HM Revenue & Customs

2018-19

Annual Report and Accounts

HM Revenue and Customs
Annual Report and Accounts **2018-19**

(For the year ended 31 March 2019)

Accounts presented to the House of Commons pursuant to Section 6(4) of the Government Resources and Accounts Act 2000 and Section 2 of the Exchequer and Audit Departments Act 1921

Annual Report presented to the House of Commons by Command of Her Majesty

Order by the House of Commons to be printed on 18 July 2019

HC 2394

This is part of a series of departmental publications which, along with the Main Supply Estimates 2019-20 and the document Public Expenditure: Statistical Analyses 2019, present the government's outturn for 2018-19 and planned expenditure for 2019-20.

This publication is available at **www.gov.uk/official-documents**

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HM Revenue and Customs Head Office: 100 Parliament Street, London SW1A 2BQ
ISBN 978-1-5286-1147-3
ID CCS0319879500 07/19

Printed on paper containing 75% recycled fibre content minimum
Printed in the UK by the APS Group on behalf of the Controller of Her Majesty's Stationery Office

Contents

The difference we made in **2018-19**

£627.9bn

3.6% increase on **2017-18** revenue

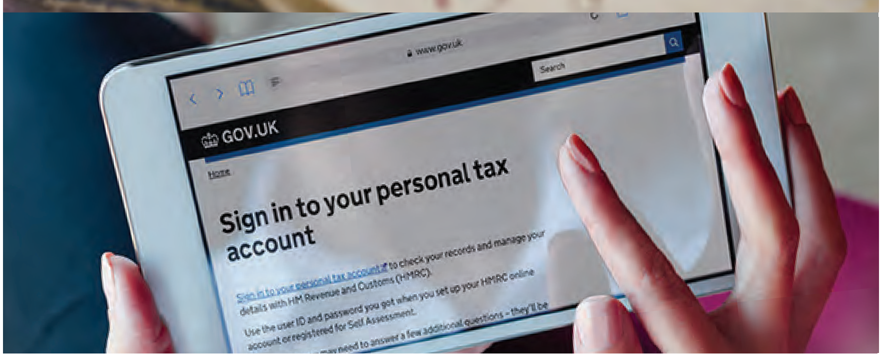
Generated for UK public services and other government priorities

£34.1bn

Additional tax generated by tackling avoidance, evasion and non-compliance

93.5%

Self Assessment tax returns filed online



19m

Customers signed up for Personal Tax Accounts since launch

0.9m

Online tax credits renewals

£576m

Total sustainable cost savings

3.3m
Families received tax credits

80.4%
Customers satisfied or very satisfied with our digital service

£24.4m
National Minimum Wage arrears identified and recovered on behalf of workers

90,000+
Help to Save accounts opened

£2.9bn+
Raised from tackling offshore tax initiatives

13
The number of regional centre sites we've now secured

42.7m
Phone calls to our customer services

16%
Cut in emissions from our estate and business travel

CO_2

"Our task is clear: to respond to this changing world with a modern, healthy and well-functioning tax system that works for everyone."

Foreword by Chief Executive and Permanent Secretary

Welcome to HMRC's annual report and accounts for 2018-19. It's been an important year for our department - not just because of what we've achieved but also in the way we've adapted to deliver on urgent new priorities.

In our primary purpose, to collect the tax that pays for the UK's public services, we achieved record revenues once again, increasing by 3.6% on last year to reach £627.9 billion. We helped more customers than ever to pay their taxes quickly and easily online - 19 million people have signed up to Personal Tax Accounts and 93.5% of Self Assessment returns were completed online. We also took a major step forward in Making Tax Digital for Business, launching our new mandated service for digital record keeping and for filing VAT returns online. More than 93,000 businesses signed up for the pilot during 2018-19. It launched in full on 1 April 2019 and sign ups increased to over 500,000 by the start of July 2019.

These successes are down to the work we've done to transform and modernise the way we operate over the past few years - but this year we've also balanced this work alongside the huge, complex task of preparing for the UK leaving the EU. We have around 5,400 full-time equivalent employees working on Brexit preparations, building the customs, VAT and excise systems the UK will need and preparing our customers for leaving the EU, with or without a deal.

There's no denying this has had an impact on our wider plans. We've had to delay for now on some of our other projects, such as further improvements to our digital services. We've also regrettably seen a slight dip below targets in our customer service by phone and post - but we're working hard to respond to this, shifting our resources to cope with peaks in demand. This challenge will continue into 2019-20.

So I'm proud of what our teams have achieved this year in unusual circumstances - and the HMRC values of professionalism, integrity, respect and innovation they've shown.

Building a modern, well-functioning tax system

Our work will always be vital to funding the UK's public services and supporting our economy, but we're living through long-term changes to the way individuals live and work and the way businesses operate. Changes to the economy and the nature of employment creates new challenges for us in reducing the UK's tax gap (our estimate of the difference between the amount of tax theoretically owed and the amount collected). Our latest figures (see page 28) show the tax gap at 5.6%, a small 0.1% increase on the previous year, even though the tax affairs of individuals and businesses continue to become more complex. The tax gap remains low by international standards, although very few other countries produce regular or comprehensive analysis as we do.

Our task is clear: to respond to this changing world and help to build a modern, healthy and well-functioning tax system that works for everyone. We have a crucial part to play, but the influences on a healthy tax system stretch well beyond us. They include our international partners as well as a wide range of intermediaries - agents, employers, software providers - who we are working with to ensure the building blocks for the future are firmly in place. We focus our resources on those areas of highest risk, where trust is at risk, or where we are having the least impact building on or sustaining compliance. We're also continuing to reshape our organisation around customer needs and circumstances rather than the individual taxes they pay.

Just as importantly, we're using the powers we have to respond to avoidance, evasion and attacks on the tax system. It's right, therefore, that we are continually challenged about the safeguards we have in place, which are there to establish trust, ensure fairness and protect customers. We take safeguarding very seriously - and you can read more about the safeguarding measures we have in place across our compliance work, starting on page 111. Next year, we need to do more to demonstrate how we behave, use our powers and help vulnerable customers. Where we can be more transparent, we should be.

Reflecting our values

Another crucial ingredient in getting tax right, for everyone, is getting things right for our own employees and making HMRC a great place to work. We're investing in smarter IT, new skills and better workplaces, so we can serve customers more effectively - and following an independent report into what it's like to work in HMRC, published in January, we're taking further action to tackle bullying, harassment and discrimination at work wherever we find it. We report in more detail about how we're reshaping our organisation starting on page 48 - and you can read more about our workforce starting on page 114.

With a new Spending Review due this year, it's an important moment for us to reflect on what we've achieved over the past few years, what we want to continue, and what we have to do differently. We'll need to prioritise over the next year to work within our funding - but our strategy remains the right one. We will make an ambitious bid in the Spending Review for further change, investing in capabilities to close the tax gap further, and improve our organisation for colleagues.

As we move into the 2020s we'll be renewing our focus on our vision - to reduce the tax gap, make it easy for customers to pay their taxes or claim their entitlements and ensure the tax system is trusted and fair.

Sir Jonathan Thompson
Chief Executive and Permanent Secretary

We are the UK's tax, payments and customs authority

We collect the money that pays for the UK's public services and help families and individuals with targeted financial support. We also protect the fairness of the tax system by making it hard for the dishonest minority to cheat. We take tough action against criminals and those who try to avoid or evade their responsibilities.

1 Our vital purpose

Tax touches the lives of everyone in the UK. It funds our schools and hospitals, builds roads and infrastructure, makes us safe, protects our environment, supports our economy and helps to give everyone a stake in society.

A healthy tax system makes all of this possible, which is why we take our role - to help everyone get their tax right - so seriously.

We're focused on playing our part in building that healthy tax system - one that reduces the tax gap, makes it easy for customers to pay their taxes or claim their entitlements, keeps financial and time costs to a minimum and tackles those who try to cheat the system. It must be trusted and seen to be fair, with the right safeguards in place to protect customers.

2 Our objectives

To help us deliver our vital purpose, we have three strategic objectives that guide everything we do:

Collecting revenues due and bearing down on avoidance and evasion

It's our responsibility to make sure the tax system functions well so that, ultimately, we bring in no more and no less than the tax due under the law.

+ Read more on page 22

Transforming tax and payments for our customers

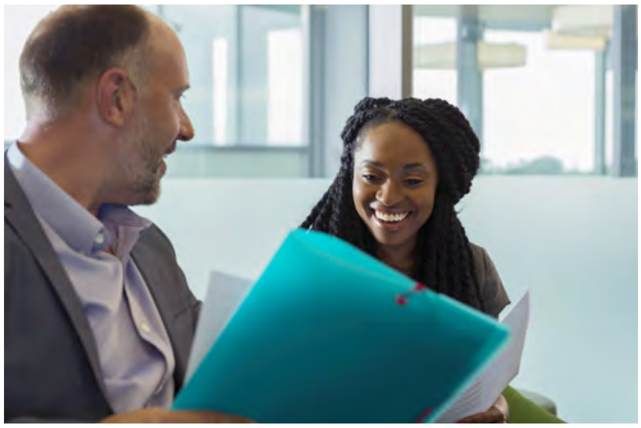
We want to use what we know about our customers' needs to make it as easy as possible to deal with us.

+ Read more on page 38

Designing and delivering a professional, efficient and engaged organisation

We're modernising how we work, reducing our costs, operating in more sustainable ways and working hard to make HMRC a great place to work.

+ Read more on page 48



3 Our people and values

We have a skilled workforce of around 58,700 full-time equivalent employees including Revenue and Customs Digital Technology Services Ltd - from customer service advisers and policy experts to fraud investigators and data analysts - and all these people have an important role to play in making it easy for customers to get tax right and hard for the dishonest minority to avoid paying what they owe. We're changing the way we work to deliver our objectives in a changing world - developing new skills and using new technology - but all our activity is underpinned by the same core values:

- **We are professional**
- **We are innovative**
- **We show respect**
- **We act with integrity**

+ **Read more on how we're changing the way we work on page 48**

+ **Read more details about our workforce on page 114**

4 Our commitment to transparency

We want to continue improving trust between ourselves and the public. Our customers rightly expect us to act with transparency and treat everyone fairly - creating a level playing field and being open about the decisions we take, and why.

This trust and fairness is a crucial part of building a transparent system that works for all our customers, whether they are an individual or business. We know we have work to do to achieve this. We're focussed on demonstrating the integrity of our systems, providing support to those who need it, and being open about the way we run HMRC, so that everyone can judge for themselves how fairly we act and how well we're doing.

+ **Read more about how we're managed and scrutinised on page 70**

+ **Read more about how we deal with tax disputes on page 100**

+ **Read more about our accountability to the public, stakeholders and Parliament on page 140**

How we performed in **2018-19**

We have made important progress in our core objectives, while delivering on new and urgent priorities.

It's been a successful year for us in delivering our vital purpose to raise money for the UK's public services. We achieved record total revenue figures yet again, we had our best ever year for Self Assessment returns filed online, and we brought in more money than ever before from tackling avoidance, evasion and non-compliance.

We've also risen to the new challenge of preparing for the UK to leave the EU. We're right at the heart of the government's preparations - including hosting the cross-government Border Delivery Group to coordinate UK border plans, carrying out vital work on customs and preparing businesses and individuals for new rules. This important work has affected our ability to meet some of our broader targets, and we've had to scale back some of our plans to improve our digital services, but we've shown responsiveness and flexibility in delivering our core functions alongside complex and critical new tasks.

Objective **1:**

Collecting revenues due and bearing down on avoidance and evasion

We increased total tax revenues for the UK by 3.6% on last year. There was a small increase in the tax gap in 2017-18 (the latest year for which figures are available) but it remained at a near-record low. We continued our strategy of reducing non-compliance by minimising customer error at the earliest possible stage, so we can respond more robustly and effectively to deliberate fraud and customers with complex tax affairs.

How we performed against our public commitments

11	**3**	**1**
on track or complete	risk to delivery	not on track

Key performance figures

£627.9bn
Total tax revenues in 2018-19

£34.1bn
Additional tax generated by tackling avoidance, evasion and non-compliance

5.6%
The UK's tax gap in 2017-18 - the difference between tax that should be paid and what is actually paid

648
Criminals and fraudsters successfully convicted

5.7%
Proportion of error and fraud within the tax credits system in 2017-18

£3bn+
Tax protected or generated from tackling organised crime

+ **Read our full performance report on page 22**
+ **Read our full commitments on page 242**

Objective 2:

Transforming tax and payments for our customers

We slightly missed some of our customer service targets: including the average speed in answering calls and turning around our post. Recruitment challenges and our need to divert resources towards EU exit work were significant factors in this. We continued to deliver our strategy, moving more people to our digital services, like Personal Tax Accounts and our mobile app, and launching a major new pilot for business - Making Tax Digital for VAT.

How we performed against our public commitments

6	3	0
on track or complete	risk to delivery	not on track

Key performance figures

80.4%
Customers satisfied or very satisfied with our digital services

5:14 mins
Average speed of answering calls

19.7%
Callers waiting more than 10 minutes to speak to an adviser

94.1%
Online iForms processed within seven days

76.6%
Customer targeted post turned around within 15 days

19 million
Number of customers signed up for Personal Tax Accounts since launch

+ **Read our full performance report on page 38**
+ **Read our full commitments on page 244**

Objective 3:

Designing and delivering a professional, efficient and engaged organisation

We recruited thousands of new colleagues, and the investment we have made in new technology, skills and more modern workplaces allowed our teams to work in a dynamic, efficient and flexible way to deliver on urgent government priorities, alongside our usual work. We are continuing work to improve our staff engagement, embed our new values and make HMRC a better place to work.

How we performed against our public commitments

5	1	1
on track or complete	risk to delivery	not on track

Key performance figures

£576m
Total sustainable cost savings

5,830
Full-time equivalent staff recruited

5,200
Staff promoted

13
Regional centres - final regional centre secured

0.52p
How much it costs to collect every pound of tax revenue

49%
Our employee engagement score

+ **Read our full performance report on page 48**
+ **Read our full commitments on page 245**

How we're responding to the way our customers live and work

The world is changing - so to keep delivering on our vital purpose, we're re-orienting our systems and processes to meet today's needs.

We expect that the way people live, work and pay their taxes will continue to transform in future. For individuals, multiple employments, income sources and pensions will be more common, the gig economy will continue to expand and more people will be moving out of PAYE into more complicated tax arrangements. This also creates new complications for customers claiming Child Benefit and tax credits. At the other end of the scale, the tax affairs of wealthy customers and large businesses are only getting more complex.

Our goal is to make it easy for our millions of customers to pay their taxes or claim their entitlements. To do this, we're tailoring our strategies to suit the needs of five core customer groups.

Your Charter explains what you, as customers, can expect from us - and what we expect from you **www.gov.uk/government/publications/your-charter/your-charter**

+ **Read more about how we're transforming tax and payments for our customers on page 38**
+ **HMRC set up a new Customer Experience Committee in December 2018. Read more on page 77**

Individuals

Population:

45m

Individuals are by far our largest customer group and many claim tax credits and other entitlements from us, as well as paying taxes. In 2018-19, we defined them as having incomes below £150,000 and assets below £1 million.

What we're doing

- We work with intermediaries to reduce the need for individuals to engage with us directly, such as PAYE customers paying tax through their employers.
- Our digital tax accounts help people manage their affairs online in real time.
- Our phone, post and other traditional services continue to provide extra support for customers with more complex tax affairs.

£250bn

Estimated PAYE and National Insurance receipts collected in **2018-19**

+ **Find out more about individuals on page 26**

Wealthy individuals

Population:

500,000[1]

Wealthy individuals often have complex tax affairs covering multiple kinds of taxes. In 2018-19 we defined them as having incomes above £150,000 or assets above £1 million.

What we're doing

- We assign specific teams to develop an in-depth understanding of the finances, behaviours and compliance risks of wealthy individuals with the most complex affairs.
- We use strong data-led approaches to identify who is not paying the right tax from the whole wealthy individual population.
- We offer support where needed - but take direct action against those who fail to or incorrectly file tax returns.

£54bn

Estimated tax receipts collected in **2018-19**

+ **Find out more about wealthy individuals on page 26**

1. The wealthy population fluctuates significantly year on year and we have estimated a population of 500,000+ individuals.

Small businesses

Population:

5.7m

Small businesses represent more than 95% of businesses in UK. In 2018-19, we defined them as having turnover below £10 million and fewer than 20 employees.

What we're doing

- Our digital services allow small businesses and their tax agents to deal with their tax affairs online, so they can focus on running their business.
- We provide educational material and guidance to help small businesses get their tax right from the outset.
- We use a range of proportionate interventions for non-compliant businesses, depending on the size and complexity of the tax loss.

£115bn

Estimated receipts from Corporation Tax, VAT and other taxes in **2018-19**

+ **Find out more about small businesses on page 26**

Mid-sized businesses, charities and public bodies

Population:

207,000+

Mid-sized businesses make up less than 5% of UK businesses but many have increasingly complex tax affairs. In 2018-19, we defined them as having turnover between £10 million and £200 million or 20 or more employees.

What we're doing

- Our digital tax accounts allow businesses to deal with their tax affairs online, and we're working closely with software developers to make sure business software is compatible with our systems.
- We use data to understand customers better, identify their needs, and address any risks to tax revenue.
- We tackle non-compliant businesses according to the level of risk: the more intensive the intervention, the more complex the case.

£50bn

Estimated receipts from Corporation Tax, VAT and others in **2018-19**

+ **Find out more about mid-sized businesses on page 27**

Large businesses

Population:

2,000

These are large and complex businesses that play a pivotal role in the UK economy. In 2018-19, we broadly defined them as having turnover exceeding £200 million or £2 billion in assets - but we look at other factors, such as complexity, level of risk and global mobility.

What we're doing

- We use dedicated customer compliance managers and tax teams, who know and understand the business, working in real-time to actively encourage voluntary compliance.
- We secure data and intelligence to identify non-compliance, and seek national and international agreements on data-sharing to make large businesses more transparent.
- We actively investigate around half the UK's largest businesses at any one time.
- We use litigation to resolve risks to tax revenue where appropriate.

£135bn

Estimated receipts from Corporation Tax, VAT and others in **2018-19**

+ **Find out more about large businesses on page 27**

How do customers rate their experience?

We conduct regular surveys of our customers to get a complete understanding of their experience with us. We use it to gain insight, understand what our customers need, and take action to improve the way we operate. Here's how business and individuals rate their overall experience of dealing with HMRC.

Small businesses*

76%
positive

Mid-sized businesses**

51%
positive

Large businesses***

82%
positive

Individuals*

63%
positive

*HMRC Individuals, Small Businesses and Agents Customer Survey 2018.
**HMRC Mid-size business survey 2018.
***HMRC Large business survey 2018.

0.52p - half a penny

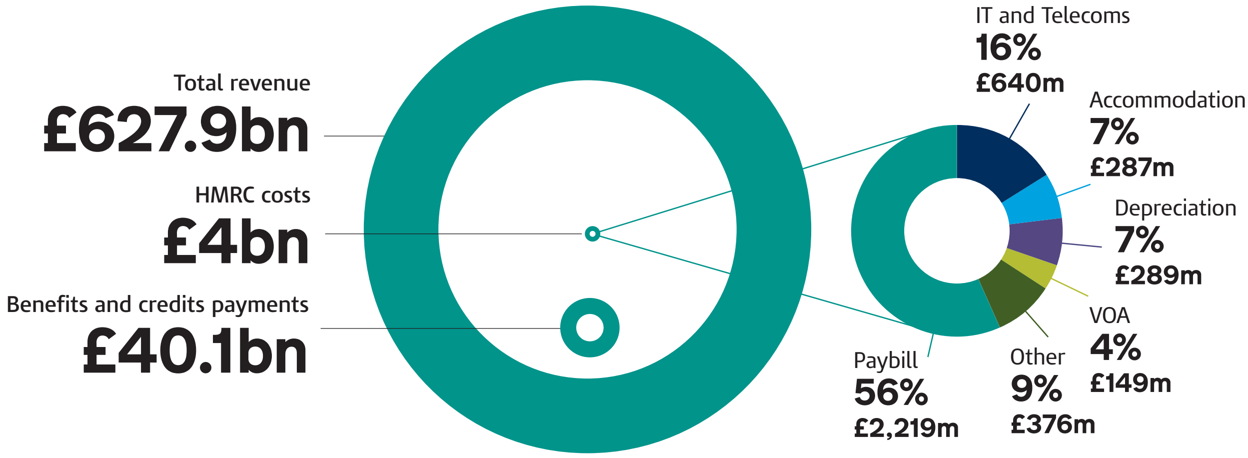
What it costs HMRC for every **£1** we collect

Investing in a better tax system

It cost **£4 billion** to run HMRC in **2018-19** and our work generated **£627.9 billion** in tax revenues for the UK's public services. That's only around half a penny for every **£1** of tax revenue we raise.

