HM Revenue & Customs

HM REVENUE AND CUSTOMS

KAI: Benefits & Credits

Child and Working Tax Credits

Error and Fraud Statistics

2015-16

(Updated)

Estimates of Error and Fraud in Tax Credits 2015-16

Introduction

1. Child Tax Credit (CTC) and Working Tax Credit (WTC) were introduced in April 2003. They are flexible systems of financial support designed to deliver support as and when a family needs it, tailored to their specific circumstances. They are part of wider government policy to provide support to parents returning to work, reduce child poverty and increase financial support for all families. The flexibility of the design of the system means that as families' circumstances change, so does their (daily) entitlement to tax credits. This means tax credits can respond quickly to families' changing circumstances, providing support to those that need it most. Tax credits are based on household circumstances and can be claimed jointly by members of a couple, or by singles. Entitlement is based on the following factors: age, income, hours worked, number and age of children, childcare costs and disabilities. 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 2015-16 tax year, this exercise took a stratified random sample of 4,000 cases which were selected to be representative of the tax credit population. These cases were taken up for examination by claimant compliance officers who worked the cases as they would for any other enquiry. The sample is stratified because of the size and diversity of the claimant population and the possible variation in compliance risk. This is so that we can measure the level of compliance for various claimant groups, as well as for claimants as a whole. More details about the sampling methodology can be found in Annex A.

Original and revised estimates.

4. The first estimates of the level of error and fraud for the 2015-16 were published in June 2017, and estimated that the level of error and fraud favouring the claimant was around £1.57 billion or 5.5% of finalised tax credit entitlement. The publication explained that as in all previous years, the estimates were based on incomplete data. In particular, some of the cases used in the estimation were still being investigated, and the compliance officer decisions that underpinned the error and fraud estimates were subject to appeal by households. Because of these factors HMRC revisits the estimates each year to take account of any new information received after the original publication and commits to re-publish the estimates if the

headline rate of error and fraud favouring the claimant changes by +/- 0.2 percentage points or more.

5. We have now revisited the 2015-16 estimates to take account of new information, and estimate that the level of error and fraud favouring the claimant now stands at £1.35 billion or 4.8% of finalised tax credit entitlement. The value of finalised tax credit entitlement used for the percentage rate estimate is £28.3 billion.

6. The revisions to the estimates have been caused by two main factors:

   - Appeals to closed cases which were originally found to have error and fraud which led to those decisions being overturned; and

   - The use of additional information on around 300 cases that were previously based on projections as the cases were not completely finalised at the time of the original publication. These cases were assumed to have the same incidence of error and fraud as the remaining cases in the sample, but have since been found to have no error and fraud.

Section 1: Likely levels of Error and Fraud

7. The details presented in the following tables are based on a sample of cases and hence there are margins of error associated with these estimates. Therefore, Tables 1 to 4 also illustrate the 95 per cent confidence intervals associated with these central estimates. 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 (%), 2015-16

	Error and fraud as a percentage of finalised entitlement		
	Lower bound	**Central estimate**	Upper bound
Estimated error & fraud favouring the claimant	*4.3*	***4.8***	*5.2*
Estimated error favouring HMRC	*0.5*	***0.6***	*0.7*

8. Table 1 shows for 2015-16 the proportion of finalised tax credit entitlement that was accounted for by error and fraud.

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

HMRC to pay them less tax credits than they were entitled to for the year – i.e. there was a monetary gain for HMRC and a monetary loss for the claimant.

Table 2: Overall Level of Error and Fraud, 2015-16

	Number ('000)			Amount (£m)		
	Lower bound	**Central estimate**	Upper bound	Lower bound	**Central estimate**	Upper bound
Estimated error & fraud favouring the claimant	800	**850**	890	1,230	**1,350**	1,470
Estimated error favouring HMRC	390	**430**	460	160	**180**	210

10. Table 2 shows central estimates and their associated 95 per cent confidence intervals for the overall levels of error and fraud for 2015-16.

Table 3: Error and Fraud Favouring the Claimant as a Proportion of Finalised Entitlement (%), 2015-16

	Error and fraud as a percentage of finalised entitlement		
	Lower bound	**Central estimate**	Upper bound
Estimated error favouring the claimant	*3.3*	***3.7***	*4.0*
Estimated fraud favouring the claimant	*0.9*	***1.1***	*1.3*

11. Table 3 shows for 2015-16 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 Favouring the Claimant, 2015-16

	Number ('000)			Amount (£m)		
	Lower bound	**Central estimate**	Upper bound	Lower bound	**Central estimate**	Upper bound
Estimated error favouring the claimant	700	**750**	790	930	**1,030**	1,130
Estimated fraud favouring the claimant	90	**100**	120	250	**320**	380

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

13. For the central estimate, the level of error is broken down further into 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, 2015-16

	Claimant error		**HMRC error**	
	Numbers ('000)	Amounts (£m)	Numbers ('000)	Amounts (£m)
Estimated error favouring the claimant	740	1,030	10	-
Estimated error favouring HMRC	360	150	50	30

