HM Revenue & Customs

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KAI Benefits and Credits

Personal Tax Credits Statistics:

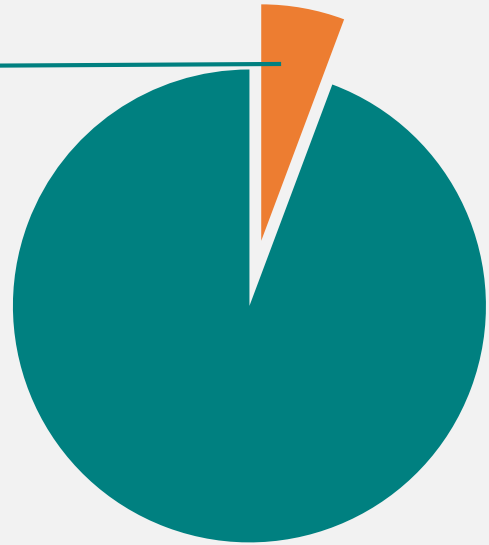# Child and Working Tax Credits Error and Fraud Statistics 2017-18, First Release
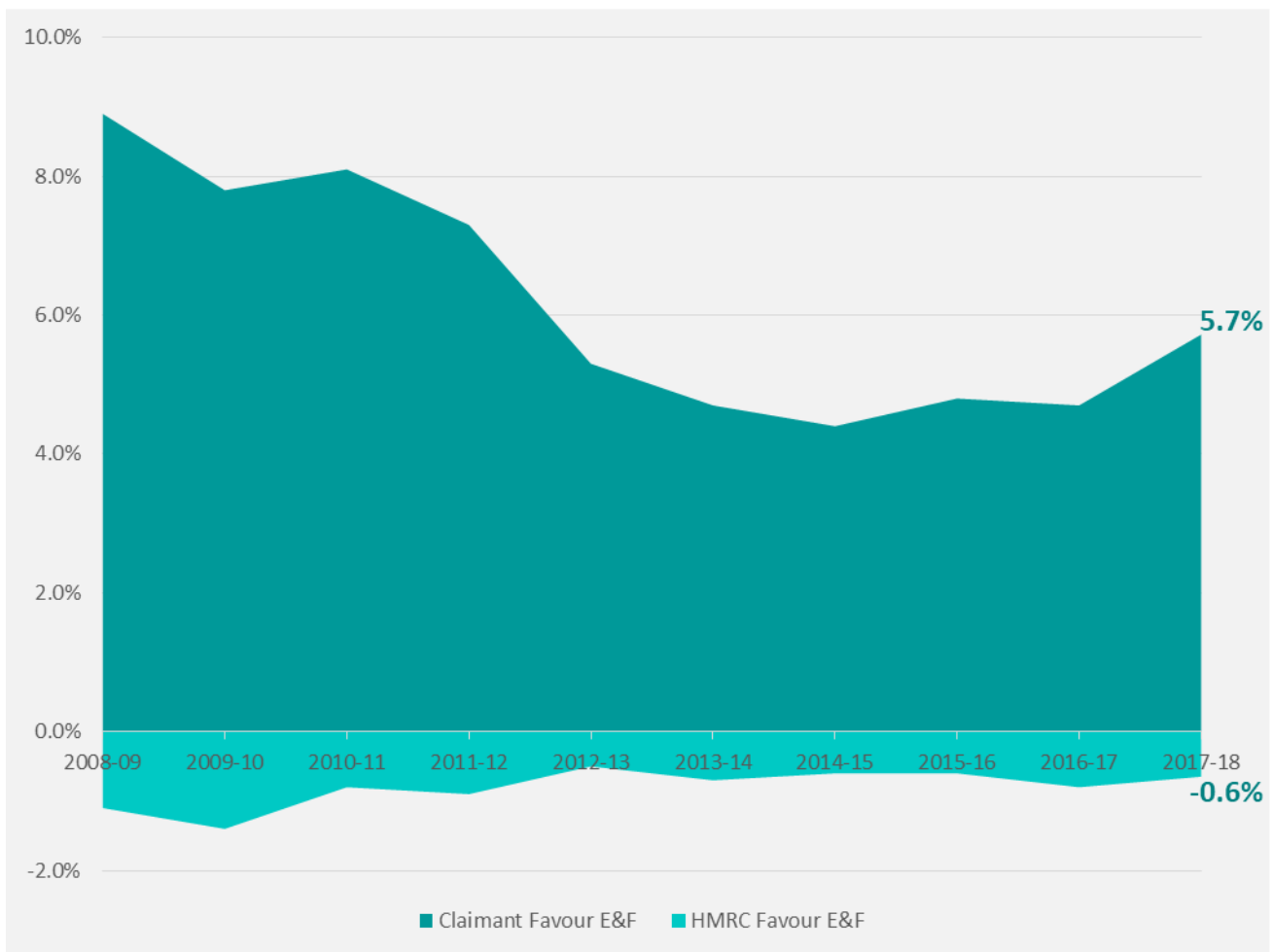
June 2019