The largest proportion of our budget pays for our staff, but we are also investing in new technology, modern workplaces and better skills, so we can collect taxes more efficiently, create a better customer experience and provide good value for the UK taxpayer. We are reducing our baseline operating costs year-on-year, making £576 million in annual sustainable cost savings since 2015.

Figure 1: Expenditure and benefits and credits relative to total revenue 2018-19*



* The above figures are based on budgeting treatment as opposed to accounting treatment as represented in the Resource Accounts. Numbers may appear not to sum due to rounding.

Investing in new technology

We want to become the most digitally-advanced tax authority in the world, and we've taken great strides towards achieving this ambition. We have invested in new online services which are being used by millions, such as Personal and Business Tax Accounts and online tax credits renewal, and we're using sophisticated technology to analyse the enormous amount of data we hold in new ways - analysing risks and identifying customer needs so we can support more people to pay the right tax at the right time. We've also increased the resilience of our technology by shifting around 66% of our systems to date onto virtualised servers - and we're taking increased action on data security and cyber-crime too, introducing a new Data Governance Board this year.

+ **Read more on page 51**

Investing in our people

Everyone who works for HMRC has a vital role to play in helping to achieve our objectives, so we're working hard to make HMRC a better place to work. We're providing further training, so we have the right skills to address current and future customer needs. We're also building better and more varied career opportunities, so we attract the brightest new recruits and make people proud to build their public service careers with us. Investment in better IT and mobile technology allows our people to work more effectively, whether they are in the office or out in the field - and our teams can collaborate more closely to provide a joined-up service to our customers.

+ **Read more on page 50**

Investing in our workplaces

We're undertaking the largest property transformation programme in the UK, moving out of an ageing network of offices into 13 new regional centres in key cities across the UK, along with five specialist sites and our small head office in London. The goal is to bring our people together into modern working environments, equipped with high-speed digital infrastructure and cutting-edge learning and development facilities, so they can work more effectively, develop more rewarding careers and do a better job for the taxpayer. Our first regional centre opened in Croydon in 2017, with two more in Bristol and Belfast due to open in 2019 - construction and refurbishment under way in all other locations.

+ **Read more on page 53**

Our performance

How we delivered against our strategic plans in **2018-19**

Objective 1: Collecting revenues due and bearing down on avoidance and evasion

It's our job to make sure the whole tax collection system functions well - so that, ultimately, we bring in no more and no less than the revenue due under the law.

This means creating an environment where increasing numbers of taxpayers voluntarily meet their obligations and where they trust us to act fairly, consistently and professionally.

Our aim is to make it effortless for individuals and straightforward for businesses to meet their obligations, but we recognise that some will always seek to cheat the system. Where the right tax isn't being paid, we use data and insight to make tailored, targeted and proportionate interventions across all of our customer groups, and take tough action against avoidance and deliberate evasion. This creates a level playing field for the vast majority of UK taxpayers who pay what is due.

How we performed against our public commitments

11	3	1
on track to complete	risk to delivery	not on track

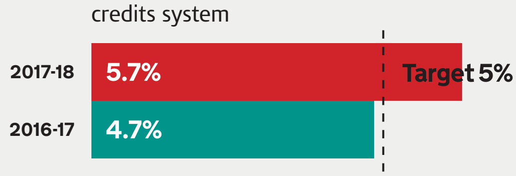
+ **Read more about progress against our commitments on page 36**

Key performance figures*

3.6%
Increase in total tax revenues

£34.1bn
Additional tax generated by tackling avoidance, evasion and non-compliance**

5.7%
Level of error and fraud within the tax credits system



UK tax gap - the difference between tax that should be paid and what is actually paid

2017-18	2016-17
5.6%	**5.5%**
+ **0.1%** increase on **2016-17**	

£3bn+
Protected or generated from tackling organised crime

648
Criminals and fraudsters successfully convicted

* For a historical data series, go to www.gov.uk/government/publications/hmrc-annual-report-and-accounts-2018-to-2019

** We have improved how we measure compliance yield. This is set out in a technical note at www.gov.uk/government/publications/hmrc-annual-report-and-accounts-2018-to-2019

Our strategy in **2018-19**

1. Segmenting customer groups and tailoring services

We know that our customers' circumstances can change regularly, so we need to be ready to respond to a whole spectrum of needs. We segment customers into five different groups - individuals, wealthy individuals, small businesses, mid-sized businesses and large businesses - which helps us to tailor services to individual needs and allocate our resources in the best way to help customers. It also means we can identify and prioritise the risk of non-compliance more easily and cost effectively, while maintaining fairness and consistency across the board.

2. Promoting compliance and preventing non-compliance

The vast majority of individuals and businesses pay the right amount of tax when it's due, but a small minority seek to avoid and evade their obligations. We're helping customers get it right: through digital services, using more joined-up processes to prevent non-compliance and deploying techniques like nudge letters to promote compliance. We intervene with specialist Customer Compliance Managers to challenge the complex affairs of large businesses and wealthy individuals. We're also using tough new powers such as the Diverted Profits Tax to tackle multinational profit shifting, and Accelerated Payment Notices to take the profit out of tax avoidance.

3. Reducing the likelihood of disputes

We want to minimise tax disputes by helping everyone to get their tax right as early as possible in their dealings with us. When disputes do occur, we resolve them in accordance with the law and our published litigation and settlement strategy. We also have robust safeguards to protect customers and ensure we act proportionately.

This strategy is helping us to deliver:

+ **Record total tax revenues – pages 24 to 27**
+ **A low tax gap – page 28**
+ **A strong compliance performance – pages 29 to 33**
+ **Low tax and tax credits debt – pages 33 to 35**

We collected tax from

45m

individuals and over **five million** businesses

Tax credits helped

3.3m

families and **6 million** children

More than

93,000

businesses signed up to our Making Tax Digital VAT pilot by 31 March 2019

We generated

£10bn+

in additional tax revenue from large businesses through our compliance activities

Around

65,000

applications for VAT registration from non-EU online market sellers since April 2016

88%

of disputes that went to alternative dispute resolution were resolved

Record total tax revenues

Our total revenues represent all money received and due to us after accounting for money we repaid and owed. Total revenues are driven by the overall level of activity in the economy and the rates of taxation, allowances and reliefs set by Parliament.

How did we do?

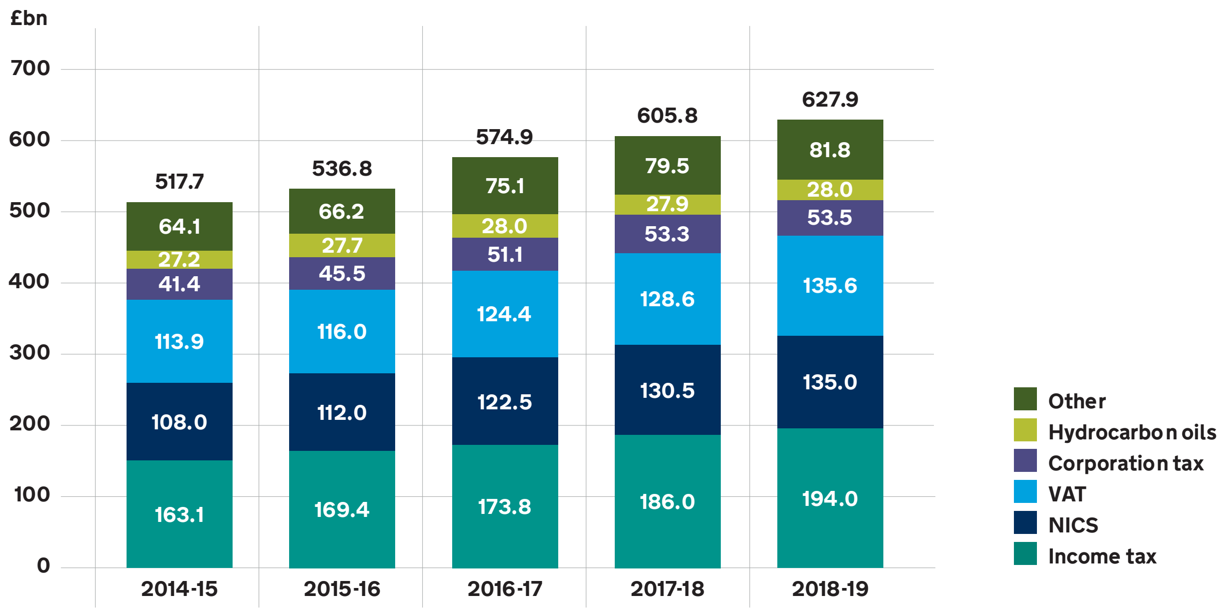
£627.9bn
record total tax revenues

£22.1bn
increase on **2017-18**

3.6%
increase on **2017-18**

During 2018-19, we collected a record amount of total tax revenues, bringing in £22.1 billion more than the previous year. Figure 2 shows how total tax revenues have increased steadily over the past five years.

Figure 2: Revenue (£bn)



Total revenues by type of tax

Income tax, National Insurance Contributions and VAT make up the three largest elements of total tax revenue, but a wide range of other taxes and duties are also factored in. Here are the key elements of our total tax revenue in 2018-19:

Income tax and National Insurance

£329bn of total revenue

4% increase from 2017-18

The amount of revenue raised for these two taxes is closely linked to the number of people in employment and wage levels, both of which increased during this period.

Value Added Tax

£135.6bn of total revenue

5.4% increase from 2017-18

Receipts tend to rise over time because of economic growth, inflation and consumer spending. Higher receipts for the business services, banking and utilities sectors were seen during this financial year.

Corporation Tax

£53.5bn of total revenue

0.4% increase from 2017-18

Corporation Tax has remained relatively static.

Hydrocarbon oils

£28bn of total revenue

0.4% increase from 2017-18

The rates of duty for petrol and diesel have been frozen since 2011-12 and with consumption at similar levels year on year this has led to stable receipts.

Stamp Taxes

£15.7bn of total revenue

5.4% decrease from 2017-18

The devolution of land transaction tax to Wales from April 2018, and First Time Buyers Relief claims (first full year), accounted for the majority of the decrease.

Alcohol

£12.1bn of total revenue

5.2% increase from 2017-18

The increase in receipts reflects increases in the rates of duty on 13 March 2017 and 01 February 2019.

It is also thought that the hot weather, the world cup and royal wedding could be responsible for increased alcohol consumption leading to an increase in receipts.

Capital Gains Tax

£9.3bn of total revenue

19.2% increase from 2017-18

Movement in tax receipts is difficult to determine due to the underlying volatility of asset sales and the extent to which they generate capital gains. Timely information is not available due to the significant lag in declaration via Self Assessment. Revenue increased in line with Office of Budget Responsibility (OBR) forecasts.

Tobacco

£9.2bn of total revenue

4.5% increase from 2017-18

Rates of duty on tobacco products increased on 22 November 2017 and 29 October 2018 - both rate increases were between 4% to 6%.

Insurance Premium Tax

£6.4bn of total revenue

3.2% increase from 2017-18

Movement in tax receipts is driven by changes in tax rates and the cost and number of insurance policies. Tax rates have remained the same since June 2017 and there is an indication that the total insurance market rose between 2017 and 2018.

A number of other taxes, including **Inheritance Tax**, **Bank Levy** and **customs duties**, account for the remaining revenue.

+ **For more information, with year-on-year comparisons, go to the Trust Statement on page 173**

Total revenues by customer group

Individual customers

Individuals are by far our largest customer group. There are more than 45 million people in the UK tax system, with around 30 million people liable to pay tax through Pay As You Earn (PAYE) and seven* million through Self Assessment. Some of the key risks relate to tax credits error and fraud and income tax inaccuracies.

* Some Self Assessment customers may also be employees.

£355m Estimated spend on compliance activities	**£250bn** Estimated PAYE and NIC receipts collected	**£40bn** Paid out in tax credits and Child Benefit	**£2.4bn**[1] Estimated yield generated from our 2018-19 compliance activities	**£3.9bn** Tax gap estimate for 2017-18, including wealthy customers

Wealthy individuals

Wealthy individuals are important to tax authorities due to their significant contribution to the economy and the role many play as business owners. They often have complex tax affairs covering multiple kinds of taxes, and have greater choice than most people about how they manage their income and assets. Some of the key risks relate to inaccurate reporting, such as income, Capital Gains Tax and Inheritance Tax, and tax avoidance, including use of offshore jurisdictions.

£145m Estimated spend on compliance activities	**£27bn** Estimated PAYE and NICs receipts collected	**£1.8bn**[1] Estimated yield generated from our 2018-19 compliance activities	**£54bn** Estimated tax receipts collected	**73%** Percentage of wealthy individuals who use a tax agent

Small businesses[2]

Small businesses represent more than 95% of businesses in UK, employing around 14 million people, so they are vital for our economy. They take many forms, from partnerships to small limited companies or self-employed people, with overlap between personal and business taxes. The small business tax gap is mainly due to errors and failure to take reasonable care, evasion and the hidden economy. Some of the key risks relate to incorrect income tax and VAT returns, either due to error or evasion and non-payment of VAT debt.

£490m Estimated spend on compliance activities	**£85bn** PAYE and NICs from individuals or wealthy customers[3]	**£5.6bn**[1] Estimated yield generated from our 2018-19 compliance activities	**£14bn** Tax gap estimate for 2017-18	**£115bn** Estimated receipts from Corporation Tax, VAT and others[4]

Mid-sized businesses[5]

Mid-sized businesses make up less than 5% of UK businesses but employ around 33% of the workforce (ten million people). Some businesses grow rapidly with an increasing international presence and complex structures, which can result in increasing complexity in their tax affairs. The tax gap for mid-sized businesses is mainly due to challenges in relation to the interpretation of law, failure to take reasonable care, and error. Some of the key risks relate to VAT, such as VAT repayment claims and errors on returns, and Corporation Tax.

£210m	£95bn	£4bn[1]	£4.3bn	£50bn
Estimated spend on compliance activities	PAYE and NICs from individuals or wealthy customers[3]	Estimated yield generated from our 2018-19 compliance activities	Tax gap estimate for 2017-18	Estimated receipts from Corporation Tax, VAT and others[6]

Large businesses

This customer group consists of the largest and most complex businesses. In total, they pay a large amount of tax and play a pivotal role in the economy, employing around eight million people. They also manage complex supply chains and play a vital role in ensuring tax compliance across these chains. Some of the key risks relate to VAT, such as errors on returns, and diverted profits.

£230m	£115bn	£10bn+[1]	£7.7bn	£135bn
Estimated spend on compliance activities	PAYE and NICs from individuals or wealthy customers[3]	Estimated yield generated from our 2018-19 compliance activities	Tax gap estimate for 2017-18	Estimated receipts from Corporation Tax, VAT and others

1. Estimated yield is not comparable to 2017-18 due to change in Future Revenue Benefit methodology.
2. This group also includes micro businesses with turnover below £2 million and fewer than 10 employees.
3. Estimated PAYE and NICs receipts collected from small, mid-sized and large businesses but paid by individual and wealthy customers.
4. Includes an estimated £26 billion of receipts from tax regimes that cut across small and mid-sized business.
5. Includes public bodies and charities.
6. Includes an estimated £20 billion of receipts from tax regimes that cut across small and mid-sized business.

The UK tax gap

The tax gap is the difference between the amount of tax that should, in theory, be paid to HMRC, and what is actually paid. We use a percentage tax gap to understand compliance trends over time. The cash figure is affected by economic growth and changes to tax rates, whereas the percentage gap takes the impact of these factors into account.

The tax gap for 2017-18 (the latest figure available) is estimated at 5.6% of liabilities (£35 billion), which means that HMRC collected 94.4% of all the tax due. Overall, the tax gap has fallen from 7.2% in 2005-06, with some year-on-year variations.

Figure 3: UK tax gap in 2017-18

5.6%

+ **0.1%** increase on **2016-17**

Value of the tax gap: **2017-18**

By customer group	By type of tax	By behaviour
£14.0bn Small businesses	**£12.9bn** IT, NICs and CGT[1]	**£6.4bn** Failure to take reasonable care
£7.7bn Large businesses	**£12.5bn** Value Added Tax	**£6.2bn** Legal interpretation
£4.9bn Criminals	**£5.2bn** Corporation Tax	**£5.3bn** Evasion
£4.3bn Mid-sized businesses	**£2.7bn** Excise duties	**£4.9bn** Criminal attacks
£3.9bn Individuals	**£1.6bn** Other taxes	**£3.9bn** Non-payment
		£3.4bn Error
		£3.0bn Hidden economy
		£1.8bn Avoidance

1 IT – Income tax, NICs – National Insurance Contributions, CGT – Capital Gains Tax

Of the £35 billion tax gap, the largest proportion (40%) can be attributed to small businesses, followed by large businesses at 22%. The tax gap is due to a range of behaviours, some deliberate - such as evasion - and some non-deliberate - such as error and failure to take reasonable care

We are taking steps to tackle the underlying causes of the tax gap - reducing error by making it easier for individuals to pay tax through online digital services, and by launching Making Tax Digital for VAT-registered businesses, which requires them to keep digital records and submit their VAT return using compatible software. You can read about the steps we're taking to respond to evasion and criminal attacks on pages 29 to 33.

HMRC's Measuring tax gaps report go to
www.gov.uk/government/statistics/measuring-tax-gaps

A strong compliance performance

Every year we take action to collect or protect billions of pounds that would have otherwise been lost to the UK through fraud, tax avoidance, evasion and non-compliance. We call this money 'compliance yield'. We've strengthened our grip on those who deliberately cheat the system and continue to pursue those who refuse to pay what they owe, applying civil and criminal sanctions as appropriate to this dishonest minority.

How did we do?

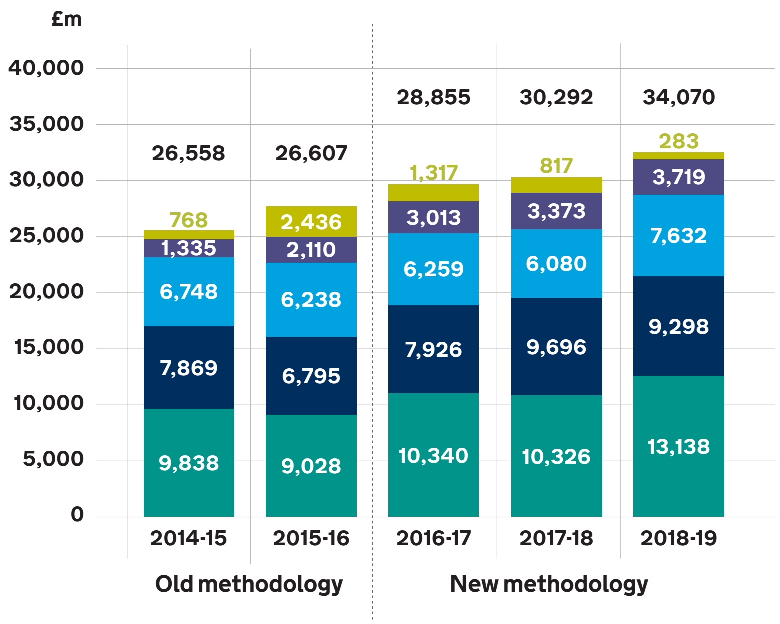
£34.1bn
total compliance yield

£3.7bn
yield from changing tax law to reduce opportunities to avoid or evade tax

£5.6bn
yield generated from Accelerated Payments since 2014-15

There are a number of components that make up compliance yield, as shown in figure 4.

Figure 4: Compliance yield (£m)



Cash expected
Additional revenue due when we identify past non-compliance, with a reduction to reflect any revenue that we know will not be collected (for example: in some instances when a business becomes insolvent).

Revenue losses prevented
Revenue that we prevented from being lost to the Exchequer (for example: stopping fraudulent repayment claims and disrupting criminal activity).

Future revenue benefit
Estimated effect of our compliance work on customers' future behaviour.

Product and process yield
Estimated annual impact on net tax receipts of legislative changes to close tax loop holes and changes to our processes which reduce opportunities to avoid or evade tax.