Table 6 - breakdown of error and fraud by type of Tax Credit award - central estimates, 2015-16

Estimated error and fraud favouring the claimant	Numbers ('000)	Amounts (£m)
Nil award	-	-
Out of work	110	210
In work, children, more than family element	620	1,020
In work, children, family element or less	-	-
WTC only	110	120
Total	850	1,350
Estimated error favouring HMRC		
Nil award	-	-
Out of work	50	40
In work, children, more than family element	340	130
In work, children, family element or less	-	-
WTC only	30	10
Total	430	180

Table 7 - Distribution of Error and Fraud by Value - central estimates, 2015-16

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	190	5
£100 to £499	210	60	130	35
£500 to £999	150	105	50	35
£1,000 or more	380	1,175	60	105
Total	850	1,350	430	180

Table 8 - Distribution of Error and Fraud by Value of Finalised Award - central estimates, 2015-16

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	75	25	50	10
£1,000 to £1,999	95	75	55	25
£2,000 to £2,999	75	95	40	25
£3,000 to £3,999	65	95	30	15
£4,000 to £4,999	60	95	30	10
£5,000 to £5,999	55	85	25	5
£6,000 to £6,999	85	130	40	25
£7,000 and over	340	750	150	65
Total	850	1,350	430	180

14. Note that the value of the award shown in Table 8 is the value of the finalised award and includes the value of error and fraud.

Table 9 - Reasons for Error and Fraud - central estimates, 2015-16

Reason	Estimated error and fraud favouring the claimant		Estimated error favouring HMRC	
	Number ('000)	Amount (£m)	Number ('000)	Amount (£m)
Income	350	340	345	125
Undeclared Partner	95	375	-	-
Childcare costs	175	180	25	5
Children	70	75	15	5
Work and hours	240	315	70	30
Disability	40	60	15	15
Total	970	1,350	470	180

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

Annex A

The 2015-16 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 2015-16, 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 2014-15 award at April 2015.[1] Once their 2014-15 award had been finalised then their 2015-16 award would be based on their finalised 2014-15 income; although, at any time they could provide an estimate for their current year income. At the end of 2015-16 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 2016. However, some recipients who had only been able to provide an estimate by this date were given until 31 January 2017 to provide their final 2015-16 incomes.

2. The 2015-16 exercise could not start until recipients had provided HMRC with details of their final 2015-16 incomes, which meant that compliance officers were unable to start work on some cases until after 31 January 2017 (as an enquiry can only be opened once the award is finalised).

Methodological Changes to the 2015-16 statistics

3. Prior to the 2014-15 EFAP, the sample size used to estimate error and fraud in tax credits was 4,000 and for the 2014-15 EFAP, the sample size was increased to 5,000. For the 2015-16 EFAP the sample reverted to 4,000, which is sufficient to produce an accurate and robust estimate of error and fraud in the tax credit population.

Error and Fraud

4. 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

[1] Unless 2015-16 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 2014-15 income.

cover a situation where the correct information has been provided but this information has been incorrectly processed by HMRC.

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.

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 2015-16 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	50
CTC Only – family element or less	50
WTC only	404
Others	3,496
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 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 we 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.

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. 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 2015-16 awards present on the HMRC tax credit system at the end of the first week of August 2016. 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.

Sampling errors around the estimates

14. Estimates in the tables are rounded to the nearest £10m/10,000 in tables 2, 4, 5, 6, and for all the overall totals in the other tables. The breakdowns in the other tables are rounded to the nearest £5m/5,000. The estimates presented are the central estimates derived from the sample taking account of the methodological approach set out below. Since these estimates are based on a sample they are subject to sampling errors. These margins of error have been expressed by calculating a 95 per cent confidence interval around the estimates. These have been calculated and are shown in Tables 1 to 4.

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.

18. Each award has a number of entitlement sub-periods[2] and it is clear that some of these sub-periods cannot be associated with certain types of error/fraud that are recorded, for example if 25 per cent of an award's time is spent in a WTC only sub-period and 75 per cent of its time in sub-periods relating to CTC then a claimant favour error/fraud relating to a child could only have occurred in the latter 75 per cent of the award. We therefore allocate the error to the sub-periods that it could be associated with, so in the earlier example the child error would be allocated to the 75 per cent of the award spent in sub-periods relating to CTC. HMRC favour error has been reallocated between sub-periods based on the proportion of that award spent in that sub-period.

Projections

19. A projection is made to cover the estimated additional amount of extra error/fraud for cases that have not yet had a completed enquiry. For this publication, all 3,841 cases eligible for an enquiry have been completed and therefore no projections have been made in this analysis.

Non-response

20. Approximately 24 per cent of claimants in the sample that is used to compile this estimate do not respond to HMRC's investigations. The issue of non-response is monitored in several ways, including ensuring that compliance officers are in a position to make a valid decision without a response, completion of extensive quality checks of compliance officers' decisions and monitoring of the outcome of non-response cases against those where claimants do respond.