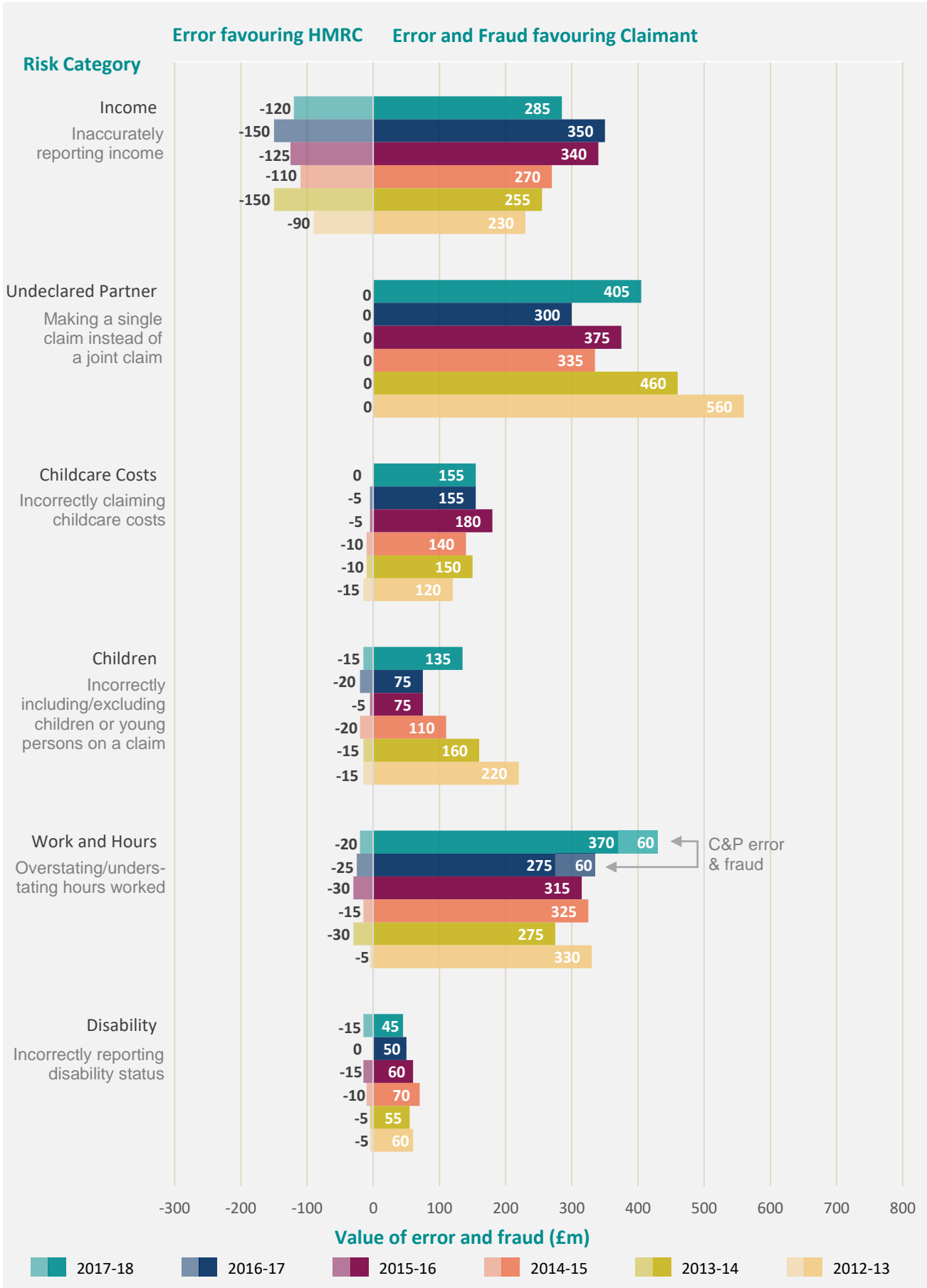# Tax credits error and fraud at a glance in 2017-18

5.7%

Tax credit error and fraud in favour of the claimant is estimated to be **£1.46** billion which is **5.7%** of entitlement

Tax credit error and fraud as a proportion of entitlement: 2008-09 to 2017-18

Legend: ■ Claimant Favour E&F ■ HMRC Favour E&F

Tax credits error and fraud by risk category: 2012-13 to 2017-18

Error favouring HMRC   **Error and Fraud favouring Claimant**

Risk Category

Income
Inaccurately reporting income

Year	HMRC	Claimant
2017-18	-120	285
2016-17	-150	350
2015-16	-125	340
2014-15	-110	270
2013-14	-150	255
2012-13	-90	230

Undeclared Partner
Making a single claim instead of a joint claim

Year	HMRC	Claimant
2017-18	0	405
2016-17	0	300
2015-16	0	375
2014-15	0	335
2013-14	0	460
2012-13	0	560

Childcare Costs
Incorrectly claiming childcare costs

Year	HMRC	Claimant
2017-18	0	155
2016-17	-5	155
2015-16	-5	180
2014-15	-10	140
2013-14	-10	150
2012-13	-15	120

Children
Incorrectly including/excluding children or young persons on a claim

Year	HMRC	Claimant
2017-18	-15	135
2016-17	-20	75
2015-16	-5	75
2014-15	-20	110
2013-14	-15	160
2012-13	-15	220

Work and Hours
Overstating/understating hours worked

Year	HMRC	Claimant	C&P error & fraud
2017-18	-20	370	60
2016-17	-25	275	60
2015-16	-30	315	
2014-15	-15	325	
2013-14	-30	275	
2012-13	-5	330	

Disability
Incorrectly reporting disability status

Year	HMRC	Claimant
2017-18	-15	45
2016-17	0	50
2015-16	-15	60
2014-15	-10	70
2013-14	-5	55
2012-13	-5	60

Value of error and fraud (£m)

Legend: 2017-18 | 2016-17 | 2015-16 | 2014-15 | 2013-14 | 2012-13

Estimates of error and fraud in tax credits 2017-18

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 (E&F) in finalised awards across the tax credits population. This publication will be of particular interest to the National Audit Office (as part of their overall review of HMRC's accounts), academics and think-tanks and operationally within HMRC. Historical error and fraud estimates dating back to 2006-07 can be found in Annex B.