Accelerated Payments
Disputed amounts of tax that people using tax avoidance schemes are now required to pay up front within 90 days, as well as an estimate of the behavioural change that this policy has generated.

i To read more on how the methodology for measuring compliance yield changed in 2016-17, go to **www.gov.uk/government/publications/hmrc-annual-report-and-accounts-2017-to-2018**

Tackling avoidance and evasion

We want the tax system as a whole to support and encourage customers to get things right - but we're also cracking down on the minority who deliberately bend or break the rules. We are even-handed in the way we tackle avoidance and evasion, whether it's by an individual or a multinational corporation, and we have many safeguards in place to ensure we treat everyone with fairness and dignity.

+ **Read more about our powers, safeguards and strategies for tackling avoidance and evasion on pages 111 to 113**

How did we do?

£2.9bn+	2,200	979
raised from tackling offshore tax initiatives	interventions under anti-money laundering regulations	serious organised criminals brought to justice since April 2011

These are the key areas where we've been working to tackle avoidance and evasion during 2018-19:

Offshore avoidance and evasion

Since June 2012, we have successfully prosecuted 34 people for offences associated with offshore tax evasion, resulting in more than 154 years of custodial sentences and 15 years of suspended sentences. We currently have around 120 individuals under criminal investigation.

The Common Reporting Standard (CRS), through which more than 100 jurisdictions automatically exchange financial account information, has created an unprecedented increase in the global transparency of offshore tax affairs. In 2018, the CRS reported 5.67 million accounts to us, relating to around three million UK taxpayers with offshore financial interests. We encouraged people to disclose any undeclared offshore tax liabilities before we found out about them through the CRS and before our new, tougher 'Failure to Correct' penalties came into force. So far we have received more than 17,000 disclosures and recovered around £122 million through this Worldwide Disclosure Facility.

In addition to data exchanged under existing international agreements, we have opened investigations identified from a range of intelligence sources. Cases linked to the Panama Papers are forecast to produce more than £190 million in yield with civil and criminal investigations into around 190 people for suspected tax offences. This is in addition to the 215 investigations which were already open, which have subsequently been linked to the Panama Papers.

We have also reviewed more than 300 corporate groups and individuals identified in the Paradise Papers. For around 80% of these, the structures we identified have no UK tax consequences or were already known to us. In addition, we have shared intelligence relating to 315 existing enquiries, fully embedding this dataset into business as usual compliance activity.

Read 'No Safe Havens', HMRC's offshore tax compliance strategy:
www.gov.uk/government/publications/no-safe-havens-2019

Organised crime

We are determined to disrupt and bring to justice those ruthless criminals who undermine our tax system through cross-border smuggling, exploitative organised labour fraud, trans-national VAT Fraud and other crimes. In 2018-19, our investigations and enforcement action against Organised Crime generated or protected more than £3 billion* in compliance yield - and 979 organised criminals have been prosecuted since 2011.

Money laundering and economic crime

We are one of the 25 anti-money laundering regulators in the UK. We supervise more than 23,000 businesses to help them comply with anti-money laundering regulations and protect themselves from criminal exploitation - but when businesses fail to meet their responsibilities, we take swift action. In 2018-19 we carried out more than 2,200 interventions and issued 131 penalties, worth over £1.2 million. We also conducted 162 money laundering investigations, secured 32 convictions for money laundering offences, and recovered more than £192 million using our unique blend of civil and criminal proceeds of crime powers.

We carry out targeted activity in specific sectors to tackle economic crime: in February 2019 we conducted a week of action targeting Estate Agents we suspected of not being registered with us, visiting 50 businesses to ensure they were complying with regulatory requirements. We also work across government - sharing intelligence with law enforcement and security partners and providing staff and funding for the new National Economic Crime Centre.

Read our 2018 evaluation by the Financial Action Taskforce:
www.fatf-gafi.org/publications/mutualevaluations/documents/mer-united-kingdom-2018.html

In focus:
Paying rewards for information

There will be times when it's appropriate for us to pay a reward to individuals in return for them providing us with information to help us tackle avoidance and evasion.

We pay rewards at our own discretion, and they are based on what is achieved as a direct result of the information provided. A range of factors determine the exact amount, such as the tax recovered, the estimate of how much revenue loss was prevented and other measurable benefits, such as the time saved in working compliance cases. In 2018-19, we paid out £290,250 in rewards for information.

Our long-standing practice of paying rewards is well established across UK and overseas law enforcement agencies and many international tax authorities. Governance of the management of sources is administered under HMRC policy, which is derived from former Association of Chief Police Officers and current National Police Chiefs Council policy. The Investigatory Powers Commissioner's Office audits adherence to policy and practices, together with independent inspection by the National Audit Office.

* Of our total compliance yield, approximately £7 billion cut across different groups and cannot be allocated to a specific group.

Multinationals and large businesses

We subject the largest and most complex businesses to an exceptional level of scrutiny, generating more than £10 billion in additional tax revenue in 2018-19. We actively investigate around half the UK's largest businesses at any one time, and we have deep concerns over around 0.5% of these, whose behaviour is more like deliberate avoidance and evasion rather than legal interpretation. We lead the way internationally in making sure multinationals pay their share, including with the Diverted Profits Tax, which encourages large businesses to stop using contrived tax arrangements or face a higher tax rate. We recently launched the Profit Diversion Compliance Facility, giving multinationals the chance to review their tax affairs and, where applicable, pay tax, interest and penalties due.

Disguised remuneration

'Disguised remuneration' includes when people are paid through a loan rather than ordinary remuneration, to avoid income tax and National Insurance Contributions. In 2016, the government announced a new charge on any disguised remuneration loans outstanding on 5 April 2019 where the tax had not been paid. Before the loan charge came into effect, we wrote to more than 40,000 people who we believed may be affected, inviting them to settle their tax affairs. Since then, we have agreed around 7,000 settlements, worth more than £1.5 billion. We introduced simplified payment arrangements for those settling under the published settlement terms. We know that some customers affected by the loan charge may need extra support to meet their tax obligations, so we've trained our contact centre advisers and loan charge settlement teams to identify them. We are also extending our Needs Enhanced Support service to customers undergoing compliance checks.

+ **Read more about disguised remuneration and our published settlement terms in the Tax Assurance Commissioner's Report on page 100**

Tax avoidance promoters and enablers

The vast majority of tax advisers play by the rules and support their clients to get their tax right. But a small minority promote tax avoidance schemes and encourage their clients to pay less tax than they owe. Since 2014, we have been investigating more than 100 people involved in promoting tax avoidance. We've taken litigation action against promoters for failing to disclose their avoidance schemes, with five cases heard in the last year, prompting around 20 others to disclose to avoid similar litigation. We also pursue criminal investigations and make referrals to prosecuting authorities where appropriate. More than 20 people have been convicted for offences relating to arrangements promoted and marketed as tax avoidance since 2016.

Online marketplace VAT fraud

Overseas sellers use online marketplaces to sell goods to UK consumers but some don't charge VAT, as they should, if the goods are already in the UK when sold. We're tackling this with new rules - identifying non-compliant sellers to get them to register and pay historic VAT debts, plus penalties. If we can't make contact with the seller, or they remain non-compliant, we notify the online marketplace that they will be made jointly and severally liable for future unpaid VAT. The marketplace has the option to remove the sellers rather than be liable. We issued around 6,000 of these notices between September 2016 and 31 March 2019. In addition, around 65,000 non-EU based sellers applied to register for VAT and have declared around £250 million in additional VAT.

Fulfilment House Due Diligence Scheme

A fulfilment house is a business that offers third party storage and logistics services to online sellers. We introduced a new scheme requiring UK-based fulfilment houses to register with us and undertake due diligence on overseas suppliers before handling their goods. The scheme gives us the information we need to audit goods and take action if they haven't been declared or described correctly. In 2018-19, 253 fulfilment houses registered for the scheme. There is a £10,000 penalty for fulfilment houses trading without our approval.

Alcohol Wholesaler Registration Scheme

The Alcohol Wholesaler Registration Scheme (AWRS) was introduced in April 2017 to help prevent illicit alcohol being wholesaled in the UK. These supplies were not regulated previously and the scheme now requires all sales of duty-paid alcohol to be undertaken by HMRC-approved wholesalers. Retailers and wholesalers buying from another business now have to ensure that they are purchasing from a legitimate wholesaler and an online look-up service allows buyers to check this. At 31 March 2019 more than 10,000 applications had been received and more than 7,000 wholesalers are currently approved. There is a range of sanctions available to help ensure compliance, including civil and criminal penalties along with revocation of approvals.

+ Read more about the measures we take to protect the health of the tax system and reduce the likelihood of disputes on page 100

Low tax and tax credits debt

We work hard to keep tax and tax credits debt low and to collect debts as early as possible, which is best for the customer and for the public purse.

How did we do?

£19.1bn
remaining debt balance at the end of 2018-19

£33.7bn
total debt paid

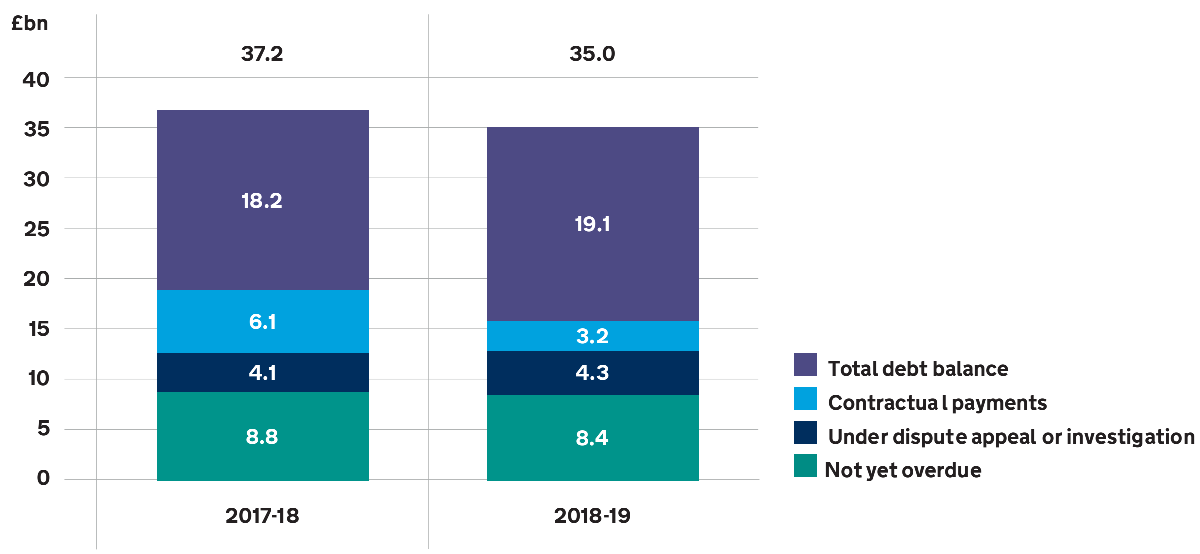
795,000
Time to Pay arrangements in place worth £2.3 billion

Receivables

Receivables are money due to HMRC for all liabilities, even if they are not currently overdue. They can include taxes, duties, tax credits recovery, penalties and interest charges owed by individuals and businesses.

Receivables amounted to £35 billion in March 2019 compared to £37.2 billion in March 2018. Tax receivables were gross £28.8 billion (see Trust Statement, starting on page 173) while tax credit receivables were gross £6.2 billion (see Resource Accounts, starting on page 194).

Figure 5: Breakdown of receivables and debt (£bn)



Debt

Once revenue becomes overdue and is not under appeal, it becomes a new debt. We work hard to collect debts as early as possible, which is best for the customer and for the public purse.

How did we do?

We delivered a strong performance on collecting debt in 2018-19. New debt was £47.2 billion - £3.3 billion lower than the previous year due to improvements we made in our processes to reduce debt creation. These included changes within Real Time Information banking processes, meaning more liabilities being cleared quicker to avoid them becoming debts. Total debt collected was £33.7 billion, of which £33.3 billion was against tax and £400 million was against tax credits debt. The remaining debt balance (which is both collectable and enforceable) at the end of March 2019 was £19.1 billion. This included £15.1 billion in total tax debt (equates to 2.4% of tax revenues) and £4.1 billion* in total tax credits debt.

Most debt is repaid in the same year, but part of our debt collection figure is debt from previous years that has taken longer to recover. We now have a dedicated taskforce to focus on collecting older debt, and we expect it to collect an extra £90 million over the next two years.

We have a good reputation for supporting vulnerable customers or those in temporary financial hardship who need more time to pay their debt. At the end of March 2019 we had 795,000 'Time to Pay' arrangements in place, worth £2.3 billion, to help these customers get back on a sustainable payment track.

Where customers don't pay on time or enter into an acceptable 'Time to Pay' arrangement, we use our debt collection powers to secure outstanding amounts quickly and efficiently. We also get help from private sector debt collection agencies, who collected £404 million in overdue tax and tax credits payments on our behalf in 2018-19.

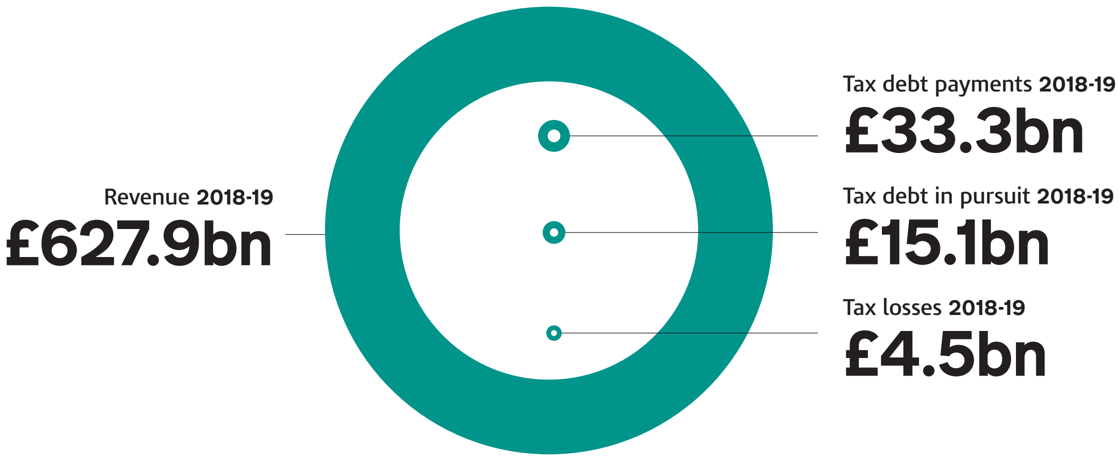
* Figures may not add up due to rounding.

Tax losses

In certain cases we decide to stop debt collection activity if it becomes uneconomic for us to pursue the outstanding amount, or if there is no practical means to collect it. We take decisions on a case-by-case basis, for example, if companies become insolvent.

Tax losses were £4.5 billion in 2018-19. In order to limit some of these losses we are seeking to introduce preferential creditor status for HMRC, where a business becomes insolvent and owes withheld taxes that should have been paid. We expect this new measure to reduce losses by £65 million in 2020-21 and £150 million in 2021-22. The three-month consultation exercise on this measure ended on 27 May 2019 and the government's response will be published in the summer.

Figure 6: Tax debt in pursuit and tax losses compared to revenue (£bn)



What's next?

Collecting revenues due and bearing down on avoidance and evasion

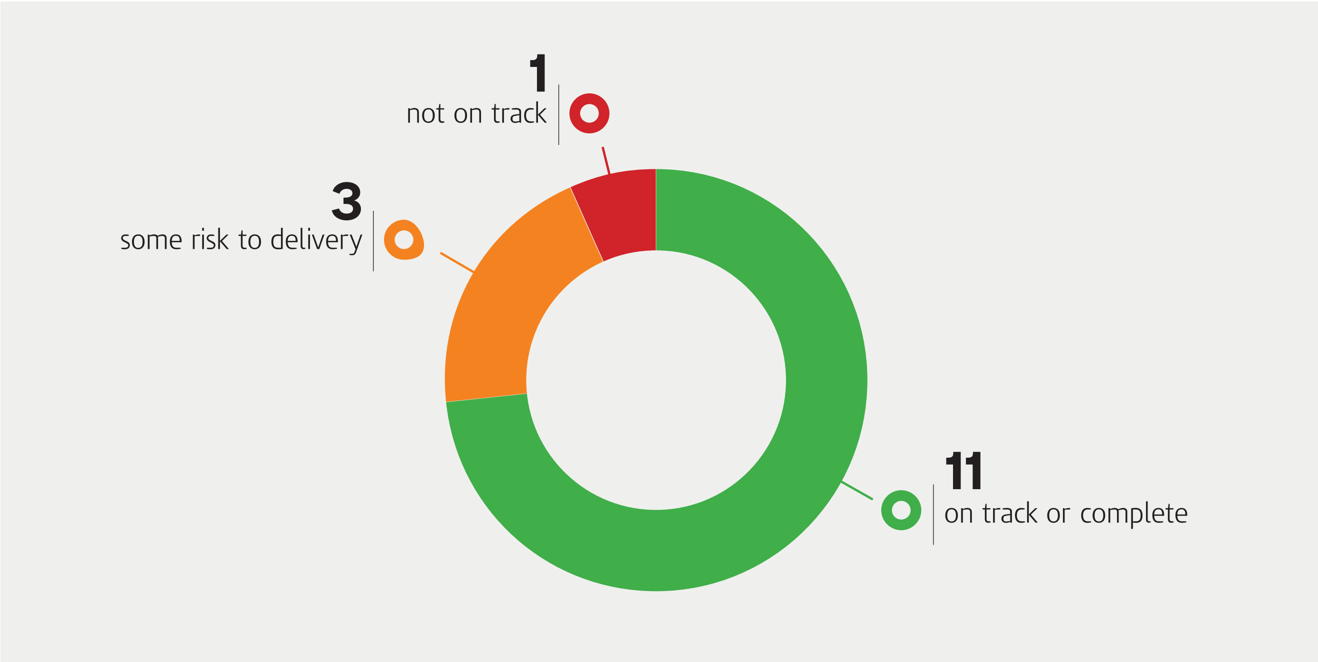
To continue collecting revenue efficiently as customer tax affairs become more complex, our service will need to become increasingly flexible. We are making steady progress, but there is more we need to do.

Our long-term vision is to make sustained compliance the default, using a better understanding of our customers and their risks and behaviours to tailor our systems, interactions and responses. We want to maintain and strengthen trust between ourselves and the public that we operate a fair tax system - that when they pay their contribution, we'll make sure others do too.

This means taking a whole view of the systems we use to collect tax and ensure compliance, to make sure they work together in a way that provides a good customer experience and helps everyone to get their tax right. A crucial part of this is how we influence customer behaviour, either by enforcing robust rules to respond to non-compliance, or by building trustful relationships to promote compliance.

Progress against our commitments: Collecting revenues due and bearing down on avoidance and evasion

We have committed to delivering further improvements to how we collect revenues, and we set out our commitments at the start of each financial year in our single departmental plan. In **2018-19** we set ourselves **15** commitments.



Commitments on track or complete include:

- We exceeded our target of delivering compliance revenues of £30 billion.
- We increased our ability to prevent alcohol and tobacco smuggling.
- We are on track to raise an additional £5 billion per year by 2019-20 to tackle tax avoidance and evasion.
- We further strengthened our ability to police the National Minimum Wage.

Commitments with some risk to delivery:

- We are committed to invest £800 million to tackle evasion and non-compliance - with a further £155 million announced at Autumn Budget 2017 for future years. In 2018-19 we invested what we expected to in order to continue tackling evasion and non-compliance, but due to resourcing issues our delivery has not been in line with forecast. We are working on recruitment in 2019-20 to address this.

- We continue to make progress towards our commitment of 100 prosecutions from criminal investigations per year by the end of this Parliament. The Fraud Investigation Service has delivered 42 prosecutions against a plan of 30 for 2018-19 - however, there is a risk of not delivering up to 100 by the end of this Parliament.

- We are committed to ensuring global companies pay their fair share in tax by supporting the government's leading role in the reform of international tax rules. We have received Royal Assent on our Finance Bill to support the reform of international tax rules. This means we have enacted changes to Controlled Foreign Companies, Hybrid mismatch rules and the Offshore Receipts rules. We are currently working through responses with HM Treasury to inform Ministers of next steps, which has delayed completion of this target.

