fall into a number of different strata during the year depending on the circumstances of the household at a given point in time, for example a couple could initially be receiving WTC only and then half way through the year have their first child thus moving them to our other strata. In fact there are ten possible categories (which was aggregate into our four strata) that a household in award could find themselves in at a given point during the year depending on their circumstances and income. When an award moves between these categories we say that a new entitlement sub-period has been created. It is not possible to aggregate these sub-periods into one category that would give the household an overall status for the year, therefore we allocate them based on the entitlement sub-period that they have spent the most time in during that year.
11. It is important to note that our sample base is awards and not families – these two differ as a family can have a number of awards during a year. Take the following example, initially a lone parent family is in award then a new household is formed when a partner moves in and later in the year the partner moves out (the household breaks down) and they become a lone parent again, so in total they have had three separate awards during the year. We follow awards as this is the unit that the Tax Credit system is based around and hence is most suitable for constructing a representative sample from.
12. The sample base contains all 2013-14 awards present on the HMRC Tax Credit system at the end of the first week of August 2014. An award may last for a period of anywhere between one day and the whole year.
13. The sample for each stratum was selected at random and were picked using a set of randomly generated numbers.

Sampling errors around the estimates

14. Estimates in the tables are rounded to the nearest £10m/10,000 in tables 2 and 4 to 6 and for all the overall totals in the other tables whilst the breakdowns in the other tables are rounded to the nearest £5m/5,000. The estimates presented are the central estimates derived from the sample taking account of the methodological approach set out below. Since these estimates are based on a sample they are subject to sampling errors. These margins of error have been expressed by

calculating a 95% confidence interval around the estimates. These have been calculated and are shown in Tables 1 to 4.

Methodology

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

Processing

16. The underlying data are recorded by the compliance officers who carried out the enquiries; it then undergoes a number of steps where it is checked and processed before it is used to calculate the figures in this publication.

17. The final data used are created by cross checking the information held in our compliance management information system against that held in the main Tax Credit computer system and against information recorded about the case by the compliance officer who worked it. Where a lone parent is found to have an undisclosed partner we offset the entitlement that they would have had under their (notional) joint award against the amount that was paid out incorrectly in the single-person award and the remainder is what we classify as error/fraud in this publication.

18. Each award has a number of entitlement sub-periods⁵ and it is clear that some of these sub-periods cannot be associated with certain types of error/fraud that are recorded, for example if 25% of an award's time is spent in a WTC only sub-period and 75% of its time in sub-periods relating to CTC then a claimant favour error/fraud relating to a child could only have occurred in the latter 75% of the award. We therefore allocate the error to the sub-periods that it could be associated with, so in the earlier example the child error would be allocated to the 75% of the award spent in sub-periods relating to CTC. HMRC favour error has been reallocated between sub-periods based on the proportion of that award spent in that sub-period.

Projections

19. When the original EFAP 2013-14 was published in June 2015, there were 123 cases which were not settled. The outcomes of these cases were projected for. It was assumed that these cases exhibited the same characteristics, on average, to those that were settled most recently during 2013-14 EFAP enquiry. These cases have now been settled and were found to contain more error and fraud than was projected.

Grossing

20. The sample results of the cases that have been worked to completion have been grossed to reflect population estimates. Differential grossing factors have been applied depending on the value of the finalised award and the characteristics of the claimant during the year. The process by which the grossing was carried out differs from that used in 2003-04 and 2004-05 as a new improved methodology was introduced from 2005-06 onwards. Although the changes set out below introduce a discontinuity into any time series comparisons this is offset by the increased accuracy that the method provides for this and future years. For reference published figures for prior years are contained in the table over the page.

⁵ See paragraph 10 for an explanation of entitlement sub-periods.

Table A2: Published Error and Fraud rates for Prior Years

<i>Estimate</i>	<i>Year of EFAP</i>	<i>Error and Fraud as a Percentage of Finalised Entitlement</i>		
		<i>Lower bound</i>	Central estimate	<i>Upper bound</i>
Estimated error and fraud favouring the claimant	2003-04	8.8	9.7	10.6
	2004-05	7.3	8.2	9.1
	2005-06	8.5	9.6	10.6
	2006-07	7.2	7.8	8.4
	2007-08	8.3	9.0	9.7
	2008-09	8.3	8.9	9.6
	2009-10	7.0	7.8	8.6
	2010-11	7.5	8.1	8.8
	2011-12	6.6	7.3	7.9
	2012-13	4.7	5.3	6.0
Estimated error and fraud favouring HMRC	2003-04	1.6	1.9	2.3
	2004-05	1.4	1.9	2.4
	2005-06	1.4	1.9	2.4
	2006-07	1.3	1.7	2.1
	2007-08	1.0	1.3	1.6
	2008-09	0.8	1.1	1.3
	2009-10	0.9	1.4	2.0
	2010-11	0.6	0.8	1.0
	2011-12	0.6	0.9	1.2
	2012-13	0.4	0.6	0.9

21. The sample frame used from 2005-06 onwards provided more information than that used in previous years – giving us information on all the entitlement sub-periods⁶ that an award had had during the year compared to previously having just the last of the year. Therefore since 2005-06 we gross our sample results to the total of entitlement sub-periods for the population over the whole year rather than to the single entitlement sub-period present at the end of the year.

⁶ See paragraph 10 for an explanation of entitlement sub-periods.

22. We also now gross up to the position of the award on each Tax Credit profile rather than to each strata that the award falls into (the four strata are an amalgamation of the 10 different profile positions) which gives us increased accuracy over groups with potentially differing rates of error and fraud.

23. The final change was a move from grossing to the total number of awards as the control population to instead using the total amount of entitlement.

Exclusions

24. The figures underlying this report are based on all the settled cases examined by claimant compliance officers. However, in the analysis presented in this report account has been taken of:

cases that are not taken up for enquiry - in some cases, for example if the claimant or their children have died, an enquiry is not taken up, these cases have been excluded from the results, - implicitly assuming that if they had been worked they would have the same result, on average, to the cases that have been successfully completed.

Contact point

25. For further information please contact Abdul-Kadir Osman on 03000 515309, e-mail abdul-kadir.osman@hmrc.gsi.gov.uk.