3. For the 2017-18 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.

4. This analysis is based on incomplete data due to some of the sampled cases still having ongoing compliance interventions and some cases appealing the original decisions made by compliance officers. A review will be completed and published based on the complete data in spring 2020.

Section 1: Estimated levels of error and fraud

5. 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.

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

7. 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.

8. The 2017-18 error and fraud rate has increased compared to the previous year from 4.7% to 5.7%, as shown in table 1. This is mainly a result of a fall in the level of tax credits compliance activity as a proportion of tax credits spend, partly explained by the loss of the error and fraud additional capacity provided under the Concentrix contract which was ended in November 2016.

Table 1: Total error and fraud as a proportion of finalised entitlement (%), 2016-17 and 2017-18

| | 2016-17 | | | 2017-18 | | |
	Lower bound	**Central estimate**	Upper bound	Lower bound	**Central estimate**	Upper bound
Estimated error and fraud favouring the claimant	4.3	**4.7**	5.1	5.2	**5.7**	6.2
Estimated error favouring HMRC	0.6	**0.7**	0.9	0.5	**0.6**	0.8

Concentrix Impact

In 2014-15 HMRC commissioned Concentrix to undertake compliance activity related to tax credits error and fraud. This contract was ended during 2016-17 due to a failure to meet expected standards. In order to estimate the impact of this failure, we have compared actual levels of error and fraud with an alternative scenario where (i) Concentrix delivered their planned level of compliance yield in 2016-17, and (ii) the contract had been extended into 2017-18 and Concentrix had delivered the same compliance yield as in 2015-16. These two impacts are shown in the table below.

Concentrix impacts (% of entitlement)

	2016-17	2017-18
Impact of lower than expected performance in 2016-17	1.0	1.0
Impact of not extending Concentrix contract into 2017-18		0.9
Total	1.0	1.9

9. Table 2 shows that there were an estimated 870,000 tax credits claims containing error and fraud in the claimant's favour in 2017-18 and the total value of this error and fraud is estimated at £1.46 billion. There were an estimated 520,000 claims containing error favouring HMRC, with a total estimated value of £170 million.

Table 2: Overall level of error and fraud, 2017-18

	Number ('000)			Amount (£m)		
	Lower bound	**Central estimate**	Upper bound	Lower bound	**Central estimate**	Upper bound
Estimated error and fraud favouring the claimant	820	**870**	930	1,320	**1,460**	1,590
Estimated error favouring HMRC	480	**520**	560	140	**170**	190

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

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

11. Tables 3 and 4 show that error makes up 78% of the total value of error and fraud in claimant favour, with the remaining 22% coming from fraudulent activity.

Table 3: Error and fraud favouring the claimant as a proportion of finalised entitlement (%), 2017-18, split out into separate error and fraud components

	Lower bound	**Central estimate**	Upper bound
Estimated **error** favouring the claimant	4.0	**4.5**	4.9
Estimated **fraud** favouring the claimant	0.9	**1.2**	1.6
Total	5.2	**5.7**	6.2

Table 4: Level of error and fraud favouring the claimant, 2017-18, split out into separate error and fraud components

|	Number ('000)			Amount (£m)		
	Lower bound	**Central estimate**	Upper bound	Lower bound	**Central estimate**	Upper bound
Estimated **error** favouring the claimant	740	**800**	850	1,030	**1,140**	1,250
Estimated **fraud** favouring the claimant	60	**80**	100	240	**320**	400
Total	820	**870**	930	1,320	**1,460**	1,590

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

Table 5: Overall level of error split between claimant error and HMRC error - central estimates, 2017-18

|	Claimant error		HMRC error	
	Number ('000)	Amount (£m)	Number ('000)	Amount (£m)
Estimated error favouring the claimant	790	1,130	10	10
Estimated error favouring HMRC	490	150	30	20

13. Figure 1 shows that the majority of tax credits awards with claimant favour error and fraud have an award value of less than £8,000. The £6,000 to £8,000 band has both the highest number of claimants in error and fraud and the highest value of error and fraud, at 150,000 and £350 million, respectively. Note that the value of the award shown in figures 1 and 2 is the value of the finalised award and includes the value of error and fraud.

Figure 1: Distribution of error and fraud favouring the claimant by value of finalised award - central estimates, 2017-18
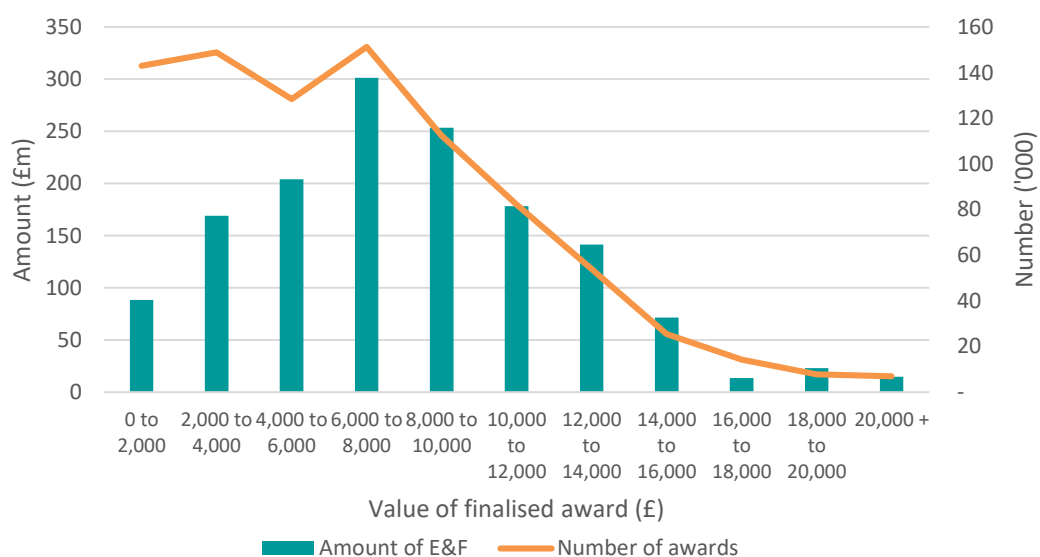
14. Figure 2 shows that the majority of tax credits awards with HMRC favour error have an award value below £6,000. The £2,000 to £4,000 band has both the highest number of claimants in error and the highest value of error and fraud, at 115,000 and £35 million, respectively.