Commitments not on track:

- We are committed to continue identifying and preventing losses in the tax credits system as we work closely with DWP to support the transition to Universal Credit. We have embedded changes to our compliance processes and implemented education and reminder campaigns to guide customers to claim correctly. We also work to address error and fraud through compliance checks. Ministers have set us a target to keep error and fraud at no more than 5%. The need to divert our tax credits compliance staff to support other priorities (including EU exit activity) means we forecast we won't meet the target for 2018-19.

+ **Read details of our full commitments on pages 242 to 245**

Objective 2: Transforming tax and payments for our customers

A healthy tax system is one that works for everyone - and we've made important progress in helping to build that system as we've modernised over the past few years.

We're focused on making it easy for customers to pay their taxes or claim their entitlements, keeping financial and time costs to a minimum, and having the right safeguards in place to prevent abuse and - crucially - ensure we're trusted and seen to be fair.

Our new digital services for individuals and businesses are being used by millions - and we're using our data in more sophisticated ways to make it easier for customers to deal with us and to help us identify when people need extra support.

This year we've supported customers as usual while also delivering other vital work, such as preparing for the UK leaving the EU, so we haven't quite reached all our customer service targets - but the improvements we've already invested in helped to mitigate the impact.

How we performed against our public commitments

6	3	0
on track to complete	risk to delivery	not on track

+ **Read more about progress against our commitments on page 46**

Key performance figures*

19m
customers signed up for Personal Tax Accounts since launch

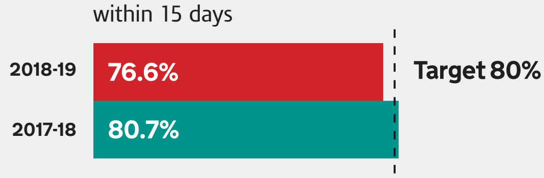
80.4%
customers satisfied or very satisfied with our digital services

5:14 mins
average speed of answering calls

94.1%
online iForms processed within seven days

19.7%
callers waiting more than 10 minutes to speak to an adviser

76.6%
customer targeted post turned around within 15 days



* For a historical data series, go to www.gov.uk/government/publications/hmrc-annual-report-and-accounts-2018-to-2019

Our strategy in **2018-19**

1. Developing better ways to serve our customers

We want it to be effortless for individuals and straightforward for businesses to pay the right tax from the outset. This year, we delivered a flagship pilot service for VAT-registered businesses (Making Tax Digital for Business launched fully on 1 April 2019). We had to delay some of our digital plans to support EU exit projects, but we are continuing to build on the success of the new services we've developed, such as our Personal Tax Accounts, mobile app and tax credits payment tracker. We are still committed to providing direct support to those who need it, such as vulnerable customers or those customers with more complex tax affairs.

2. Supporting intermediaries

We are working closely with those who can help us to support our customers and collect tax - such as employers, through their role in administering PAYE, or others who can collect data to pre-populate digital tax accounts, such as banks and building societies. Where possible, we use these intermediaries to apply correct tax calculations and withold tax on our behalf and we encourage them to support customers with their tax obligations.

We are also working with software developers so that our plans align with software being developed for business customers. The more straightforward we can make it for businesses to pay their taxes and interact with us using their own software, the more efficiently we can collect revenue.

3. Working with agents

Agents play a key role in helping people comply with their tax obligations and we welcome their use where they add value in helping their clients to get their affairs right. We're working to develop our services for tax agents, so they can deal with us across all taxes on behalf of their clients. Our Agent Services online account assures the status of an agent and protects access to client data. Agents can now use the account to act for their clients under Making Tax Digital, or to register a trust.

We're also strengthening our engagement with agents and meet frequently with their professional bodies. In January 2018, we published a revised HMRC standard for agents. Where we find behaviours that fall short, we increasingly report those agents to their professional bodies to take appropriate action.

This strategy is helping us to:

+ **Improve our customer experience – pages 40 to 43**
+ **Manage the tax credits and Child Benefit system – pages 44 to 45**

8.3m
uses of the HMRC app for tax credits payments

110,000+
customers helped through our Needs Enhanced Support service

30m
individuals pay tax through their employer using Pay As You Earn (PAYE)

368m
software interactions with HMRC from businesses and agents

99.3%
call attempts handled by our dedicated agents helpline

66%
of agents agree that HMRC treats customers fairly*

*HMRC Individuals, Small Businesses and Agents Customer Survey 2018

Improving our customer experience

The individual needs and circumstances of our customers are different, and can change regularly. Some people want and need direct support from us - face-to-face, over the phone, by post or a webchat - while an increasing number simply want to go online to sort out their tax. We need to tailor our customer experience accordingly, while promoting the long-term trend towards digital interaction.

To help customers get their tax right, we're strongly focused on joining up our services - trying to solve more queries at the first point of contact, reducing the need to pass customers between teams and doing all we can to avoid customers having to contact us more than once.

Our digital services

The number of taxpayers is growing as more people are in work, leading to an increase in overall demand for our customer services. We have invested in digital technology and the data, infrastructure and security that underpins it, in order to transform the digital services we offer to our customers. As a result, contact through our traditional channels has reduced as our digital service offering expands.

How did we do?

19m customers have signed up for Personal Tax Accounts since launch	**0.9m** online tax credits renewals	**93.5%** of Self Assessment returns were filed online

The number of customers using our digital tax accounts continued to grow to record highs during 2018-19. At 31 March, around 19 million people had signed up for Personal Tax Accounts since launch, and our Business Tax Accounts are used by more than 60% of all UK businesses. This year's Self Assessment peak was our busiest ever online, with 10.1 million online returns (93.5% of all returns).

Customers can use their accounts to renew their tax credits awards: 47% (0.9 million) of customers renewing their tax credits award did so digitally, a 4 percentage point increase on last year. They can also use it to view their tax code, check their estimated tax liability and report changes using online iForms. Of the 1.6 million iForms we received last year, we turned around 94.1% within 7 days, marginally below our 95% target.

As well as digital tax accounts, we continue to develop innovative digital customer support services. We held around 1.4 million live webchats with customers in 2018-19 as an alternative to calling us and 32,000 people took part in our webinars. Our mobile tax credits payment app was used 8.3 million times in 2018-19, leading to a 46% reduction in calls on this subject.

In focus:
Making Tax Digital for Business

Our Making Tax Digital for Business programme is providing modern, digital services for businesses to help them manage their tax more easily. We're working in partnership with the software industry so businesses and their tax agents can use products and services that suit their budget and needs, and which interact seamlessly with our own systems.

We took a major step forward this year by introducing Making Tax Digital for VAT, which launched as a pilot in April 2018 and was tested with a cross-section of business types and their tax agents. From 1 April 2019, 1.2 million VAT-registered businesses with a taxable turnover above the VAT threshold (£85,000) have been required to keep records digitally and use compatible software to submit their VAT returns, rather than logging into the HMRC portal and typing in the information.

Another one million businesses with turnover below the VAT threshold aren't required to use the service, but thousands are choosing to do so voluntarily.

Errors inevitably happen when businesses keep records on paper and manually submit their VAT returns. Digital record keeping reduces the risk of unwelcome and costly HMRC compliance interventions, and allows customers and their agents to spend more time on financial planning and growing their business.

Customer phone calls and post

Demand for our phone and post services continued to reduce in 2018-19 - while digital customer sessions rose by 17% - but they remain a vital part of our customer service operation.

We received 42.7 million phone calls to our customer services in 2018-19, an 8.7% reduction from 2017-18. When customers call us, they first enter our automated telephone system, where we give them messages and information about appropriate services. This can last from 40 seconds to several minutes, depending on which options the customer chooses. The automated telephone system enables calls to be routed to the customer adviser who is best equipped to answer the customer's query. It also enables us to handle some very simple calls by way of advisory messages and encourage customers to use our online suite of services.

In 2018-19, for customers who needed to speak to an adviser after going through the automated telephone system, our average speed of answer was narrowly outside the five minute target we're funded by government to deliver. 19.7% of customers waited longer than ten minutes to be connected to an adviser, which is outside our 15% target. This falls short of the standards of service we want our customers to experience, but we have been working hard to bring the waiting times down and improve performance.

We received around 19 million items of post in 2018-19, compared to around 18 million in 2017-18. This is an artificial increase in recorded post numbers due to a reclassification of around two million work items previously not recorded as post. While the volumes of these work items were not recorded in our published post statistics, they have always been handled and the performance has been aligned to that of our targeted post. Out of 14 million post items where customers required a response, we missed our target to turnaround 80% of post within 15 days but exceeded our target of 95% within 40 days.

Our post and telephony performance in the latter half of the year was impacted by a range of factors. We faced challenges in recruiting staff and had to divert staff to prepare for EU exit, making it harder for us to manage high demand on our phone lines, particularly around the Self Assessment and tax credits deadlines. There were also some technical issues with customer credentials, leading to high demand on our online services helpdesk. In response, we have been reprioritising to protect performance whilst ensuring that we can deliver on the government's EU exit objectives. We are making improvements to our online security processes and keeping our recruitment processes under review. However, these challenges will continue into 2019-20 and we will work hard to limit their impact on our performance over the next year.

We are determined to ensure that the way we manage our Customer Services is as customer focussed as it can be. For example, currently our targets tell us how quickly we respond but they don't tell us if we successfully answered the customers' question, so from 2019-20 we're changing the way we measure customer service to tell us more about our customers' experience and how satisfied they are. We have committed to publishing this information.

In focus:
New customer services

This year we introduced a number of new ways for customers to deal with us more quickly and easily, particularly through new digital channels - for example:

New ways to Self-Serve Time to Pay service

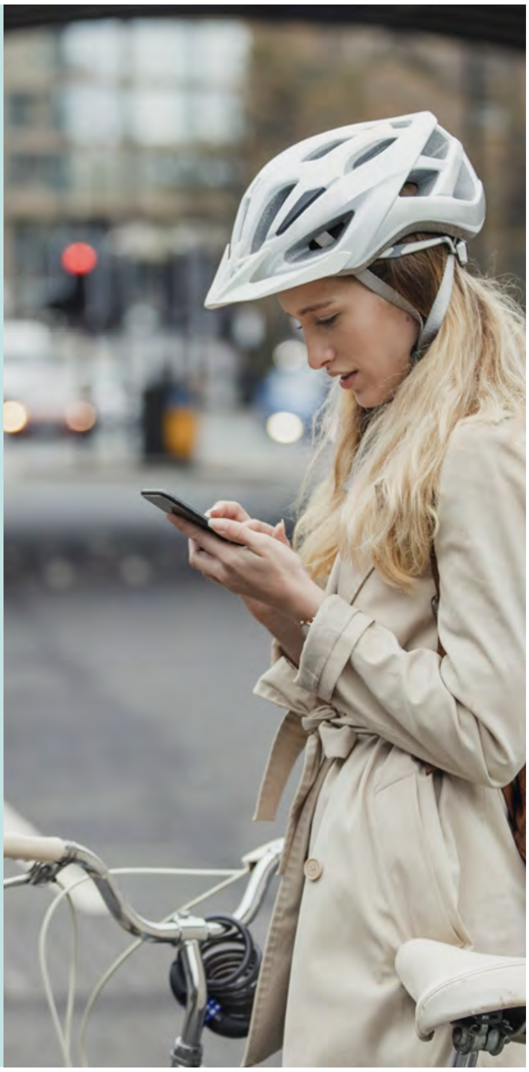
This new service enables customers to pay their Self Assessment debts online, with around 4,000 people using the service so far.

Check your PAYE details on the HMRC App

To reduce unnecessary contact on PAYE, we have given customers more detailed information about their employment, pay and tax via the HMRC App.

Simple Assessment

We introduced Simple Assessment as a new, straightforward way for customers with simple tax affairs to pay tax which cannot be collected through PAYE, without them having to complete a tax return. Regrettably, we experienced a number of issues, including a delay in delivering the complex IT changes required, which meant that about 311,000 customer accounts could not be reconciled as we planned. We'll be undertaking further analysis and recovery activity and will reconcile these accounts in 2019-20.



Supporting vulnerable customers

We provide a Needs Enhanced Support service to help vulnerable customers, including those who don't have access to digital technology, to deal with their tax affairs. In 2018-19 this service supported 73,764 customers over the phone, 21,444 by letter and 16,269 by face-to-face appointment. We are aware that some customers may become vulnerable, or more vulnerable, as a result of contact with us - for example, when we're conducting compliance checks or when they get into debt, so we have processes in place to identify those customers and help them.

Handling complaints

Most of our customers use our services without any problems, but we recognise mistakes happen and we continually examine our processes to identify how we can improve. We do this by listening to our customers and acting on their feedback, improving our complaints handling service, and making the complaints process easy and accessible for our customers.

How did we do?

71,638
new complaints received, down 7.5% compared to 2017-18

98.8%
complaints resolved internally, unchanged from 2017-18

305
complaints upheld by the Adjudicator's Office, down 21.6% compared to 2017-18

Last year we extended our iForm complaints service to all individuals and businesses. In 2018-19 we received 29% of our complaints through this online channel, replacing letters as the most popular way our customers choose to contact us to complain.

We operate a two-tier internal complaints process. However if a customer remains dissatisfied with our decision they can refer their complaint to the independent Adjudicator's Office (AO) and then to the Parliamentary and Health Service Ombudsman (PHSO). The AO received 6% more complaints about HMRC than the previous year. They investigated 1,066 cases with 865 requiring a decision. The Adjudicator upheld in part or in full 35% of these in the customers' favour, down from 39% in the previous year.

Of the 53 complaints which were investigated by the PHSO in 2017-18, the latest year for which figures are available, no cases were fully upheld by the PHSO and only two were partially upheld.

We take all feedback we receive from the AO and the PHSO seriously and are committed to learning from complaints. We receive individual case feedback from the AO, together with themed and topical reports, which we use to help shape new policy areas and review existing guidance.

The recent creation of both a Complaints Board and the Customer Experience Committee (with five independent members) will provide a more focussed effort to learn from customer feedback from all sources, including complaints, to improve services and communications and reduce errors.

+ **Read about how to complain to HMRC at: www.gov.uk/complain-about-hmrc**
+ **Adjudicator's Office: www.adjudicatorsoffice.gov.uk**
+ **Parliamentary and Health Service Ombudsman: www.ombudsman.org.uk**

Managing the tax credits and Child Benefit system

As well as collecting tax revenues, we are also responsible for administering tax credits and Child Benefit. Last year, tax credits helped around 3.3 million families and 6 million children, while Child Benefit supported around 12.7 million children in Child Benefit recipient families. Our priority is to pay customers on time and make sure they receive their correct entitlement.

How did we do?

4 percentage point increase in online tax credits renewal	**12** average days to process new tax credits and Child Benefit claims	**0.6%** estimate of tax credits underpayments in 2017-18, against a target of 0.7%

This year we maintained our performance in processing new tax credits and Child Benefit claims and changes of circumstances for UK customers, which took us an average of 12 days against a target of 22 days. For international customers the average was 61.5 days against a target of 92 days. 47% of tax credits customers renewed their tax credits online..

From 1 February 2019 there are no more new claims to tax credits, except from claimants who meet certain restricted criteria. We're gradually transferring customers from tax credits to Universal Credit, which is administered by the Department for Work and Pensions (DWP). As a result of this transition, we ended 376,000 claims during 2018-19, of which 317,000 involved active payments. We're working closely with DWP to help customers get their claims right ahead of moving across to Universal Credit.

In focus:
Help to Save

In September 2018 we launched Help to Save, a government initiative to support working people on low incomes build up a rainy day fund and encourage an ongoing savings habit.

By paying in up to £50 per month over four years, savers can receive up to £1,200 in tax-free bonuses. By the end of the year over 90,000 accounts had been opened and over £13 million saved.

Tackling tax credits and Child Benefit error and fraud

The government has given us a target to keep error and fraud overpayments (error and fraud favouring the claimant) within the tax credits system at no more than 5% of paid entitlement in 2018-19. As it takes around 14 months after the end of the tax year until all tax credits claims are finalised, our latest estimate of error and fraud relates to 2017-18.

Tax credits

Our estimate of error and fraud in the tax credits system in 2017-18 is 5.7% (£1.46 billion) of paid entitlement and compares to 4.7% (£1.27 billion)* in 2016-17. The increase is mainly a result of a fall in the level of tax credits compliance activity, which is partly explained by the loss of additional compliance capacity provided under our contract with our external supplier, Concentrix. We ended the contract in November 2016 due to failure to meet expected standards, and funding to replace the resources was not approved.

We set a target for 2017-18 to keep tax credits underpayments no higher than 0.7% of finalised entitlement. We kept this target for 2018-19 and 2019-20. The latest estimate for underpayments relates to 2017-18 at 0.6% (£170 million), reducing from the 2016-17 estimate of 0.7% (£200 million).

* In line with usual practice, updated estimates for 2016-17 were published on 11 April following more complete data becoming available.

Child Benefit

Our estimate of the overall level of Child Benefit error and fraud overpayment in 2018-19 is 0.6% of total Child Benefit expenditure (£75 million), compared to the 2017-18 estimate of 0.9% (£105 million).

Over the past year we've undertaken a significant review of the way that we measure error and fraud in Child Benefit to ensure it is as accurate as possible. In the past, we assumed all claims where claimants failed to respond to our enquiries contained error or fraud. Now we use other information such as the General Register Office, which provides evidence that a number of non-responding households are still eligible for Child Benefit. This has reduced our estimate of error and fraud.

For both tax credits and Child Benefit, we've implemented educational and reminder campaigns to support and encourage customers to claim correctly.

+ **Read more about what we're doing to address error and fraud in the Principal Accounting Officer's report, on page 93**

What's next?

Transforming tax and payments for our customers

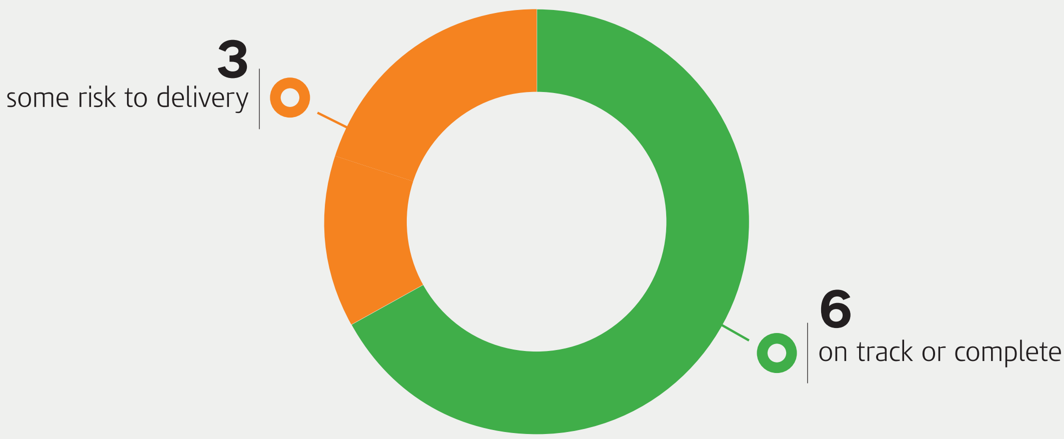
The service we offer needs to make tax effortless for individuals and straightforward for businesses, so we can collect tax revenue even more effectively in future. It needs to be flexible, so we can support customers across a whole spectrum of needs and circumstances - but we also need to keep the costs for us and our customers as low as we can.

To achieve this, we want to provide a more seamless link between our online and traditional customer services. Our long-term ambition is to create more integrated systems and simple, digital interfaces that make tax easier for all our customers. This will further enhance the customer experience, allowing us to provide more real-time and accurate tax calculation for customers, identify and respond to their particular needs, and stop more problems before they arise.

We also want to introduce new, more transparent ways of measuring our success, so everyone can judge for themselves how fairly we act, and how well we're doing. This means balancing our well established measures of yield with a range of other performance measures, including customer satisfaction.

Progress against our commitments: Transforming tax and payments for our customers

We have committed to delivering further improvements to how we transform tax and payments for our customers, and we set out our commitments at the start of each financial year in our single departmental plan. In **2018-19** we set ourselves **nine** commitments.



Commitments on track or complete include:

- We accelerated channel shift and continued to encourage customers to use digital services.
- We continued to add functionality to our Digital Tax Accounts.
- We pre-populated customer forms, Application Programming Interfaces (APIs) and online accounts with real-time information.
- We supported the government's pensions and savings reforms.

Commitments with some risk to delivery:

- We have been working to support the Department for Work and Pensions' plans to migrate tax credit customers to Universal Credit. Managed Migration legislation is due to be debated in Parliament. This debate has been delayed due to more urgent Parliamentary matters, which in turn has caused a slight delay to the programme.