21. Non-response cases are no more or less likely to contain error and fraud favouring the claimant than cases where the claimant does respond. Consequently we are satisfied that compliance officers are able to make a valid decision on non-response

[2] See paragraph 11 for an explanation of entitlement sub-periods.

cases by using information held by HMRC. No adjustment is made to the estimate of error and fraud favouring the claimant to account for non-response.

22. Error favouring HMRC is more likely to be identified in cases where the claimant does respond. It is not possible to determine whether the non-response cases do in fact contain higher levels of error and fraud than we have identified but we hold no evidence to suggest that they do. No adjustment is made to the estimate of error favouring HMRC to account for non-response.

Grossing

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

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

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

Exclusions

26. The figures underlying this report are based on 3,841 cases examined by claimant compliance officers. The remaining 159 cases were not taken up for enquiry for reasons including death or other exceptional circumstances. These cases have been excluded from the results, implicitly assuming that if they had been worked they would have the same incidence of error and fraud as the cases that have been successfully completed.

Contact point

27. For further information please contact:
    Jonathan Gittins
    03000 515263,
    E-mail: jonathan.gittins@hmrc.gsi.gov.uk
    Or
    Michael Hulme
    03000 573793,
    E-mail: michael.hulme@hmrc.gsi.gov.uk

Annex B

Historical Tax Credits Error and Fraud Analytical Programme (EFAP) Results since 2005-06

Table A2: Historical Error and Fraud rates since 2005-06 (%)

	Year of EFAP	*Error and Fraud as a Percentage of Finalised Entitlement*		
		Lower bound	***Central estimate***	*Upper bound*
Estimated error and fraud favouring the claimant	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	4.2	**5.3**	6.0
	2013-14	4.2	**4.7**	5.2
	2014-15	4.0	**4.4**	4.8
	2015-16	4.3	**4.8**	5.2
Estimated error and fraud favouring HMRC	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	0.2	**0.5**	0.7
	2013-14	0.6	**0.7**	0.9
	2014-15	0.5	**0.6**	0.7
	2015-16	0.5	**0.6**	0.7

Figure A1: Historical error and fraud rates in Claimant Favour and associated confidence intervals since 2005-06 (%)

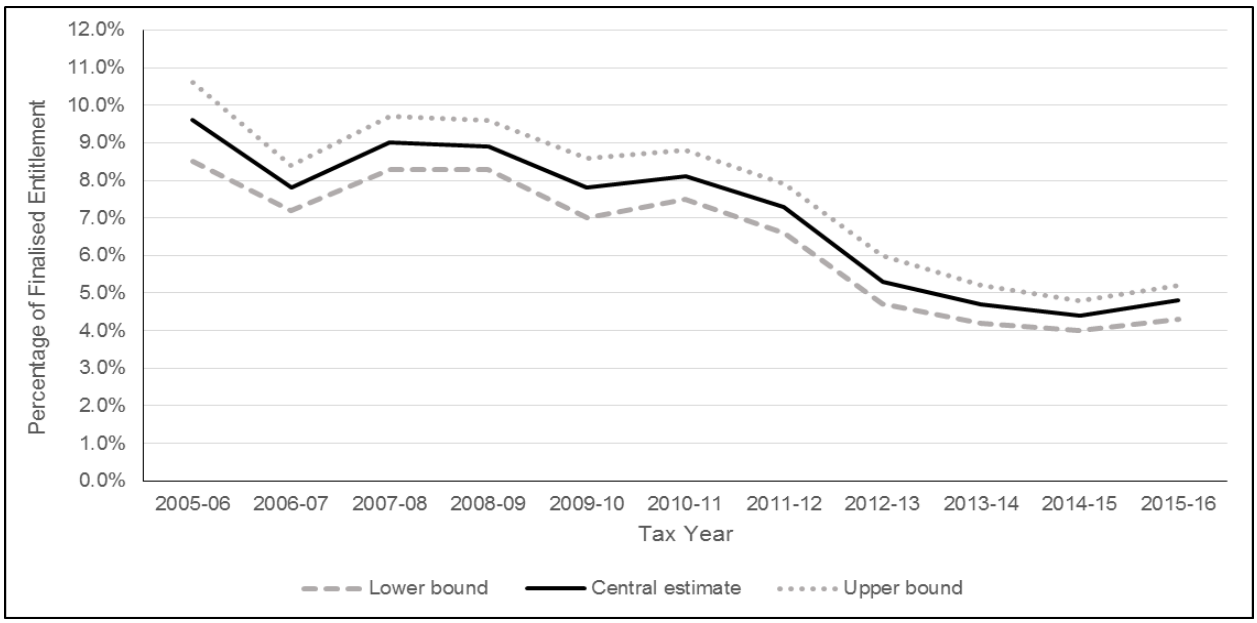

Figure A2: Historical error rates in HMRC Favour and associated confidence intervals since 2005-06 (%).