Figure 2: Distribution of error and fraud favouring HMRC by value of finalised award - central estimates, 2017-18
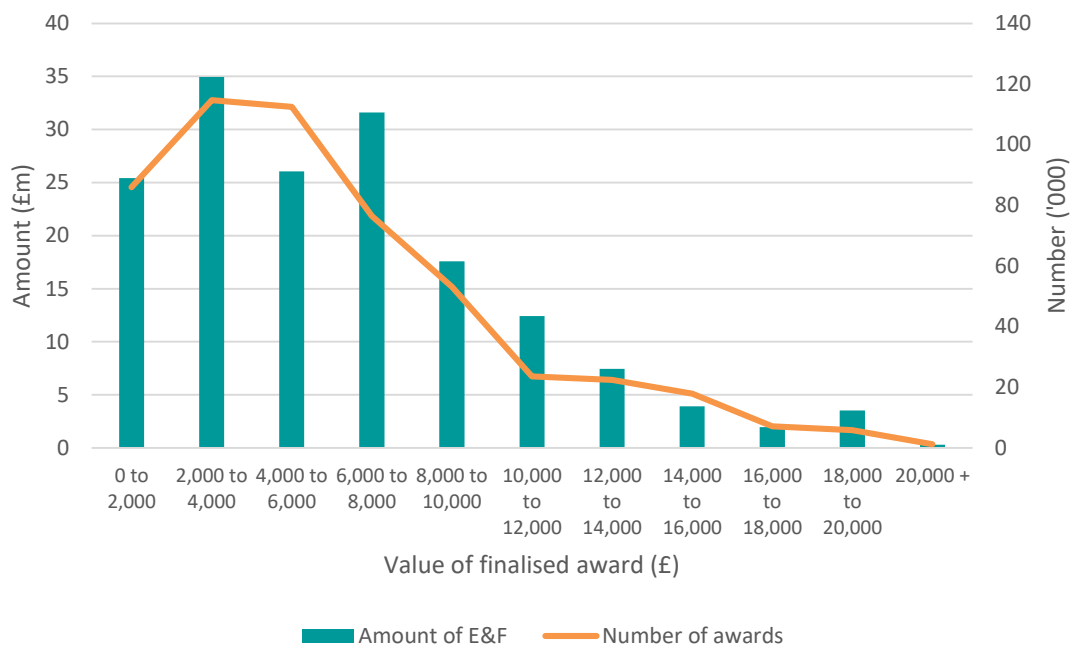
15. Figure 3 shows that the majority of awards with claimant favour error and fraud have an error and fraud value below £1,000. Fewer than 50,000 cases have an error and fraud value over £6,000, although this band accounts for the largest proportion of total claimant favour error and fraud (£285 million).

Figure 3: Distribution of claimant favour error and fraud amounts, 2017-18

16. Figure 4 shows that the majority of HMRC favour error has a value of less than £100, with around 50,000 awards having HMRC favour error of over £1,000. The largest proportion of total HMRC favour error is in awards with an error and fraud value of £1,000 to £2,000 (£55 million).

Figure 4: Distribution of HMRC favour error and fraud amounts, 2017-18

Section 2: Reasons for error and fraud

17. Error and fraud can enter the system due to many circumstances being incorrectly reported. At a high level there are 6 key risk categories. These are:

- Income – Inaccurately reporting income.
- Undeclared Partner (UP) – Making a single claim instead of a joint claim.
- Childcare Costs – Incorrectly reporting childcare costs.
- Children – Incorrectly including/excluding children or young persons on a claim.
- Work and Hours– Overstating/understating hours worked.
- Disability – Incorrectly reporting disability status.

18. The Government introduced the Commercial and with a view to Profit (C&P) test as a further assessment of whether a self-employed WTC claimant is engaged in qualifying remunerative work that is structured, regular and ongoing. In the 2016-17 statistics, the impact of the C&P test was identified and reported as a separate risk category to enable a like for like comparison of risk categories to previous years. However, due to the relatively small size of the C&P risk category (£60 million of £1.27 billion total error and fraud in 2016-17) and the nature of C&P as a form of Work and Hours risk, C&P is not reported as a separate risk category in this year's statistics, and error and fraud identified by the C&P test is included in the Work and Hours risk category, as shown in table 6. Estimates of the value of error and fraud identified by the C&P test can be found in table 9.

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

Table 6: Reasons for error and fraud - central estimates, 2017-18

Reason	Estimated error and fraud favouring the claimant		Estimated error favouring HMRC	
	Number ('000)	Amount (£m)	Number ('000)	Amount (£m)
Income	320	285 (+/- *50*)	480	120 (+/- *20*)
Undeclared Partner	115	405 (+/- *90*)	-	-
Childcare Costs	165	155 (+/- *30*)	10	-
Children	70	135 (+/- *50*)	15	15 (+/- *10*)
Work and Hours (including C&P)	320	430 (+/- *65*)	45	20 (+/- *5*)
Disability	40	45 (+/- *25*)	10	15 (+/- *10*)
Total	**1,030**	**1,460**	**560**	**170**

20. Table 6 shows the total number of cases and amount of error and fraud for each of the risk categories with their respective confidence intervals. Most of the error and fraud favouring the claimant is due to the Undeclared Partner and Work and Hours risk categories. There are a similar number of claims in error and fraud due to Income risks as there are due to Work and Hours risks. However, the value of error and fraud in that risk category is considerably lower. Error favouring HMRC is mainly due to the Income risk category.