- We have been building and maintaining specialist capability to deliver EU exit requirements. We've engaged extensively with stakeholders, including business representative organisations, trade associations and intermediaries, so they have time to prepare for exiting the EU effectively. Good progress has been made on GOV.UK and IT systems are on track to 'go live'. However, there still remains a large amount of uncertainty around EU exit, which may make a significant difference to what we need to implement and when.
- We are committed to invest £1.3 billion to transform HMRC into one of the most digitally-advanced tax administrations in the world, finishing the delivery of our multi-channel digital services so we become a 'digital-by-default' organisation. We continue to prioritise our transformation portfolio to support additional projects generated by EU exit. In our assessment, the portfolio remains ambitious but deliverable. We will keep our priorities and capacity under review.

+ **Read details of our full commitments on page 244**

Objective 3: Designing and delivering a professional, efficient and engaged organisation

To provide customers with the service they deserve, we need to continually improve how we operate and get things right for our own employees.

We are investing in creating a positive experience for our people, whether that is how we work, the tools we use to do that work, the environment we work in or the professional development we receive. By modernising our workplaces and IT and developing new skills, we are better positioned to create a great customer experience.

We are also reducing our costs and operating in more sustainable ways. We're at the heart of the government's preparation for leaving the EU, and we're working more than ever with other departments and agencies to support the government's wider agenda.

How we performed against our public commitments

5	1	1
on track to complete	risk to delivery	not on track

+ **Read more about progress against our commitments on page 64**

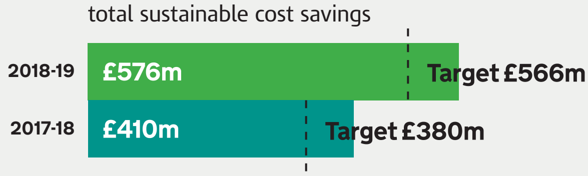
Our key performance indicators* in **2018-19**

5,830
full-time equivalent employees recruited

49%
our employee engagement index score

5,200
staff promoted

£576m
total sustainable cost savings



13
all our regional centre sites are now secured

Belfast
Birmingham
Bristol
Cardiff
Croydon
Edinburgh
Glasgow
Leeds
Liverpool
Manchester
Newcastle
Nottingham
Stratford

0.52p
How much it cost to collect every pound of tax revenue

2017-18: 0.53p

* For a historical data series, go to www.gov.uk/government/publications/hmrc-annual-report-and-accounts-2018-to-20190

Our strategy in **2018-19**

1. Building a more highly-skilled and sustainable workforce

It's our job to help everyone get their tax right, so we need to have the right roles, skills, tools and working environments to operate effectively in a rapidly changing world. We've seen a shift towards more highly-skilled roles and we've restructured our business groups to focus on customers, rather than the taxes they pay. We've also brought in new, smarter technology that gives us more flexibility about where, when and how we work. We are in the process of bringing most of our people together into a new network of 13 modern regional centres.

2. Supporting wider government aims

We have an important role in delivering wider government priorities, not least because the taxes we raise fund public services and infrastructure investment - but we also work proactively with other departments to achieve shared priorities, such as preparing for the UK leaving the EU. Our work on tax reliefs and enforcing the National Minimum Wage supports wider government aims, and we play a key role across government in tackling serious and organised crime - sharing intelligence, bringing our tax, law enforcement and supervisory powers to bear on harmful criminals, and participating fully in the new National Economic Crime Centre. We are also testing how we can use our knowledge of business customers to guide them towards the right support to help them grow.

This strategy is helping us to:

+ **Create a better employee experience – pages 50 to 54**
+ **Become more efficient – pages 56 to 58**
+ **Be more sustainable – pages 58 to 59**
+ **Deliver across government – pages 59 to 63**

8,668

employees undertook formal training in leadership and management

44m

fewer sheets of paper used by our staff

26

government departments and agencies on the Border Delivery Group, funded by HMRC to prepare the border for EU exit

221,600

workers benefitted from recovery of £24.4 million in National Minimum Wage arrears

Creating a better employee experience

This year we launched our new strategy for a great employee experience, setting out what our people should expect from us as an employer and how we will achieve our vital purpose in a rapidly changing world. Our strategy is designed to ensure we put our people at the heart of everything we do, deliver a better employee experience and increase our levels of well-being and engagement.

How did we do?

850+ trainees on our Tax Specialist Programme	**331** people on our talent development programmes Spring, Leap and Ascend	**154** people completed our BAME career development programme Embrace

We want to attract and retain the very best people and we see apprenticeships as vital for this, which is why this year we recruited 1,631 new apprentices in England and 783 in Scotland, Wales and Northern Ireland. Apprentices now make up 5.5% of our workforce (3,680 people).

We also offer apprenticeships to colleagues at various stages of their career, so they can learn new skills or move across professions. We currently have 376 people on our leadership and management apprenticeship.

We provide three in-house talent development programmes for our people, as well as Embrace, a personal development programme for colleagues from our BAME (Black, Asian and Minority Ethnic) community. In November 2018, we introduced the Embrace for Higher Officer and Senior Officer grades, which this year is supporting 30 BAME colleagues to bridge the gap between middle management grades and senior leadership.

This year, 8,668 of our people undertook formal training in leadership and management, and more than 2,000 people registered as a coach, mentor or reverse mentor.

In September 2018, our Tax Academy welcomed 199 trainees onto our Tax Specialist Programme. We had more than 850 trainees in 2018-19 of which 46% were female. We're also partnering with Manchester Metropolitan University to award successful trainees a BA (Hons) in Professional Studies in Taxation - 166 trainees graduated this summer, with 50% achieving first class degrees.

+ **Read more about our workforce and our people strategy on page 114, including information on diversity on page 114 and details of recruitment and losses on page 123**

Improving our technology

We are increasingly putting technology at the heart of our decision-making, in line with our ambition to become one of the most digitally advanced tax administrations in the world.

How did we do?

78	368m	99m
robotic processes - leading the way in government	software interactions with HMRC from businesses and agents	National Insurance and PAYE accounts moved to a cloud platform

Our technology strategy is about building our capability and operational excellence and responding to the needs of our customers. We've reorganised our in-house digital and IT group to align with the priorities of our different business areas and large strategic programmes, while strengthening our data, digital and technology skills.

We are also leading the way in government in our use of robot process automation, which provides a more efficient approach to delivering services, removing manual processing tasks and freeing up our people for customer-facing work. We've deployed 78 robotic automations, which conducted 15.7 million of our transactions in 2018-19.

Building resilient and efficient services

To build the foundation for future technology investments, we are using cloud-based technology to enhance our resilience and capability. We have reduced our reliance on physical data centres - this year, we successfully migrated more than 99 million accounts from the National Insurance and PAYE Service to the cloud platform, and moved 18 legacy services that receive 50 million submissions per year, with no disruption to customers or to our staff.

The new Customs Declaration Service (CDS) is also a priority for us. It replaces our old Customs Handling Import and Export Freight (CHIEF) system - which is one of the world's largest and most sophisticated electronic services for managing customs declaration processes, but after nearly 25 years it can't be easily adapted to new requirements. The decision to replace CHIEF with CDS was made before the EU referendum, but CDS is scaleable to handle any potential increases in the volume of declarations that may result from the UK's exit from the EU.

We have supported software companies and trade bodies to begin their development work for the service, and delivered the bulk of the functions the CDS needs to support imports. We are now in the final stages of implementing CDS functionality. Traders are dependent on intermediaries in the customs industry completing their own system development and testing over a period of time, to enable their customers to migrate to CDS. We are working closely with intermediaries and traders to support their migration and will continue to run dual CDS and CHIEF, in order to maintain the integrity of the customs platform and ensure the safe migration of traders to the new service.

We have also reached 368 million requests to our API (Application Programming Interface) platform to date, which allows commercial software used by businesses and agents to interact with HMRC services and reduces the need for customers to contact us.

Using and securing data

We hold enormous amounts of data. It's vital to our ability to collect revenue but it also comes with a responsibility to ensure we administer, exploit and protect it appropriately. This year we created a Data Governance Board to agree and deliver our data strategy and to embed a data-led culture throughout HMRC. We also continued our work to comply with the General Data Protection Regulation (GDPR), which came into effect in May 2018.

The HMRC GDPR programme and the Office of the Data Protection Officer (ODPO) have worked together to put key foundational elements in place, including the HMRC Privacy Notice, introducing Data Protection Impact Assessment as mandatory for all change and data sharing, updating the process for Subject Access Requests, rolling out training and awareness for all staff. We have also completed a data audit on our high-risk systems and services to identify risks of non-compliance with GDPR and ensure asset owners are informed about the risks and taking responsibility for managing them.

Through our GDPR programme, we identified a specific risk of non-compliance relating to HMRC's Voice ID service for authentication of customers on phone lines; the service did not comply with the new requirements for explicit consent in GDPR. We put a plan in place to introduce a new consent model that met all GDPR requirements in June 2018 - this would ask new customers to give explicit consent if they wished to use the service. We also looked at existing users of Voice ID and asked them for their explicit consent to continue. In the meantime, a complaint was made to the Information Commissioner's Office (ICO) about the service. While we implemented the changes, which were completed by October 2018, we also provided support and transparency to the ICO's investigation. On 9 May 2019, the ICO issued us with an Enforcement Notice, instructing us to delete the data that had been collected without explicit consent within 28 days. We had already started this process and was approximately 40% of the way through when the Enforcement Notice was issued. We completed the deletion process on 30 May, one week before the deadline of 6 June.

These activities, together with our Cyber Security Control Centre, have helped us to protect customer data and maintain public confidence that our systems are safe and secure. We continue to promote the importance of GDPR to staff across HMRC in order to promote even stronger data management practices.

IT suppliers

After the very successful insourcing of our long-term technology contract with CapGemini, known as project 'Columbus', we are addressing our short and long-term IT needs by reviewing our resourcing strategy both internally and externally with our network of suppliers. We have already moved to a more diverse range of suppliers and will continue to do so. We also have a governance process that measures a supplier's performance and their value for money.

Moving to our new regional centres

When our programme of location changes began in 2015, we had around 170 offices across the UK, with many not fit for purpose. By 2023, we'll be operating from just 13 modern regional centres, five specialist sites, a Head Office in Westminster and, until 2027-28, eight transitional sites.

How did we do?

13 regional centre sites secured	**1,600** colleagues working in our first regional centre in Croydon	**£300m** approximate savings made from location moves by 2025

Regional centres are key to our wider transformation. We want to become the world's most digitally advanced tax authority and we've already delivered online services used by millions. Our regional centres will be modern buildings equipped with the high-speed digital infrastructure that we need to meet today's needs for our customers and employees. The higher standard of building will allow our staff to co-locate and collaborate more effectively, share resources and and work more flexibly, which will be better for our customer service and our compliance work.

In 2018-19, we secured a new site in Nottingham for our final regional centre, one in Worthing for a specialist site, and confirmed the location of our Dover Specialist Site.

We opened our first regional centre in Croydon in 2017, along with our Canary Wharf Transitional Site. Construction or refurbishment is under way in the other locations, with Belfast and Edinburgh ready for internal fit out. The Bristol Regional Centre is scheduled to open in August 2019 and Belfast in December 2019.

We're keeping our accommodation plans under review to ensure we continue to meet our objectives. This year, we increased the sizes of Bristol, Liverpool, Manchester and Nottingham regional centres to accommodate new EU exit-related work. We're also retaining Preston as a transitional site until 2025 and keeping some other office buildings for a while longer than originally planned.

We want as many people as possible to make the move to a regional centre and continue their career with us. Everyone who wants to will have the opportunity of a one-to-one meeting with their manager, around a year before any move, to discuss individual circumstances. We have been clear that, if someone can move to a regional centre, transitional site or specialist site, and has the skills HMRC needs or is able to develop them, there will be a role for them.

Our location plans help us to achieve our savings targets. Moving to regional centres will save around £300 million up to 2025 and deliver annual cash savings rising to around £90 million from 2028 against current costs, while modernising how HMRC works. We will also avoid additional costs of £75 million a year by acting before our Private Finance Initiative contract with Mapeley comes to an end in 2021.

In focus:
Creating a culture of respect

Our people have a critical role to play in achieving our objectives, so it's vital they feel connected to their workplace and respected and valued for their contribution.

Following the Civil Service-wide Owen review, we commissioned our own independent review of what it's like to work in HMRC. This found that most of our people have amazing dedication, pride and commitment in their work and expect and deserve to work in a safe, tolerant and supportive environment. However, the report made for uncomfortable reading in its finding that low level inappropriate behaviour is widespread, and identified a range of areas for HMRC to take action.

We accepted all of the review's recommendations and are working with our people to embed our values, creating an organisation in which we can all be proud to work and which our customers can trust. This includes a full review of our policies, processes and standards.

We are on track to have made significant progress in all areas by January 2020, in particular, we will have issued revised policies to our people which reflect our commitment to new ways of working.

Becoming more efficient

We are driving down our day-to-day running costs to deliver better value for money for taxpayers and the country. In addition to our baseline funding, we sometimes receive additional funding for specific areas of work requested by ministers.

How did we do?

Figure 7 shows what it cost to run HMRC in 2018-19. For a running cost of £4 billion, we raised £627.9bn for the UK's public services.

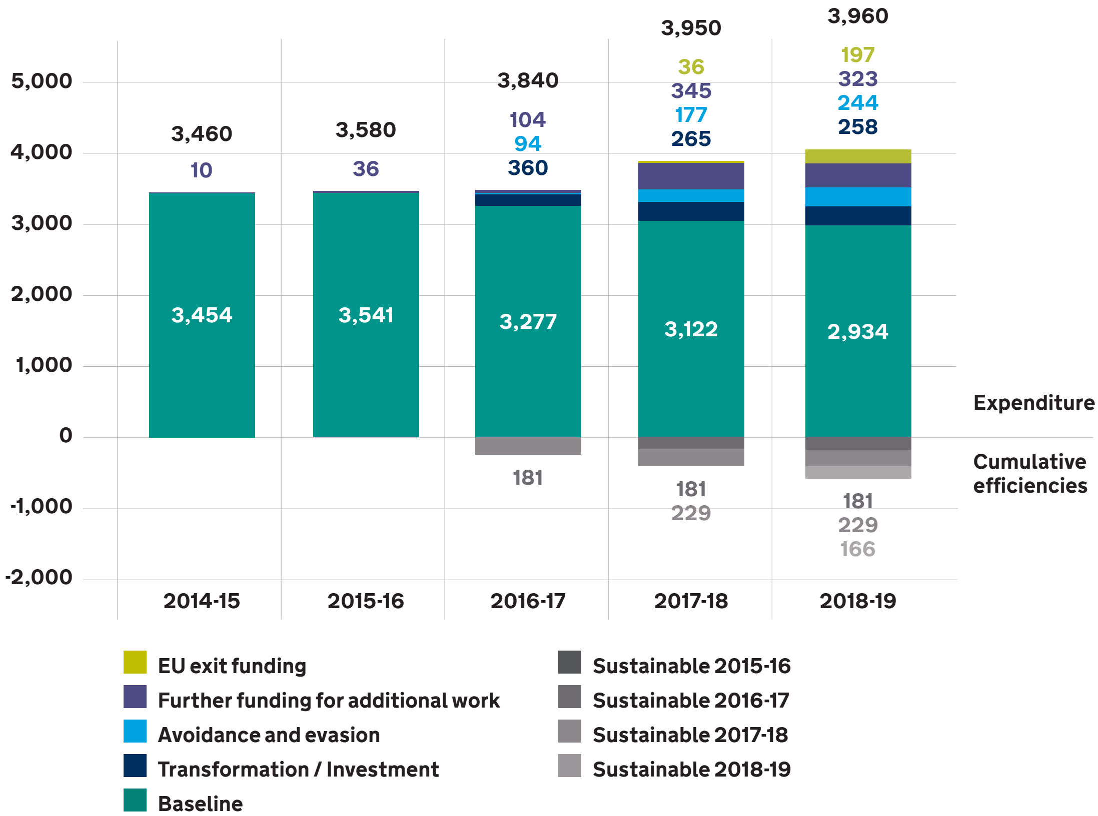
Figure 7: Expenditure and benefits and credits relative to total revenue 2018-19*

Figure 8 shows how our expenditure and budget are changing over time. Over the last four years, our baseline funding from the government has reduced due to the sustainable efficiencies we've delivered. We've also received funding to carry out additional work requested by ministers, such as Help to Save.

At the government's Spending Review in 2015, we were given funding to invest in our transformation for 2016-17 onwards. Since the Spending Review, further funding has also been provided for tackling avoidance and evasion at every fiscal event. In 2018-19, we received funding to support EU exit work. Overall, therefore, our base budget has moved significantly since 2015 because of the efficiencies of the Spending Review, offset by additional requests for services and revenue and EU exit. This will all need to be resolved in negotiation in the forthcoming Spending Review

* The figures are based on budgeting treatment as opposed to accounting treatment as represented in the Resource Accounts. Numbers may appear not to sum due to rounding.

Figure 8: HMRC's expenditure 2014-15 to 2018-19 (£m)*



* HMRC resource spending, which is money that is spent on day-to-day resources and administration costs, includes depreciation and VOA. Numbers may appear not to sum due to rounding.

Saving money for the UK taxpayer

We are committed to making £1.9 billion of cost savings cumulatively across the current Spending Review period. The changes we've made in the last few years to our IT and digital services, as well as to systems and processes within HMRC, are vital to achieving these cost savings.

How did we do?

£1.2bn
cumulative cost savings by March 2019

£576m
total sustainable cost savings

0.52p
how much it costs us to collect every pound of tax revenue

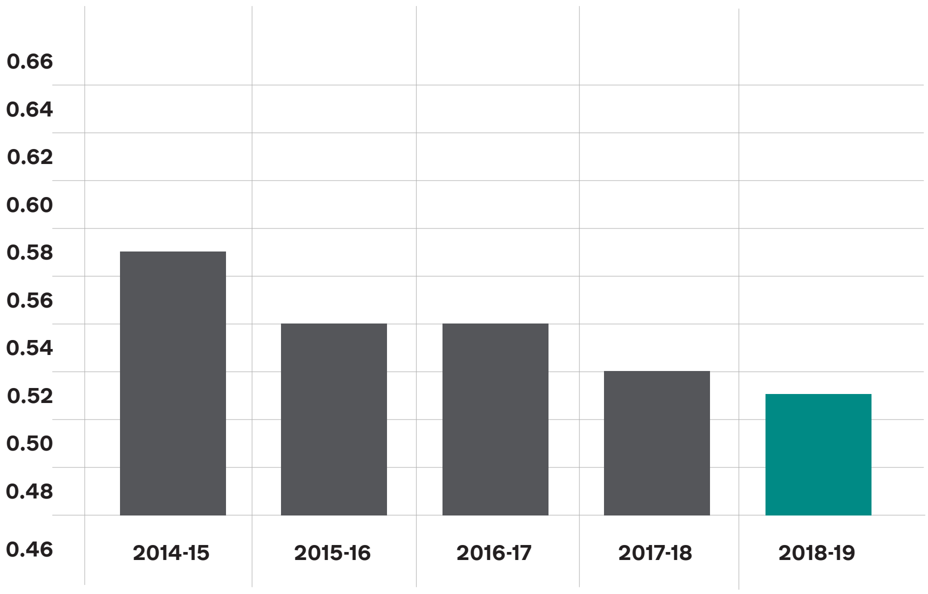
We have achieved cost savings through a wide range of activity to transform the way HMRC works. We're also making it easier for customers to get their tax affairs right without having to contact us - for example, by using online services rather than calling or writing to us.

Over the years, we have been presented with a number of opportunities and challenges. These range from preparing for EU exit to taking on additional work for the government, such as rebuilding and enhancing Government Gateway to a tight timescale.

These challenges have meant we have had to reprioritise some of our transformational work which has had an impact on our ability to deliver sustainable cost savings. As a result, we delivered new sustainable cost savings of £166 million in 2018-19, lower than our expected £186 million. Together with savings continuing from previous years, our total sustainable savings for the year were £576 million, which is still in line with our £566 million target for 2018-19. We are progressing towards saving £717 million by the end of 2019-20, although predictions indicate we will fall slightly short.

Together with our increasing revenues, these efficiencies mean it costs us around half a penny for every pound of tax revenue we collect - that figure has dropped from 0.58 of a penny in 2014-15 to 0.52 of a penny in 2018-19.