Figure 5: Value of claimant favour error and fraud (£m) by risk category, with confidence intervals, 2017-18
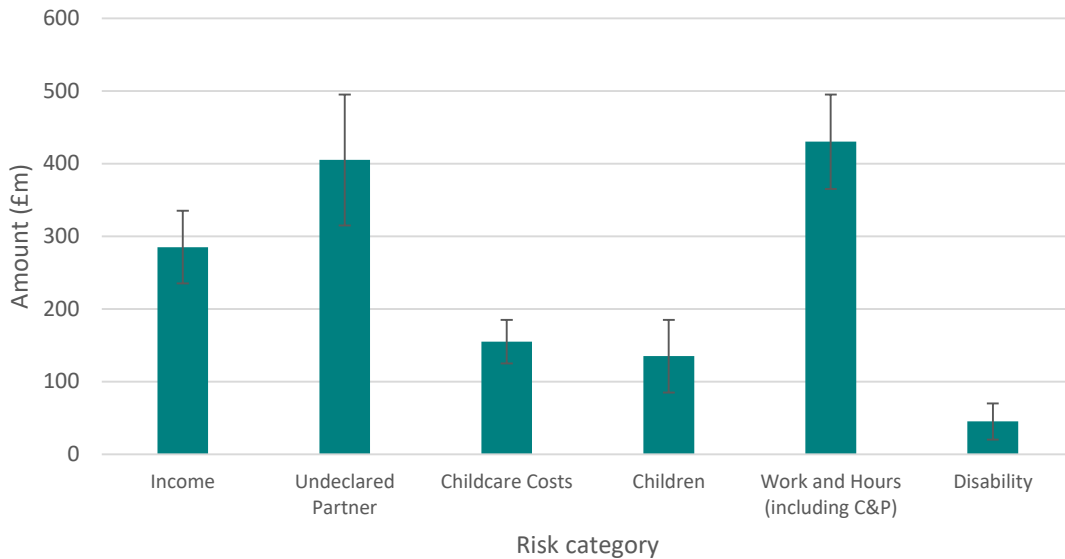
Figure 6: Value of HMRC favour error (£m) by risk category, with confidence intervals, 2017-18
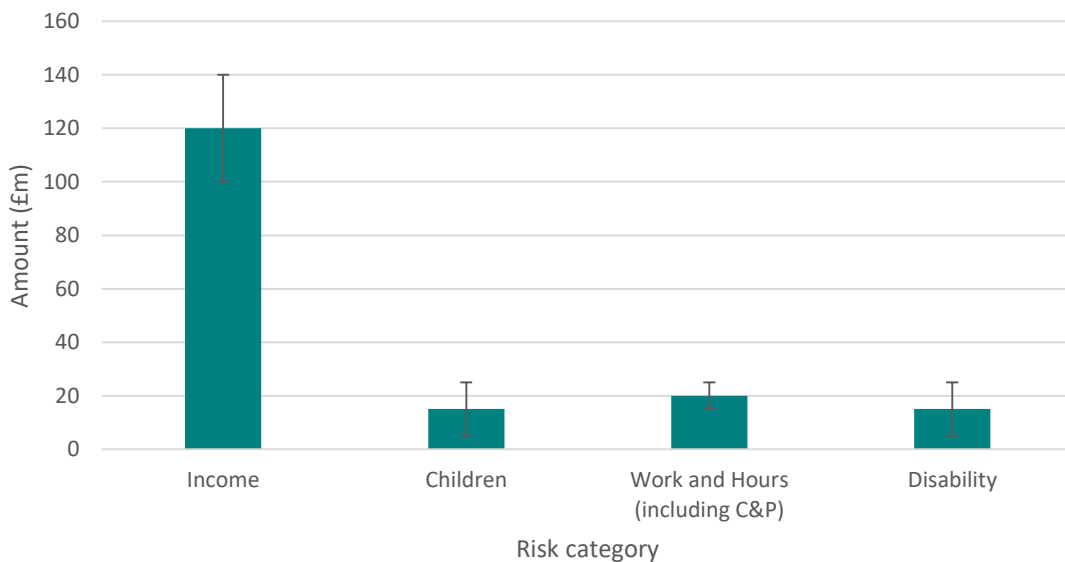
21. We are able to break down the larger risk categories further to see the underlying reasons for the error and fraud entering the system. There is not enough information on the smaller risk categories to provide a further breakdown.

Income risk

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

Table 7: Income error and fraud favouring the claimant broken down by different sources of income - central estimates, 2017-18

| Source of income	Estimated error and fraud favouring the claimant	
	Number ('000)	Amount (£m)
Self-Employed Income	80	80
Employed Income	80	65
Social Security Benefits	100	60
Dividends	15	30
Rents	15	25
Other	30	25
Total	**320**	**285**

23. Table 7 shows Self-Employed Income has the highest E&F among the different sources of incorrect income. Dividends and Rents make up 10% of total cases but 20% of the resulting E&F.