Figure 9: Cost of tax collection 2014-15 to 2018-19 (pence per £ collected)



0.52p
half a penny

What it costs HMRC for every **£1** we collect

Becoming a sustainable organisation

The 2016-20 Greening Government Commitments set a challenge for us to reduce the environmental impact of our estate and operations. They also form part of our contribution to the global Sustainable Development Goals.

How did we do?

10%
less waste generated in 2018-19 compared to last year

16%
cut in emissions from our estate and business travel compared to 2017-18

1,474
fewer UK flights taken by our staff compared to 2017-18

We have made further progress in our commitment to reduce our environmental impact. We cut paper usage by 44 million sheets in 2018-19 compared to the previous year, while our water usage reduced by 5%. The amount of our waste diverted from landfill is now 99%.

Where possible, we've complied with government buying standards in sourcing our materials and assets, meeting all the requirements for IT, food, catering services and transport. We are making year-on-year progress towards the government aspiration for 33% of our procurement spend to be with small and medium enterprises by 2020.

Our tendering process provides for the exclusion of any bidder who has committed offences under the Modern Slavery Act 2015 and, alongside general checks on statutory compliance throughout the contract term, we use a sustainability assessment tool to measure the impact of our supply chain. This gives assurance that the risk of modern slavery is mitigated in the goods and services that we buy and that our suppliers address diversity, health and safety, labour standards and social values.

We are working with the Environment Agency to address the impact of climate change and to identify and monitor offices at risk of flooding. Environmental considerations have also been factored into building works for our new regional centres. To support biodiversity, we have added insect hotels, log piles and meadow areas to many of our key sites, as well as cultivating trees and hedgerows to benefit nesting birds.

Read more about our sustainability at
www.gov.uk/government/publications/hmrc-and-valuation-office-agency-sustainability-report

+ **Read more about details of our commitments in this area on page 245**

Anti-bribery and corruption

The department takes a zero tolerance approach to bribery and corruption. This is set out in our Counter Internal Fraud, Corruption and Bribery Policy which describes the department's response to the bribery and corruption threat and applies to all our employees, suppliers, contractors and business partners. HMRC's Chief Finance Officer has day to day responsibility for implementing the policy and it is available to all employees via the HMRC intranet.

Human Rights

We work to ensure that all our policies are compliant with the Human Rights Act and have procedures in place to address concerns about potential human rights violations. The 'HMRC Way' is to understand our customers and their needs, treat everyone with respect, recognise that we have privileged access to information and to protect it, and behave professionally with integrity. Promoting mutual respect and the dignity of the individual are central to the idea of human rights.

Delivering across government

We have an important role in delivering wider government priorities, not least because the taxes we raise fund public services and infrastructure investment - but we also work proactively with other departments to achieve shared priorities, such as tackling crime, supporting the economy and preparing for the UK leaving the EU.

How did we do?

£261.7m spent on preparations for EU exit	**5,400** full-time equivalent employees working on EU exit as at 31 March 2019	**308,000** hits on GOV.UK's EU exit guidance

Preparing for EU exit

We were allocated £261 million to support EU exit preparations in 2018-19, which we spent predominantly on staffing and IT costs to make sure we can respond to any eventuality, while continuing to perform our core functions. By the end of 2018-19, we had spent £261.7 million - with £0.7 million taken from our wider funding, reflecting the government's steer to prioritise EU exit preparations. The delay to the UK's withdrawal from the EU, until 31 October 2019 at the latest, has inevitably led us to adjust our delivery plans to fit with the shifting timetable.

Throughout 2018-19, we carried out extensive scenario planning, provided support to the withdrawal negotiations and advised Ministers on the policy, legal, IT and operational implications of leaving the EU. We also developed a range of modelled solutions to support EU exit and allow the UK to take advantage of the opportunities available once we leave the EU.

During the last year, we continued our preparations to deliver the customs, VAT and excise system the UK will need after EU exit, with or without a deal. We worked closely with other government departments to develop contingency plans and ensure that border processes in the event of a 'no deal' are as smooth as possible, without compromising security, while also developing proposals on the UK's future relationship with the EU.

As part of this process, we needed to balance the uncertainty around the outcome of the withdrawal negotiations against our duty to plan and prepare for all eventualities, including 'no deal'. This has meant completing significant IT development work on the systems and upgrades we would need in a 'no deal' scenario and carrying out extensive targeted communications and engagement with businesses and other stakeholders to help them prepare for 'no deal'. We also announced a number of measures to support businesses as they make the transition to new customs processes.

Customs duties

We work in partnership with UK Border Force and other government agencies to manage customs administration, supporting traders and promoting exported growth by ensuring a rapid customs clearance. We also act to disrupt illicit supply chains and create a fair playing field for honest traders, imposing civil or criminal sanctions against those who think the rules don't apply to them. In March 2018, the UK received a formal notice of infraction from the European Commission alleging that, over the period 2011-2017, it did not take adequate steps to prevent losses to the EU budget from customs undervaluation fraud and that €2.7 billion of customs duty is owed.

Following correspondence between the UK and the Commission, the Commission have referred the case to the European Court of Justice. The government does not agree with the Commission's estimate of evaded duty and does not accept liability, so will be fully contesting the case.

In focus:
Border Delivery Group

We host the cross-government Border Delivery Group, which is responsible for coordinating and assuring the changes needed to ensure a functioning border when the UK leaves the EU, in whatever scenario. Over the past year, the Border Delivery Group has worked with more than 26 government departments and agencies responsible for processes at the UK border, including devolved administrations such as Northern Ireland. The group has reviewed and assured delivery plans and activities, provided end-to-end plans for delivering a functioning border in all UK locations, and managed system testing of critical changes.

The Border Delivery Group coordinated a major campaign of cross-government communications to improve trader readiness, and has engaged with ports, airports, Eurotunnel, carriers, transport, logistics companies and intermediaries to make sure policies and processes work and industry is preparing. The group has also led the way in understanding the border readiness of other EU member states, and has prepared for round the clock border contingency arrangements in the event of a 'no deal' scenario.

Resources for EU exit

The degree of uncertainty around EU exit has led us to review our workforce plans continuously. We built our workforce throughout 2018-19 so by the end of the financial year we had around 5,400 full-time equivalent employees working on EU exit. This included 340 full-time equivalent contractors, contingent labour and temporary support from other government departments. We used a variety of methods to resource EU exit roles, including recruitment, internal moves and reprioritising work programmes.

To ensure we could respond effectively from day one of a 'no deal' scenario, we established a command, control and coordination structure to manage the immediate issues we might face. The workforce model included command centre shift working to provide full staffing coverage, which required a minor addition to HR policy to accommodate these specific circumstances. Our preparations for a no deal scenario also included an increased team working on customs and border design policy and focussed front line operational teams.

The degree of uncertainty around EU exit impacted training design and delivery, process design, and guidance preparation (for front line staff). We managed this through increasing the number of associate trainers - experienced staff from the business - and working closely with policy teams to react as swiftly as possible once decisions were made. It has, though, impacted our core business as staff are diverted into these areas. New recruits worked in teams with experienced staff to increase resilience

Our relationship with devolved administrations

Devolved legislatures across the UK have a variety of powers over taxation. We work closely with the governments and tax authorities in the devolved administrations to help ensure effective tax administration across the UK. The map below shows those taxes already devolved and those that the UK Parliament has legislated to be devolved.

Land transactions and landfill tax

The Scottish Parliament and the National Assembly for Wales have full legislative powers over taxes on land transactions and disposals to landfill. The Scottish equivalent of Stamp Duty Land Tax and Landfill Tax are administered by Revenue Scotland, while the Welsh equivalents are administered by the Welsh Revenue Authority. We continue to work closely with them on sharing data, knowledge and experience.

Northern Ireland

Corporation Tax

Legislation was passed in 2015 to enable the devolution of Corporation Tax rate-setting powers to Northern Ireland - but this hasn't yet been implemented. We remain ready to enable Northern Ireland Corporation Tax rate-setting powers, if it's agreed that devolution should occur.

Air Passenger Duty

Northern Ireland has full legislative powers to set the rate of air passenger duty for direct long haul flights. The Northern Ireland Assembly set the rate to zero in 2013.

Wales

Welsh income tax

From 6 April 2019, the Welsh Government and National Assembly for Wales was able to set new Welsh rates of income tax, administered by HMRC. We prepared by updating our systems and identifying two million customers liable to pay the new Welsh rates.

The Welsh rates of income tax are part of the UK income tax system, so the system operates in the same way as before, with PAYE customers resident in Wales receiving a new tax code.

Scotland

Scottish income tax

The Scottish Parliament has the power to set different bands and thresholds to the rest of the UK, which HMRC administer. For 2018-19, the Scottish Parliament introduced two new bands - a new starter rate set at 19% and an intermediate rate set at 21% - as well as setting different thresholds to the rest of the UK, all of which we built into our systems.

Air Passenger Duty and Aggregates Levy

The UK government has committed to devolving air passenger duty and aggregates levy to Scotland. The dates for the transition are still to be confirmed.

VAT

We are working with HM Treasury and the Scottish Government on assigning a proportion of Scottish VAT receipts directly to the Scottish Government from a date to be agreed.

Other work across government

These are some of our areas of focus in supporting wider government objectives during 2018-19:

Tackling customs fraud

HMRC and Border Force continue to perform inland pre-clearance checks targeted at high risk traders as part of the UK's wider approach to tackling customs fraud. Inland pre-clearance is now business as usual for us, and we have moved our operations to new purpose-equipped sites at Hayes and Milton Keynes. This work would have happened regardless of whether the UK left the EU, but the model can be applied across different EU exit scenarios.

National Minimum Wage

Our role in enforcing the National Minimum Wage plays a crucial part in building a fairer society where work pays for everyone. We work to ensure businesses meet their legal obligations and workers can lodge complaints directly to us if they think their employer isn't playing by the rules. In 2018-19, we identified and recovered £24.4 million of wage arrears on behalf of workers. We carry out joint operations with other government departments to tackle the most serious and deliberate breaches.

Tax reliefs

We publish statistics on our tax reliefs every year, including cost estimates for tax reliefs where this is available and a list of those where costs are not available. In January 2019, we published costings for 195 different tax reliefs, including 115 costings of £50 million or more, and 80 costing less than £50 million. For the first time, we also published an estimate of the number of claimants for reliefs and the year they relate to, and we will publish more new costings from 2020 onwards.

Read our latest tax relief statistics and cost estimates
www.gov.uk/government/collections/tax-relief-statistics

What's next?

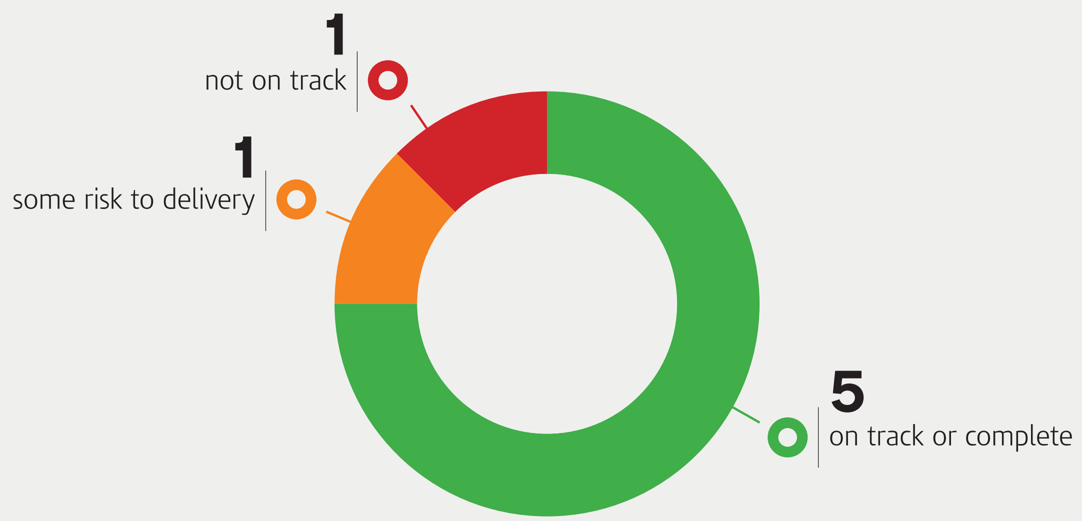
Designing and delivering a professional, efficient and engaged organisation

We want to extend smarter ways of working and new IT right across HMRC, so our people can work as flexibly as possible to meet the needs of our customers. We also want to give our people more control over their own work, career, skills, and decision-making, with an emphasis on building careers and capabilities across business boundaries, and we're committed to building a culture of respect for all our employees.

We also know we have a vital part to play in supporting the UK's economy after EU exit - with customs and border compliance being an important part. We're uniquely placed to support wider government aims of strong and sustainable economic growth once the UK has left the EU.

Progress against our commitments: Designing and delivering a professional, efficient and engaged organisation

We have committed to delivering further improvements to how we design and deliver a professional, efficient and engaged organisation, and we set out our commitments at the start of each financial year in our single departmental plan. In **2018-19** we set ourselves **seven** commitments.



Commitments on track or complete include:

- We continued to transform our estate into modern, adaptable workspaces.
- We continued to support the Greening Government Commitments.
- We contributed to the Global Goals for Sustainable Development, reducing inequality through recruitment of a diverse workforce.
- We worked towards £717 million of annual, sustainable cost savings by 2019 to 2020.

Commitment with some risk to delivery:

- We have been working to increase the capability of our people, so they feel they have the skills to do their job. This includes improving our learning offer, modernising technologies and a change in culture to provide access to the skills needed. In our 2018-19 People Survey, the percentage of colleagues who felt they had the required skills remained the same as the year before, at 79%. A number of improvements in the survey have been identified to be taken forward into 2019-20, along with long-term capability plans.

Commitment not on track:

- In 2018-19 we had a programme of work to understand the needs and capability of our people, so we can improve employee engagement. We installed engagement reps across HMRC and produced a full suite of materials, including videos, campaigns and intranet resources. Despite this, employee engagement dropped by 1% in the Annual People survey 2018. The data suggested the result is influenced by poorer perceptions of change management and the work people do. We are designing support plans for 2019-20 to address this.

+ **Read details of our full commitments on page 245**

Key Budget announcements

The following Budget measures which impact our work were announced by the government during **2018-19**

Offshore receipts of corporate ‘intangible property’

This measure will apply a UK income tax charge to amounts received in a low tax jurisdiction for intangible property (such as brands, patents, ‘know-how’ or copyright) where those amounts refer to the sale of goods or services in the UK. It is a necessary change to counteract tax-driven arrangements used by some large multinationals to pay little or no tax on intellectual property-derived income from UK sales. It will level the playing field for businesses operating in the UK and took effect from 6 April 2019.

Corporate capital loss restriction

The government will legislate in the Finance Bill 2019-20 to restrict companies’ use of carried-forward capital losses to 50% of their capital gains from 1 April 2020. Companies will be allowed unrestricted use of up to £5 million capital or income losses each year, meaning that 99% of companies will be financially unaffected. Draft legislation is due to be published later this summer 2019, following publication of the consultation paper on 29 October 2018. A measure to support this change took effect from 29 October 2018.

Digital Services Tax (DST) on large businesses

The government will implement from April 2020 a DST of 2% on the revenues of specific digital businesses that are attributable to the activities of UK users. The tax will only apply where the worldwide group has more than £500 million of revenue chargeable to the tax where UK users contribute more than £25 million.

Off-payroll working (IR35) from April 2020

The government will extend the April 2017 reform of the off-payroll working rules in the public sector to include all medium and large-sized organisations with effect from 6 April 2020. Responsibility for determining whether the rules apply will move from the worker’s intermediary (usually a personal service company, partnership, or other individual) to the medium or large-sized organisation engaging the worker’s services. The reform does not introduce a new tax; it tackles non-compliance with the off-payroll working rules introduced in 2000. These rules only affect people working like employees and through a company; they do not apply to the self-employed.

Plastics tax

The government will introduce a tax on the production and import of plastic packaging from April 2022. Plastic packaging accounts for 44% of plastic used in the UK, but 67% of plastic waste, and over two million tonnes of plastic packaging is used each year. The vast majority of this is made from new, rather than recycled plastic. Subject to consultation, this tax will apply to plastic packaging that does not contain at least 30% recycled content. The tax will provide a clear economic incentive for businesses to use recycled material in the production of packaging which in turn will create greater demand for this material.

Sir Jonathan Thompson
Accounting Officer
11 July 2019

Our accountability

How we operated HMRC in a transparent way in **2018-19**

"We seek to ensure that HMRC has the right strategy to fulfil its purpose."

How we are managed and scrutinised

Foreword

This has been another year of strong achievement for HMRC. The department has again achieved record tax receipts and exceeded its target for compliance yield, as well as preparing for EU exit and making further good progress with its transformation programme.

As HMRC's Lead Non-Executive, I am privileged to chair the HMRC Board. The role of the Board is to provide support, challenge and assurance to HMRC's Executive Committee (ExCom). We seek to ensure that HMRC has:

- the right strategy to fulfil its purpose
- robust and realistic plans for delivery
- the resources and capability it needs for success.

We also scrutinise performance, to make sure that the department is on track to achieve its key targets and objectives.

The department's agenda for the year has again been very ambitious and challenging. The Board's main areas of focus have been:

- the vital work the department has undertaken to prepare for EU exit
- HMRC's transformation programme, with particular emphasis on Making Tax Digital for VAT
- support and challenge on HMRC's customer service performance.

The uncertainties in relation to EU exit have created a continuing need for HMRC to keep priorities under review and to be flexible in the deployment of its resources. The department has responded very well to that challenge.

HMRC's Non-Executives, who sit on the Board with the Permanent Secretaries and the Chief Financial Officer, bring a wide range of expertise and experience in areas relevant to HMRC's business and transformation. They help the department to achieve its objectives by bringing an independent perspective to complement the considerable expertise and experience of HMRC's executives.

As a Board, we are supported by three Board committees - the Audit and Risk Committee, the Customer Experience Committee (CEC) and the People and Nominations Committee. The committees undertake detailed work in the areas within their remit and include additional Non-Executives and independent advisers who bring specific relevant expertise and experience to the table. The CEC was established during the year to succeed the previous Charter Committee, with a broader remit to explore every aspect of customer experience.

The Non-Executives are also actively involved beyond the formal Board and committee structures, providing support in a range of areas across the department and visiting operational areas. As well as being valuable in its own right, this broader involvement helps to ensure that our Board and committee work is founded on a solid understanding of HMRC's business.

At the end of the year Joanna Baldwin retired from the Board. Joanna chaired the Charter Committee and led the work to establish the CEC, chairing its initial meetings. I would like to thank both Joanna and all my other Board and committee colleagues who served during the year.

You can read more about the work of the Board and ExCom, together with a fuller picture of HMRC's governance structures and processes, on the following pages.

Mervyn Walker
Lead Non-Executive Director

Governance Statement

This Governance Statement sets out HMRC's governance, risk management and internal control arrangements. It applies to the financial year 1 April 2018 to 31 March 2019 and up to the date of approval of the Annual Report and Accounts, and accords with HM Treasury guidance. It also contains the Accounting Officer System Statement for HMRC.

How we are structured

Ministerial arrangements

HMRC is a non-ministerial department established by the Commissioners for Revenue and Customs Act (CRCA) 2005, which gives the legal powers and responsibilities of the department to Commissioners appointed by the Queen. Our status as a non-ministerial department is intended to ensure that the administration of the tax system is fair and impartial. We comply with directions of a general nature given by HM Treasury ministers.

HMRC is accountable to the Chancellor of the Exchequer for how we conduct our business. The Chancellor has delegated the responsibility for oversight of the department to the Financial Secretary to the Treasury, as departmental minister for HMRC. The departmental minister for the financial year 2018-19 was The Rt. Hon. Mel Stride MP. Jesse Norman MP is the current minister at the time of publication.

We have a policy partnership with HM Treasury to develop and deliver tax policy. HM Treasury leads on strategic work and tax policy development, supported by HMRC. HMRC leads on policy maintenance and delivery, supported by HM Treasury. The policy partnership covers policy work on all direct and indirect taxes and duties, National Insurance, tax credits and Child Benefit.

Commissioners

Our Commissioners are responsible for collecting and managing revenue, enforcing prohibitions and restrictions, and other functions such as the payment of tax credits. They exercise these functions in the name of the Crown. The Commissioners are also entitled to appoint officers of Revenue and Customs who must comply with their directions. The way in which the Commissioners conduct their business is governed by the CRCA. Decisions relating to the resolution of our largest and most sensitive cases are decided by three Commissioners, chaired by the Tax Assurance Commissioner.