Figure 7: Income error and fraud favouring the claimant broken down by sources of income - central estimates, 2017-18
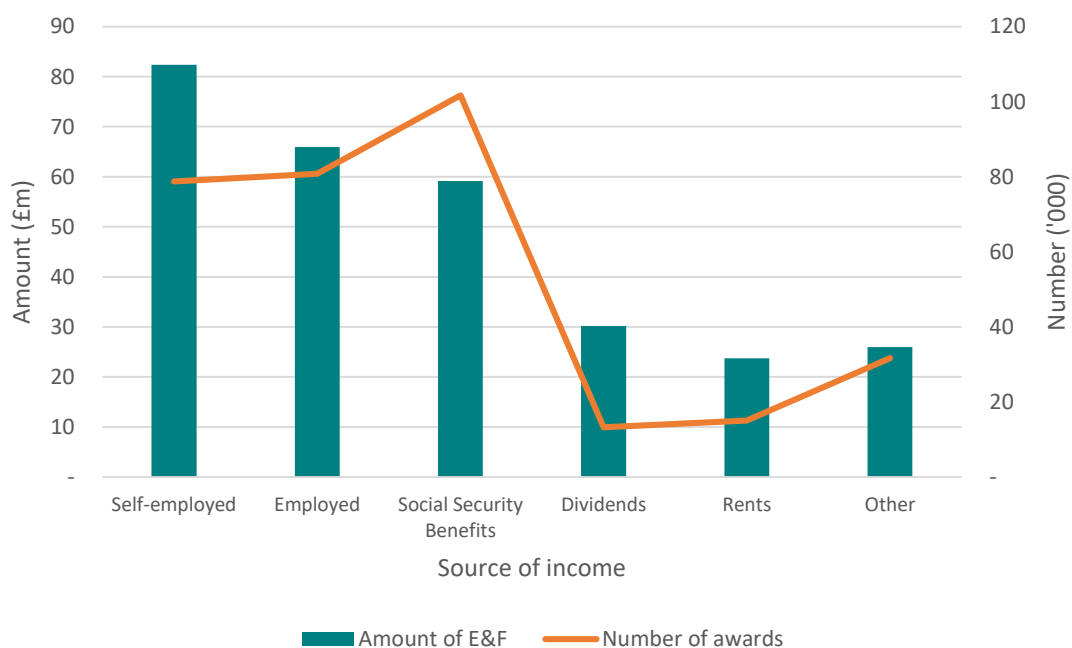
24. Error and fraud can occur because the claimant has not informed HMRC about any of their income from a certain source or because they have under or overstated the amount of income they receive. This varies depending on the type of income as can be seen in Figure 8.

Figure 8: Proportion of error and fraud broken down by declaration of different sources of income - central estimates, 2017-18
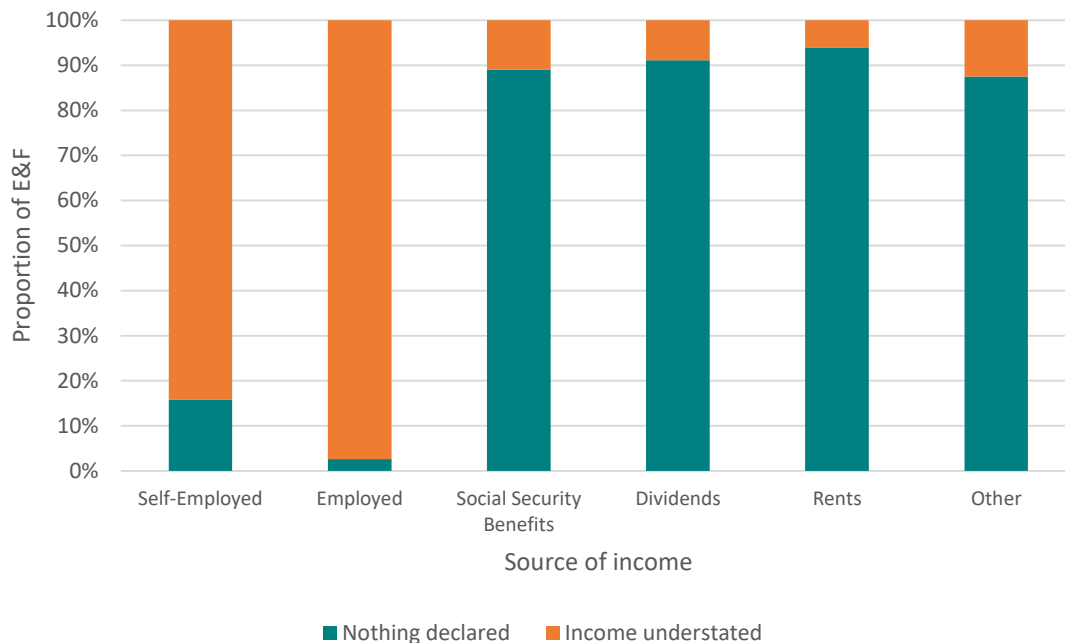
25. Overall there is approximately a 50-50 split between claimants not informing HMRC of their income or claimants understating their income. However, this varies substantially by type of income. Figure 8 shows the main sources of undeclared income are Dividends, Rents and Social Security Benefits, whereas claimants are more likely to understate Self-Employed and Employed Income than not declare it at all.

26. Table 8 shows that Employed Income accounts for over 75% of total Income error favouring HMRC. Reasons for this could include claimants overstating their income or including a component of their income which should be disregarded for tax credits claims.

Table 8: Income error favouring HMRC broken down by different sources of income - central estimates, 2017-18

Source of income	Estimated error favouring HMRC	
	Number ('000)	Amount (£m)
Employed Income	400	90
Self-Employed Income	40	20
Social Security Benefits	25	5
Other	20	5
Total	**480**	**120**

27. Figure 9 shows that while Employed Income makes up the majority of Income error favouring HMRC, the amount of error relating to Self-Employed Income is comparatively high relative to the number of awards (£20m and 40,000 respectively).