HMRC currently has seven Commissioners. These are Sir Jonathan Thompson, Jim Harra, Justin Holliday, Angela MacDonald, Penny Ciniewicz, Melissa Tatton and Ruth Stanier*.

* Nick Lodge resigned from HMRC on 16 September 2018 and subsequently stood down as Commissioner. Ruth Stanier was appointed as a Commissioner on 11 January 2019.

First and Second Permanent Secretaries

Our First Permanent Secretary and Chief Executive, Sir Jonathan Thompson, is the Principal Accounting Officer for HMRC. Sir Jonathan is responsible for the delivery of HMRC's strategy and is accountable to Parliament for the stewardship of HMRC's resources. As First Permanent Secretary, he is also accountable for delivering HMRC's ambitious transformation programme, improving customer service and managing the department's budget. Sir Jonathan chairs the Executive Committee and is a member of the HMRC Board.

Sir Jonathan's Accounting Officer responsibilities are set out on pages 164 to 165. Sir Jonathan joined HMRC as Chief Executive and First Permanent Secretary on 4 April 2016.

Our Second Permanent Secretary and Deputy Chief Executive, Jim Harra, is the Additional Accounting Officer for Scottish and Welsh rates of income tax. Jim is the HMRC lead for Exiting the EU, the Policy Partnership with HM Treasury and the department's tax profession. Jim is also the Tax Assurance Commissioner and is responsible for HMRC's work to maintain and improve the health of the tax administration system.

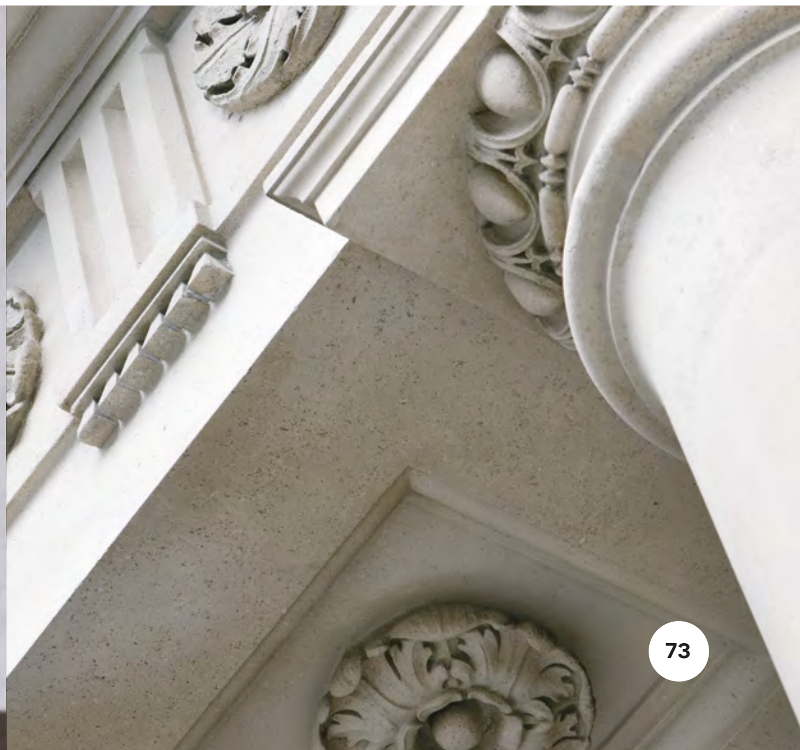
Tax Assurance Commissioner

The role of Tax Assurance Commissioner (TAC) was introduced by HMRC in 2012 as part of a package of measures designed to strengthen the governance of tax disputes. The TAC provides assurance and transparency and has an explicit challenge role in decision-making in the largest and most sensitive disputes, and in a sample of smaller cases. A report on how HMRC's tax dispute resolution governance operated during the year is prepared by the TAC on an annual basis (see pages 100 to 113).

Non-Executive Directors

Non-Executive Directors bring external experience and expertise to the department, playing an important role in providing advice, challenge and scrutiny to the work of the Executive and the department more widely, both within and outside of formal Board and sub-committee meetings. Non-Executives contribute their expertise outside the formal Board and sub-committee structures - for example, working closely with executives on specific initiatives, buddying and undertaking in-depth examinations of risk. Non-Executive Directors also support the effectiveness of programme boards for HMRC's most significant transformation programmes.

Mervyn Walker, HMRC's Lead Non-Executive Director, has chaired HMRC Board meetings since 15 January 2018. As Lead Non-Executive Director, Mervyn meets regularly with the HMRC Non-Executive Directors and the First and Second Permanent Secretaries, acting as a sounding board where necessary. Mervyn also takes an active role across government, liaising with the government-wide Lead Non-Executive Director. In addition, the Lead Non-Executive Director is responsible for the development and appraisal of Non-Executives as effective Board members.



Our governance structure

HMRC has a two layered system of governance:

- **HMRC Board**
- **HMRC Executive Committee.**

This framework enables our Executive Committee (ExCom) to undertake effective and transparent decision-making and provides appropriate challenge and assurance by our Non-Executives.

Figure 10: HMRC committee structure as at 31 March 2019

Executive Committee

Oversees the department's performance and transformation, both in terms of immediate and future objectives

Executive Committee (Brexit)

Oversees the development and delivery of the department's work programme to support the UK's exit from the EU

ExCom sub-committees *

Strategy and Design Committee
Ensure HMRC is on track strategically and that we have the right business and operating model in place to deliver, develop and agree strategy and design

Organisational Capabilities Committee
Ensure HMRC has the required capabilities to fulfil our strategic ambitions

Strategic Performance and Resources Committee
Ensure that performance is on track relative to the five year Business Plan and decide on the prioritisation of investment resources

HMRC Board

Provides challenge and advice on HMRC strategy, performance and capability

Board sub-committees*

People and Nominations Committee
Provides advice and scrutiny on nominations, succession planning, leadership and HR strategy

Audit and Risk Committee
Provides assurance and scrutiny on financial control, risk and governance

Customer Experience Committee
Provides challenge and support on customer experience related issues and monitors departmental performance against 'Your Charter'

* Highlighted committees are new for **2018-19**

HMRC Board and sub-committees

The role of HMRC's Board is critical to our success as a non-ministerial department. The Board consists of the Lead Non-Executive, the five other Non-Executive Board Members, the First and Second Permanent Secretaries and the Chief Finance Officer as the standing members, with other executives attending as the agenda on risks and decisions dictate. The Board is chaired by Mervyn Walker, as Lead Non-Executive, and helps to guide the department strategically by drawing upon wide-ranging public and private sector expertise.

In 2018-19 the Board met ten times and provided challenge, advice and assurance to the First and Second Permanent Secretaries and the executive team on developing and implementing their strategy, business plan and performance against that plan. The Board is advisory and does not have a role in operational decision-making, tax policy or individual taxpayer matters.

Board focus in
2018-19

Strategy

- HMRC strategy
- Customer journeys and channel shift
- Customer strategies.

Planning and Performance

- HMRC performance data and hub
- Business planning
- Spending Review 2019
- Customer service performance
- Demand management
- Chief Executive's Hub.

Transformation

- Prioritisation of Transformation Portfolio
- Making Tax Digital.

Risk management

- Risk report
- Annual risk overview
- Risk deep dives.

People

- People priorities and workforce culture
- Capacity and capability
- People Survey results.

Cross-cutting

- EU exit
- GDPR.

The HMRC Board is supported by three sub-committees:

Audit and Risk Committee

This committee provides independent assurance to the Board and Principal Accounting Officer on the integrity of financial statements and the comprehensiveness and reliability of assurances across HMRC on governance, risk management and the control environment. In 2018-19, the committee was chaired by John Whiting.

Audit and Risk Committee focus in **2018-19**

2018-19 Annual Report and Accounts for:

- HMRC
- National Insurance Fund for Great Britain
- National Insurance Fund for Northern Ireland
- Revenue and Customs Digital Technology Services Limited.

Audit and Assurance

- Director of Internal Audit's annual opinion for 2018-19
- Internal audit coverage and planning, management response to issues identified through audit and follow-up reports on audits with limited or unsatisfactory assurance
- The Tax Assurance Commissioner's Report for 2018-19
- Annual assurance statements made by ExCom members
- The National Audit Office (NAO) Planning and Completion Reports for the 2018-19 Annual Report and Accounts and NAO management letters
- Oversight of recommendations made by external bodies.

Controls and processes

- Whistleblowing process
- Improvements made to HMRC's financial accounting systems for tax and running costs
- Control framework
- Contract management
- Review of Arm's Length Bodies
- Quality Assurance of Business Critical Models
- Estimation models used for accounts
- Fraud.

Resilience and security

- Business continuity arrangements
- Personal data-related incidents reported to the Information Commissioner's Office in 2018-19
- IT health and security.

Risk management

- Departmental risk reports
- HMRC risk management processes.

People and Nominations Committee

This committee provides advice and scrutiny for the HMRC Board on the HR function's support for the department's strategic direction, HMRC's ability to meet its legislative responsibilities to its people, including health and safety, the Equality Act and equal pay opportunities, and the effectiveness of nominations arrangements within HMRC. In 2018-19, the committee was chaired by Mervyn Walker.

People and Nominations Committee focus in **2018-19**

- HMRC's People Strategy
- Leadership and talent management
- Workforce planning and location strategy
- Civil Service people survey results.
- Diversity and Inclusion Strategy
- Performance management
- Rewards and Incentives Strategy
- Building our Future programme
- Organisation development.

Customer Experience Committee

This committee provides challenge and support on customer experience-related issues and monitors HMRC's performance against its customer charter, called 'Your Charter'. It was created in September 2018 and replaces the Charter Committee[1]. While the Charter Committee looked at the customer through the 'Your Charter' lens, the Customer Experience Committee has the remit to look at broader customer experience with HMRC. In 2018-19, the committee was chaired by Joanna Baldwin[2]. It is composed of Non-Executive directors and a small number of independent advisers who are widely experienced in transforming customer-oriented organisations.

Customer Experience Committee focus in **2018-19**

- Support for vulnerable customers
- Customer perception
- Channel strategy and operating model
- HMRC brand and communications.
- HMRC performance on customer experience
- Customer readiness for change and impact of new policies
- Planning for future customer services
- Examining HMRC's customer-focused culture.

1. The Charter Committee met once within the financial year. This meeting was held on 20 June 2018.
2. Joanna Baldwin left the department on 31 March 2019. Mervyn Walker will assume chair responsibility for 2019-20.

Board effectiveness

Our Board frequently assesses the quality of its discussions as part of the reviewing arrangements at the end of each meeting. The Board also conducts thorough analysis on an annual basis through structured questionnaires as part of the Board Effectiveness Review coordinated by the Cabinet Office. The review is used as an opportunity for the Board to assess progress against recommendations from previous reviews and to ensure there is continuous improvement in the Board's effectiveness and impact.

The 2018-19 review found that the Board's monthly rhythm had strengthened the relationship and engagement between the Board and the Executive Committee. The quality and structure of the meetings had also been improved by increasing time for individual agenda items and incorporating the performance hub into meetings. The Board was satisfied with the quality of data provided and there is work ongoing to further improve the management information used by both the Board and the Executive Committee. The Board felt that the greater focus on the strategic placement of issues had enabled the Non-Executives to strike a good balance between supporting and challenging the Executive Committee. It was felt that this change also enabled the Board to provide timely advice and counsel.

The 2018-19 review identified further improvements that could be made to build on the progress made over the past year. These include:

- strengthening the relationship with the Financial Secretary to the Treasury
- increasing the Board's understanding of and relationship with the Valuation Office Agency, as the department's principal arm's length body
- fostering continuous improvement through the flow of information between the Board and the Executive Committee.

Executive Committee and sub-committees

The **Executive Committee (ExCom)** is HMRC's most senior decision-making body and is chaired by the Chief Executive and First Permanent Secretary, Sir Jonathan Thompson. ExCom oversees and assures all of HMRC's work and is responsible for setting and delivering our strategic objectives. ExCom is also responsible for improving our performance, customer service and change agendas.

In 2018-19, ExCom* met 22 times to discuss and make decisions on a wide range of strategic, operational, financial and customer related issues. Every month, ExCom considers the department's performance, against key performance indicators. ExCom look at ways to improve our performance in all areas, including customer service and value for money. It also reviews the status of, and management actions for, departmental risks and issues.

Key issues covered by ExCom this year included business planning, Spending Review 2019, customer journeys, customer strategies, people priorities and workforce culture, business-critical functions, communications and reputation, data strategy, infrastructure and technology, departmental risks and demand management.

* For the period ExCom meetings were twice each month, up from once a month following the closure of a monthly ExCom (Transformation) meeting in March 2018.

ExCom (Brexit)

ExCom (Brexit) was created in July 2017 to ensure that HMRC's EU exit plans are joined-up and reflected in wider departmental delivery and planning processes. ExCom (Brexit) provides the most senior level of governance and challenge to the department's EU exit delivery plans. It also ensures that HMRC is providing the appropriate resource and focus on delivery and planning. In 2018-19, ExCom (Brexit) was chaired by the Second Permanent Secretary, Jim Harra.

ExCom (Brexit) focus in **2018-19**

No Deal Planning	People	Regular Updates
• Contingency planning • 'No deal' readiness • Prioritisation of work streams under 'no deal' • Command, control and coordination structure • Other government department contingencies.	• EU exit recruitment and resourcing • Capacity and capability • Staff wellbeing and resilience.	• EU exit work and risks • Borders work • Non-borders work • Borders Delivery Group report • EU exit risk / issue management • Other government department dependencies.

In the financial year ExCom reviewed its corporate governance arrangements and re-structured the three ExCom sub-committees from 2017-18*. ExCom (Brexit) now sits alongside ExCom and in July 2018, three new sub-committees were established, delegating authority and decision-making, providing greater freedom for leaders to deliver on HMRC's priorities and involving more leaders in decision making.

Strategy and Design Committee

This committee provides high-level oversight and direction of HMRC's corporate and functional strategies and their implementation across the HMRC Business Framework. It also acts as the corporate design authority that masters HMRC high-level design. In 2018-19, the committee was chaired by the Director General of Customer Strategy and Tax Design, Ruth Stanier.

Organisational Capabilities Committee

This committee leads the identification, definition and development of the organisational capabilities (human, tangible and intangible) required to fulfil HMRC's strategic ambitions, and is responsible for reviewing the effectiveness of organisational capabilities. In 2018-19, the Organisational Capabilities Committee was jointly chaired by the Chief People Officer, Esther Wallington and Chief Digital Information Officer, Jacky Wright.

Strategic Performance and Resources Committee

This committee provides strategic oversight of the resources available to HMRC and strategic performance against the HMRC Business Plan. It provides oversight of key corporate performance, efficiency, and productivity and highlights opportunities, strategic gaps and issues. It also oversees the strategic investment process. In 2018-19, the Strategic Performance and Resources Committee was chaired by the Chief Finance Officer, Justin Holliday.

* The Investment and Design Board ceased in July 2018 and the People Matters Committee ceased in September 2018 prior to implementing the new sub-committee arrangements from the autumn of 2018.

Assurance processes

The sub-committees provide an update to ExCom each month and key messages are cascaded to senior leaders.

Due to the strengthening of HMRC's corporate governance accountability through the three new sub-committees, our internal quarterly business reviews ceased in October 2018. The sub-committees cover a wider leadership group that consider performance, address challenges and discuss continuous improvement.

This year, HMRC continues to update and monitor a strengthened delegation framework and improve our annual group-level assurance processes. ExCom and the Board take assurance from a range of activities across the 'three lines of defence' that the department is able to deliver on its overall strategy and objectives.

The first line of defence comprises appropriate controls that mitigate the risks to the delivery of HMRC's objectives and front line operations. They stop things going wrong while the activity is underway.

The second line of defence is the activity that provides managers with assurance that the controls in place are sufficient and operating as intended. This activity can be undertaken in the business, centrally by specialist assurance teams, or be automated in systems. It takes place after the work has been completed. Assurance activity provides reports which senior managers or other review bodies, for example risk and audit committees (including HMRC's Audit & Risk committee), use as a basis to improve the controls and management of risks.

The third line of defence covers independent assurance undertaken by Internal Audit who directly report to the Accounting Officer and HMRC's Audit & Risk Committee. Further independent assurance is provided by external bodies, mainly conducted by the National Audit Office.

Register of interests

HMRC maintains a register of interests to ensure that potential conflicts of interest can be identified, in line with the Code of Conduct for Board Members of Public Bodies. HMRC Board members and members of its sub-committees are required to declare any potential conflicts of interest on appointment and on an annual basis. No significant company directorships or other interests were held by Board members which may have conflicted with their responsibilities. Note 15 to the Resource Accounts confirms that no member of the Board, including Non-Executives, had any related-party interests.

Non-Executive Directors

Mervyn Walker
Lead Non-Executive Board Member

Joanna Baldwin [1]
Non-Executive Board Member

Alice Maynard
Non-Executive Board Member

Simon Ricketts
Non-Executive Board Member

Juliette Scott
Non-Executive Board Member

John Whiting [2]
Non-Executive Board Member

Elizabeth Fullerton-Rome [3]
Non-Executive and Board Sub-committee Member

Diane Herbert
Non-Executive and Board Sub-committee Member

Tom Taylor [4]
Non-Executive and Board Sub-committee Member

Michael Hearty [5]
Non-Executive and Board Sub-committee Member

This page:

1. Joanna Baldwin left on 31 March 2019 at the end of her contract.
2. John Whiting's term ends on 31 July 2019.
3. Elizabeth Fullerton-Rome joined HMRC on 13 June 2018.
4. Tom Taylor joined HMRC on 13 June 2018.
5. Michael Hearty joined as a Non-Executive and Board sub-committee member on 13 June 2018. Michael was previously an Independent Adviser to A&RC from 26 January 2017.

Opposite page:

1. Alan Evans joined HMRC on 1 January 2019.
2. Ruth Stanier was appointed as the Director General of Customer Strategy and Tax Design on 18 July 2018 and a Commissioner for HM Revenue and Customs on 11 January 2019.
3. Jacky Wright has been appointed on a two year fixed term on assignment from Microsoft with effect from 16 October 2017. Jacky Wright is a Senior Civil Servant and bound by the Civil Service Code. HMRC has robust mechanisms in place to handle IT and commercial decision making. She does not participate in any commercial decisions specifically concerning Microsoft.

Members of Executive Committee (ExCom)

Sir Jonathan Thompson
Commissioner of Revenue and Customs; Chief Executive and Permanent Secretary, Principal Accounting Officer, and member of the Board

Jim Harra
Commissioner of Revenue and Customs, Second Permanent Secretary, Tax Assurance Commissioner and member of the Board

Penny Ciniewicz
Commissioner of Revenue and Customs, Director General Customer Compliance

Alan Evans [1]
General Counsel and Solicitor

Justin Holliday
Commissioner of Revenue and Customs, Chief Finance Officer and member of the Board

Angela MacDonald
Commissioner of Revenue and Customs, Director General Customer Service

Ruth Stanier [2]
Commissioner of Revenue and Customs, Director General Customer Strategy and Tax Design

Melissa Tatton
Commissioner and Chief Executive of the Valuation Office Agency

Esther Wallington
Chief People Officer

Karen Wheeler
Director General Border Delivery Group

Jacky Wright [3]
Chief Digital and Information Officer

Figure 11: Meeting attendance by Executives and Non-Executives

	Board	Audit & Risk Committee	People Nominations Committee	Customer Experience Committee	ExCom	ExCom (Brexit)
Non-Executive Board Members						
Mervyn Walker	10 (10)	9 (9)	4 (4)			
Joanna Baldwin[1]	9 (10)			3 (3)		
Alice Maynard	10 (10)		4 (4)	3 (3)		
Simon Ricketts	10 (10)					
Juliette Scott	9 (10)			3 (3)		
John Whiting	10 (10)	9 (9)		3 (3)		
Non-Executives						
Leslie Ferrar[2]		4 (4)				
Elizabeth Fullerton-Rome[3]		7 (7)				
Michael Hearty[4]		9 (9)				
Diane Herbert			4 (4)			
Paul Smith[5]		4 (4)				
Tom Taylor[6]		6 (7)				
Executives						
Sir Jonathan Thompson	10 (10)				20 (22)	5 (12)
Jim Harra	9 (10)			2 (3)	18 (22)	12 (12)
Gill Aitken[7]					5 (6)	3 (3)
David Bunting[8]			1 (1)		9 (10)	5 (6)
Penny Ciniewicz			4 (4)		21 (22)	11 (12)
Alan Evans[9]			1 (1)		6 (6)	3 (3)
Justin Holliday	9 (10)				20 (22)	8 (12)
Nick Lodge[10]					7 (10)	2 (5)
Angela MacDonald			1 (4)		19 (22)	9 (12)
David Richardson[11]					7 (7)	3 (3)
Ruth Stanier[12]					13 (15)	9 (9)
Melissa Tatton					19 (22)	
Esther Wallington			4 (4)		18 (22)	8 (12)
Karen Wheeler					9 (22)	5 (12)
Jacky Wright					16 (22)	6 (12)

Note: This table sets out meeting attendance by each committee or Board member. It does not include other attendees or presenters.