Figure 9: Income error favouring HMRC broken down by different sources of income – central estimates, 2017-18
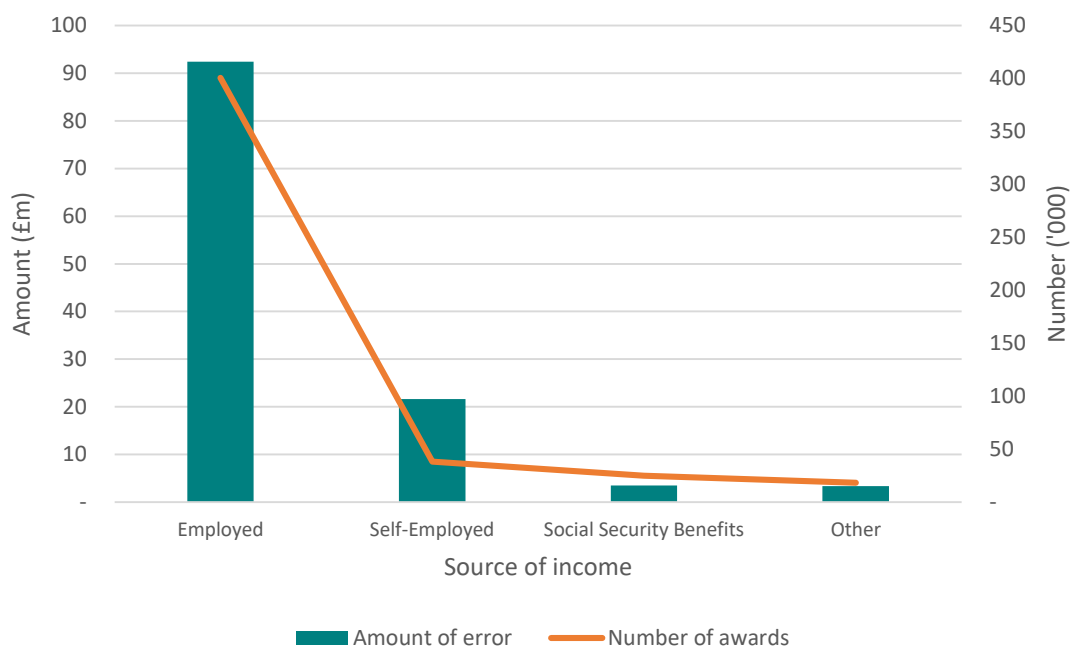
Work and Hours risk

28. Work and Hours error and fraud can occur when a claimant provides an incorrect start or end date for their qualifying employment, or provides an incorrect assessment of their weekly hours. We are able to break down Work and Hours into these categories and also distinguish between Employed and Self-Employed work. This can be seen in table 9. Note that HMRC favour Work and Hours error will not be broken down further due to a small sample size.

Table 9: Work and Hours error and fraud favouring the claimant broken down by type of employment and reason - central estimates, 2017-18

Source of Work and Hours error and fraud	Estimated error and fraud favouring the claimant	
	Number ('000)	Amount (£m)
Employed	**275**	**325**
Fictitious Employment	5	15
Incorrect Start and/or End Dates	90	110
Over/understated Hours	175	195
Self-Employed	**45**	**105**
Incorrect Start and/or End Dates	10	25
Over/understated Hours	15	20
C&P	25	60
Total	**320**	**430**

29. Table 9 shows most of Work and Hours error and fraud is from Employed work when claimants overstate the number of hours worked (the claimants are working fewer hours than they originally claim). The C&P element makes up the largest proportion of the Self-Employed Work and Hours error and fraud.

30. Figure 10 shows that although the total amount of Work and Hours error and fraud associated with C&P is small when compared to other Work and Hours risk reasons, it accounts for a comparatively large amount relative to the number of awards.

Figure 10: Work and Hours error and fraud favouring the claimant broken down by reason - central estimates, 2017-18
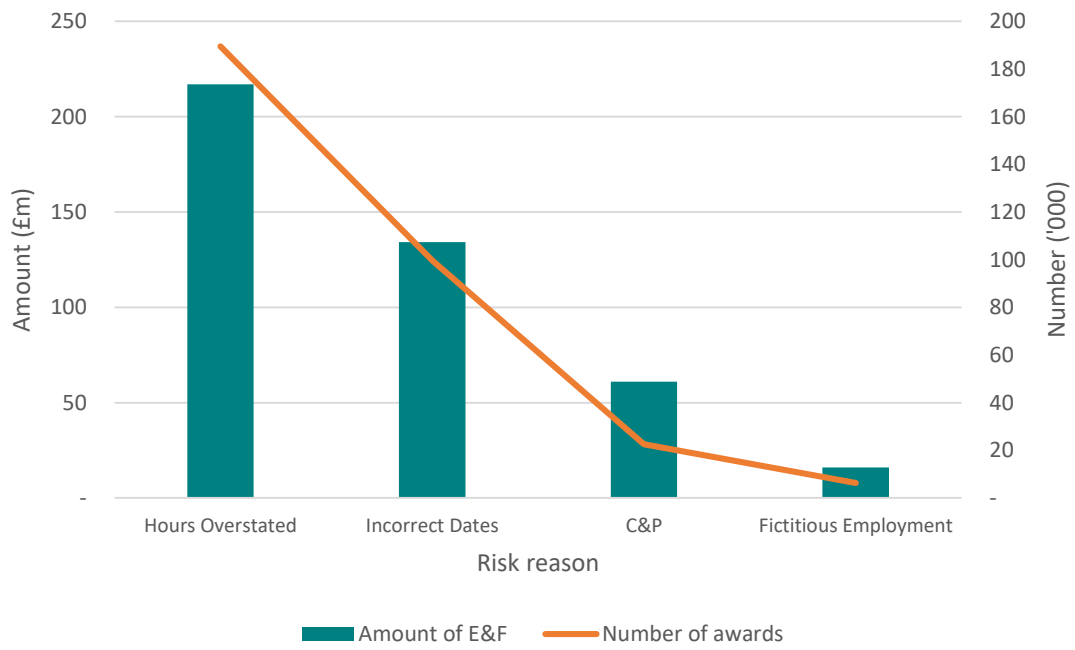
Annex A

The 2017-18 Tax Credits Error and Fraud Analytical Programme (EFAP): Methodological and technical details

Introduction

1. The tax credits system is designed to respond to changes in circumstances as they happen. A claimant's entitlement can therefore change throughout the year which could lead to over or underpayments depending on when the claimant tells us about the change, either in year or at finalisation. Error and fraud can therefore only be found after the claim has been finalised with the actual circumstances of the 2017-18 tax year. The 2017-18 exercise could not start until recipients had provided HMRC with details of their final 2017-18 circumstances, which meant that compliance officers were unable to start work on some cases until after 31 January 2019.

Error and fraud

2. 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.

3. 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.

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

5. Due to the nature of organised fraud and HMRC compliance procedures the vast majority of organised fraud claims are stopped quickly and awards in payment are terminated. Any cases identified as having an ongoing organised fraud investigation during the EFAP process are not taken up by the EFAP caseworker. Any overpayments as a result of organised fraud are included in the annual National Statistics publication on under and overpayments.

Sampling

6. The sample for the 2017-18 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	333
Others	3,567
Total	**4,000**

7. 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 error and fraud occurring in that strata of the population.

8. 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.

9. It is important to note that our sample base is awards and not families – these two differ as a family can have a number of awards during a year. Take the following example, initially a lone parent family is in award then a new household is formed when a partner moves in and later in the year the partner moves out (the household breaks down) and they become a lone parent again. In total they have had three separate awards during the year. We follow awards as this is the unit that the tax credits system is based around and hence is most suitable for constructing a representative sample from.

10. The sample base contains all 2017-18 awards present on the HMRC tax credit system at the end of the first week of August 2017. An award may last for a period of anywhere between one day and the whole year.

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

12. It is possible for awards to migrate to Universal Credit (UC) during the EFAP estimation year. If an award migrated to UC prior to 1 September of the EFAP estimation year (e.g. 1 September 2017 for the 2017-18 estimation), the award is excluded from the sample and a different award selected. This occurs during the sampling process, therefore the total number of cases selected will always be 4,000. If the award migrates to UC after 1 September of the estimation year, it is included in the sample for the period of the year that the award was in payment.

Sampling errors around the estimates

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

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

Methodology

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

Processing

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. The data is corrected if there is a discrepancy between the systems to assure all of the data is correct before completing the analysis.

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

Classification of the 4,000 sample

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

Table A2: Breakdown of EFAP cases by response and outcome

	Net Claimant Favour	Net HMRC Favour	Total
Responded:			
with error and fraud	528	319	847
without error and fraud	-	-	1784
No Response:			
with error and fraud	200	7	207
without error and fraud	-	-	823
Not Taken Up	-	-	124
Open	-	-	215
		Total	**4,000**

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

20. Cases can have both claimant favour and HMRC favour error and fraud. Table A2 shows the net position of those cases, where a case with a total claimant favour adjustment is classed as in claimant favour and a case with a total HMRC favour classed as HMRC favour. Cases that do not have error and fraud, and have not been worked or are still open will not be in either Claimant or HMRC favour and so no breakdown is provided in the table.

Non-response

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

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

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

Not taken up cases

24. In this year's exercise 124 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.

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

Open cases

26. As shown in table A2 there were 215 cases which had been opened but not completed when the results were estimated. A projection has been made to cover the estimated additional amount of extra error/fraud these cases will provide.

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

Projections for mandatory reconsiderations

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

29. Any MRs that are known before the results are estimated are incorporated into the analysis. To ensure the estimate in this publication is central, a projection is made to take into account MRs that are likely to be received after the publication of the results. The average amount of MRs over the past 2 years has been calculated and split across sample strata. This value has then been applied to the ungrossed figure to reduce the amount of error and fraud in the EFAP sample. This reduces the E&F rate by 0.3 percentage points for 2017-18.

Grossing

30. 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.

31. 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.

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

Annex B

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

Table A3: Historical error and fraud rates since 2007-08 (%)

	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	2006-07	7.2	**7.8**	8.4
	2007-08	8.3	**9.0**	9.7
	2008-09	8.3	**8.9**	9.6
	2009-10	7.0	**7.8**	8.6
	2010-11	7.5	**8.1**	8.8
	2011-12	6.6	**7.3**	7.9
	2012-13	4.7	**5.3**	6.0
	2013-14	4.2	**4.7**	5.2
	2014-15	4.0	**4.4**	4.8
	2015-16	4.3	**4.8**	5.2
	2016-17	4.3	**4.7***	5.1
	2017-18	5.2	**5.7***	6.2
Estimated error and fraud favouring HMRC	2006-07	1.3	**1.7**	2.1
	2007-08	1.0	**1.3**	1.6
	2008-09	0.8	**1.1**	1.3
	2009-10	0.9	**1.4**	2.0
	2010-11	0.6	**0.8**	1.0
	2011-12	0.6	**0.9**	1.2
	2012-13	0.2	**0.5**	0.7
	2013-14	0.6	**0.7**	0.9
	2014-15	0.5	**0.6**	0.7
	2015-16	0.5	**0.6**	0.7
	2016-17	0.6	**0.7**	0.9
	2017-18	0.5	**0.6**	0.8

*Including C&P test