1. Joanna Baldwin left on 31 March 2019 at the end of her contract.
2. Leslie Ferrar left HMRC on 30 June 2018 at the end of her contract.
3. Elizabeth Fullerton-Rome joined HMRC on 13 June 2018.
4. Michael Hearty joined as a Non-Executive and Board sub-committee member on 13 June 2018. Michael was previously an Independent Adviser to A&RC from 26 January 2017.
5. Paul Smith left HMRC on 31 July 2018 at the end of his contract.
6. Tom Taylor joined HMRC on 13 June 2018.
7. Gill Aitken left the department on 30 June 2018. She served as General Counsel and Solicitor from 27 January 2014.
8. David Bunting served an Interim General Counsel and Solicitor for HMRC from 1 July 2018 to 31 December 2018.
9. Alan Evans became General Counsel and Solicitor for HMRC on 1 January 2019.
10. Nick Lodge left HMRC on 16 September 2018. He held the position of Director General Strategy from 25 April 2018. Prior to this, he held the positions of Director General Transformation and Director General Benefits and Credits.
11. David Richardson was the Interim Director General for Customer Compliance from 1 June 2017 to 3 September 2017 and then the Interim Director General for Customer Strategy and Tax Design from 1 January 2018 until 24 April 2018.
12. Ruth Stanier became the Director General for Customer Strategy and Tax Design on 18 July 2018.

Managing risks to our objectives

To help ensure we achieve our strategic objectives, it's vital that we manage risks at all levels of HMRC from operational decision-making on individual cases through to managing change and strategic-level risks. Everyone in HMRC, from Board level down, has a clear role to play. This section explains how we identify and then address all these risks.

Our risk framework

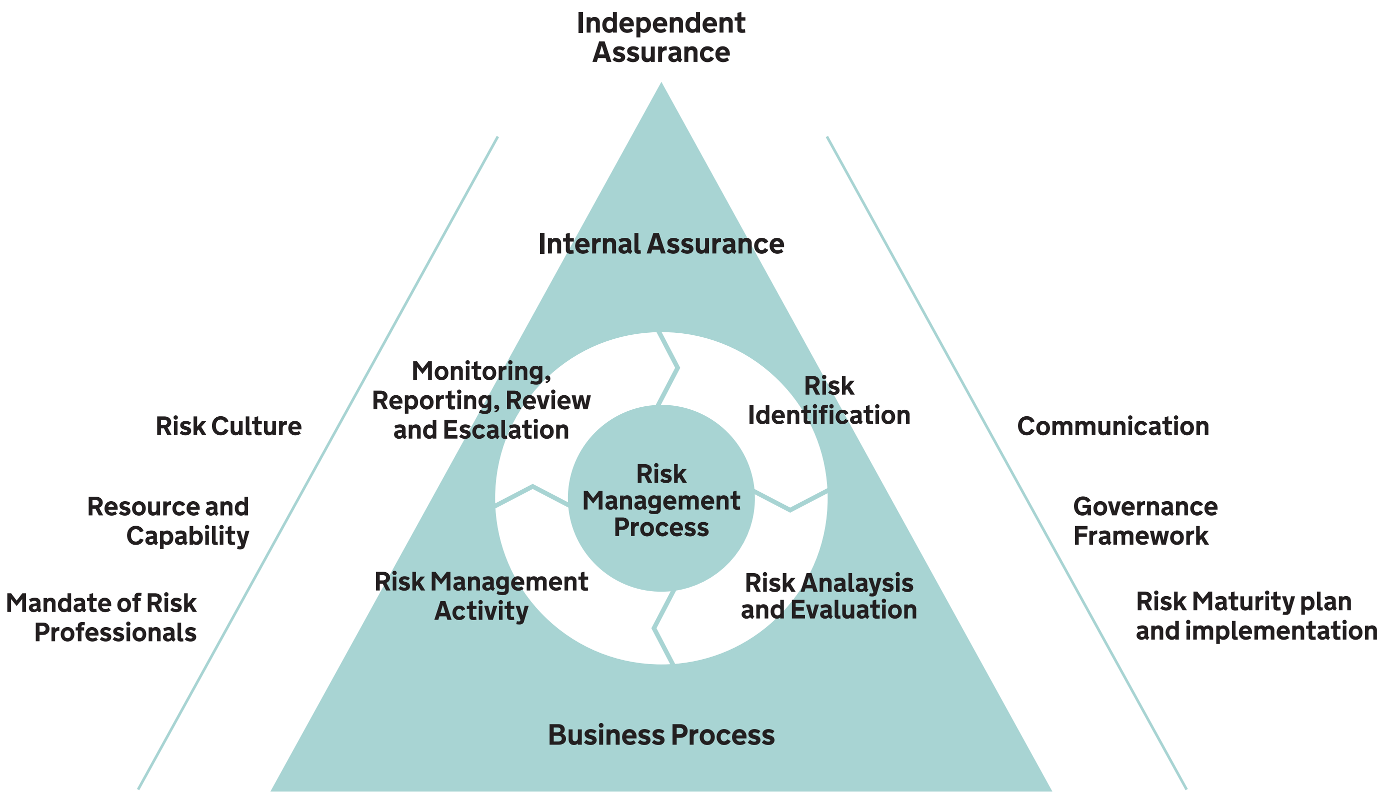
We have developed a risk framework (Figure 12) to show how we manage risks to the delivery of our objectives. We identify risks during our business planning process, integrating risk management into the way we work across HMRC, including project management, business risk and assurance boards, performance and risk reporting. We also identify and monitor risks throughout the year through monthly risks and performance hubs.

Each risk we identify is given:

- an 'owner' and / or 'sponsor' within the business
- controls and mitigating actions as necessary
- an agreed cycle of assessment and review.

Senior leaders take regular stock of the actions we're taking to manage risk and whether any risks need to be escalated to the strategic level. Top level strategic risks are reviewed by ExCom and the Audit and Risk Committee. We have started integrating the 'three lines of defence' model (illustrated below as 'Business Processes', 'Internal Assurance' and 'Independent Assurance') with our risk management process to place a greater emphasis on control and assurance.

Figure 12: Our risk framework



How we are dealing with our top ten risks

Our ten top risks are all complex and cross-cutting and have the potential to affect:

- **revenues for the Exchequer**
- **levels of confidence in the department**
- **our reputation with the public**
- **delivery of our objectives and our ability to achieve the benefits and efficiencies required by our Spending Review settlement.**

Wider uncertainties around financial pressures and EU exit preparations have increased our risk exposure during 2018-19. Although this caused risks to remain outside of tolerance levels, effective mitigating activity kept the exposure within acceptable limits.

Each of our strategic risks is sponsored by a Director General on behalf of ExCom. Figure 13 shows what our top ten risks were for 2018-19 and how we managed these

Figure 13: HMRC's top 10 risks

Principal risks and potential impact	DG sponsor	Key mitigating actions
Capacity, capability and engagement of our people We may not achieve high levels of business performance if we do not ensure our workforce has the skills, capability and working experiences which mean they and our organisation can thrive.	**Esther Wallington, CPO**	During the year we introduced our new people strategy for a great employee experience. We: • launched our People Data Strategy, which sets out an approach to harness our people data and maximise insight to better understand what drives and motivates our workforce • have replaced the old competency-based recruitment system with the Success Profiles framework, to bring a more tailored and inclusive approach to selection, and to support performance and development • have piloted new 'Smarter' ways of working to encourage people to work more collaboratively and flexibly and launched an intranet learning site of digital learning resources to help them work smarter in a digital workplace • have accepted all of the Respect at Work Review's recommendations and are working with our people to embed our values, creating an organisation in which we can all be proud to work and which our customers can trust. This includes a full review of our policies, processes and standards.

Principal risks and potential impact	DG sponsor	Key mitigating actions
Delivering transformation We may not deliver a more modern tax administration with service improvements and efficiencies that allows us to exploit digital channels to improve customer service, tackle more quickly those who do not engage with us or bend or break the rules, and live within our financial allocations.	**Sir Jonathan Thompson, Chief Executive**	As a department we are delivering a transformation programme on an unprecedented scale. Managing this effectively is crucial to our future success. To manage this risk we: • transferred Transformation Programmes into Business Groups to strengthen accountability for delivery, benefits realisation and customer service • established robust prioritisation mechanisms that enable us to quickly respond to emerging financial and capacity constraints, whilst safeguarding critical deliveries • identified opportunities to further strengthen delivery and cost control in programmes.
Exploiting information There is a risk that we fail to effectively exploit data resulting in reduced revenue collection, tax gap widening and/or weaker customer service by failing to build capability effectively (people, technology, processes, governance etc).	**Penny Ciniewicz, CCG Director General**	To ensure the data we hold is reliable, up-to-date, secure and acted upon we have: • focused on prioritising transformation funding to stabilise existing data platforms, adding analytical tools to the environment and cloud-enabled access to exploit data across HMRC. The prioritisation of this is ongoing • improved our analytical capability in both the managing and use of data to improve both the quality of data used and our ability to access and exploit it • enhanced risking capability to identify activities for customers who do not comply with obligations.

Principal risks and potential impact	DG sponsor	Key mitigating actions
External perception / loss of trust We may be seen by our stakeholders as ineffective, inefficient or as not treating everyone impartially, leading to weaker compliance and potentially an increase in the tax gap.	**Sir Jonathan Thompson, Chief Executive**	To manage this risk, we: • worked internationally to close tax loopholes and cut tax avoidance • developed our online services to help individuals and small businesses • worked to ensure fair media treatment of our work in tackling non-compliance, addressing misconceptions and inaccuracies.
Funding and affordability There is a risk that due to challenges in achieving our business plans, exacerbated by unfunded commitments, HMRC is unable to deliver its strategic objectives and / or live within its budget.	**Justin Holliday, CFO**	To manage this risk we: • conducted in-year reviews to address funding pressures as they arose, including making the case for additional funding from HM Treasury, reprioritising our transformation activity and identifying and implementing other cost reduction options • for the coming year, we have used prioritisation exercises to rank functions and activities against our strategic objectives through public service and financial lenses. We have also explored the scope for further savings within non-pay budgets • for future years, we have worked to understand our investment history and associated efficiencies, the performance, workforce and costing baselines, and capital expenditure so that we can apply these lessons as we plan future spending.

Principal risks and potential impact	DG sponsor	Key mitigating actions
Implications of EU negotiations on tax administration HMRC fails to identify and prepare for the challenges / opportunities of the UK's new relationships, leading to an insufficient ability to secure revenue, make payments and meet customer needs on exit from the EU.	**Jim Harra, Second Permanent Secretary**	To ensure we understand and proactively prepare for the UK's new relationship with the EU, we: • focused on developing and delivering detailed solutions for various exit scenarios, including No Deal, to provide support to Ministers and the ongoing negotiations • maintained a strong cross-Whitehall presence at senior levels, feeding into and participating in EU exit negotiations • managed risks to delivery of various exit scenarios, reviewing risks monthly at senior levels, releasing capacity from within the transformation portfolio and 'business as usual' onto prioritised deliveries including EU exit work within the department.
Catastrophic loss of buildings and services As a result of unexpected catastrophic event or an incident there is a risk that our business systems, people, buildings or suppliers will be unavailable resulting in significant disruption to our tax collection, payments out & other customer services and corresponding loss of public confidence in HMRC.	**Jacky Wright, CDIO Director General**	**To manage this risk we:** • completed the design of the new HMRC Business Continuity operating model and are trialling new software in support of a 2019 rollout • undertook a programme of assurance and engagement with suppliers on their security management standards including specific conversations on recent high profile malware attacks • continued to develop our capability to effectively scan and enumerate the existence of IT vulnerabilities on the estate as part of a wider ongoing programme of Cyber Security Technical Controls.

Principal risks and potential impact	DG sponsor	Key mitigating actions
Influencing customer behaviour We may fail to understand and influence customer behaviour in a way that maximises revenues and transforms our customer service, leading to inaccurate forecasting of customer demand, not living within our SR15 settlement and missed opportunities to design our customer-facing systems to promote tax compliant behaviour and make digital services the option of choice.	**Angela MacDonald, Director General for Customer Services**	To manage this risk, we: • improved our data insight capability to better understand customer interactions across our channels, its impacts on our demand and on customer behaviour • worked to improve customer journeys, including understanding where failing to do something, or do something right for the customer in one part of the process, leads to unnecessary demand in another • delivered activities from a Change Portfolio which has provided a range of digital improvements to our customers.
Loss of customer data In the event of a malicious electronic attack, human intent or an accidental event; there is a risk of unauthorised access, disclosure, modification, deletion or loss of customer data to the public domain; which may result in financial or reputational damage to or threat of harm to an individual, group of individuals, organisation or HMRC, including harming our ability to manage the tax and customs systems; fraudulent activity and revenue loss; a loss of public confidence or public/ government scrutiny; and potential regulatory and legal action against the department.	**Jacky Wright, CDIO Director General**	The safety of customer data is paramount in our thinking. To manage this risk, we: • have run a programme to address General Data Protection Regulations (GDPR) in May 2018. This addressed key foundational elements and has completed a data audit on our high risk systems and services to identify risks of non-compliance with GDPR and ensure asset owners are meeting their responsibilities • continued to invest in our cyber security mitigations to protect our digital services and customer data and respond to new and increasing threats; including improved cyber-crime monitoring and profiling to prevent unauthorised access • developed robust guidance and procedures to ensure when HMRC exits old estate we protect and secure customer data assets at all times.

Principal risks and potential impact	DG sponsor	Key mitigating actions
Relevance of the tax system to the economy As a result of HMRC not recognising and addressing the opportunities and risks arising from the impact of the wider environment on its business and tax base, there is a risk that our product and process design, decisions and tax system may become out of step with social, economic, technological and demographic developments, leading to loss of confidence/ integrity in the tax system and/or a reducing tax base, leading to a reduction in tax revenues.	**Ruth Stanier, Director General Customer Strategy and Tax Design**	To manage this risk: • we have put in place a framework designed to identify risks, issues and opportunities arising from the external environment that may have an impact on the tax base or tax revenue, and then ensure that effective action is taken to address them • we are testing and refining the effectiveness of the framework by using prioritised themes arising from the external environment previously identified as 'drivers'. We are coming to the end of this testing phase. The evidence based, risk methodology used by the framework is driving assessment of the risks and opportunities posed • when we are content the framework is effective, we will continue to use it to identify risks and opportunities from the external environment and take appropriate action to address them.

Our plans to improve risk management in 2019-20

1. We will integrate performance and risk roles to enhance the insight that we provide to Executive Committee and Director General level.
2. We will deliver a single risk and control tool across HMRC to help monitor, report and manage risk more effectively.
3. We will introduce risk tolerance statements and set strategic risk tolerance levels.
4. We will undertake monthly monitoring of short-term risks that underpin our top ten strategic risks.
5. To support the department-wide internal fraud risk assessment, we will integrate internal fraud risk. management with our overall risk management approach.

Principal Accounting Officer's report

HMRC's Chief Executive, Sir Jonathan Thompson, has been appointed by HM Treasury as Principal Accounting Officer for the department. In this role, he conducts an annual review of the effectiveness of our governance, risk management and internal control. A number of specific sources contribute to this annual review, which Sir Jonathan Thompson sets out in the following report.

Financial responsibilities within HMRC

As HMRC's Principal Accounting Officer, I delegate financial authority to each of HMRC's Directors General, through annual letters of delegation, to manage the budget for their business areas within agreed financial limits and Managing Public Money guidelines. Our Directors General are supported by their finance directors and finance business partners and operate a cascade of delegations of these financial authorities within their business areas. Financial authority limits and HMRC policy requirements are set at each stage of delegation.

This scheme of delegations is supported by HMRC's financial controls framework, developed in 2017, which ensures that we adhere to control standards in all our financial processes and enhances financial control within HMRC. The framework helps mitigate the risk of financial loss through error or fraud. It also helps ensure the integrity of our financial statements by helping to reduce the risk of fraud, error and financial misreporting.

Statements and reports made by Executive Committee (ExCom) members

Each member of ExCom provides an annual statement of assurance setting out the governance, risk and control arrangements in their business areas. These statements are reviewed by Internal Audit, Corporate Governance and Corporate Risk Management. HMRC's Audit and Risk Committee also provides assurance of these statements. The Tax Assurance Commissioner prepares a Tax Assurance Report, which can be found on pages 100 to 113.

We are currently operating within a challenging public fiscal environment. Since the 2015 Spending Review we have seen an unusually high level of change, much of which has resulted in additional ongoing work for which the funding is not included as part of our current core settlement. We have rigorously prioritised and made difficult choices to improve deliverability of both our business as usual and transformational plans. We will continue to work with Her Majesty's Treasury to ensure continued funding is made available to enable us to deliver our agreed priorities.

We focus on delivering our core government objectives through a process of robust planning and governance. For instance:

- We have a mature business planning process which balances our financial resources against our performance and transformational objectives. This is supported by full transparency of our planning and delivery commitments via the Single Departmental Plan and performance reporting.
- A well-established performance and risk framework into which we are incorporating the principles and practice of the Public Value Framework, further enhancing our decision making and planning.
- A proven track record of managing the Department's performance whilst remaining within our expenditure limits. Including robust in-year financial management and regular reprioritisation exercises. We also regularly and proactively engage with HM Treasury to help identify and manage long term or emerging financial risks.

Also by ensuring that we are fully prepared for the Spending Review 2019, with multi-year investment and saving options already in development.

Additional Accounting Officers

I receive assurance from HMRC's Additional Accounting Officers:

- Melissa Tatton has responsibility for the Valuation Office Agency (VOA) administration and payments of rates to local authorities on behalf of certain bodies
- Jim Harra has responsibility for the Scottish and Welsh rates of income tax
- Justin Holliday has responsibility for the signature of the Account of Duties Collected in the Isle of Man
- Patrick Whittome, HMRC Director of Finance Operations, has responsibility for the signature of the Account of R.N. Limited.

The VOA provides a separate Governance Statement and I take assurance from this and from the review which underpins it.

Security

ExCom receives weekly security incident reports, which include details of any personal data-related incidents we report to the Information Commissioner's Office, as specified on page 144. A regular security incident report is also presented to the Audit and Risk Committee.

I also receive formal assurance from HMRC's Senior Information Risk Owner that information risk has been appropriately managed in the conduct of HMRC business.

+ **Read more information about using data on page 52**

National Insurance Funds

There are two National Insurance Funds, one for Great Britain and one for Northern Ireland. Each has its own annual report and accounts, including a governance statement, which I sign separately. Many of the activities relating to the transactions of the two funds are carried out by other departments and agencies (for example, the Department for Work and Pensions and the Department for Communities in Northern Ireland) and I receive letters of assurance from the accounting officers of each of these.

Quality assurance of business critical models

A departmental framework including central guidance has been developed to underpin quality assurance of business critical analytical models and a register of these models is maintained, consistent with the recommendations of the 2013 Macpherson review.* Management and quality assurance of the models is monitored via the register and the framework is promoted regularly in order to improve take-up of the guidance among modelling teams. HMRC's Audit and Risk Committee considers the quality assurance of our business critical models and the need for any further actions annually.

* www.gov.uk/government/publication/review-of-quality-assurance-of-government-models

Control framework

HMRC continues to develop and improve its control environment. Our focus is on deepening our ability to monitor the performance of front line controls against risks in our key processes across all our businesses. There have been a number of intranet improvements to make internal process navigation easier and more user focused. A new corporate guidance tool is being used to simplify and join up complicated support processes making it easier for staff to understand and comply. Having developed a new People Strategy, HR are now planning a substantial prioritised revision of HR guidance in 2019-20 and will also be using the project intranet tool.

Internal Audit

The Director of Internal Audit's opinion to me, as Principal Accounting Officer, is limited assurance, the same as in recent years. She highlighted the following to me in her annual report:

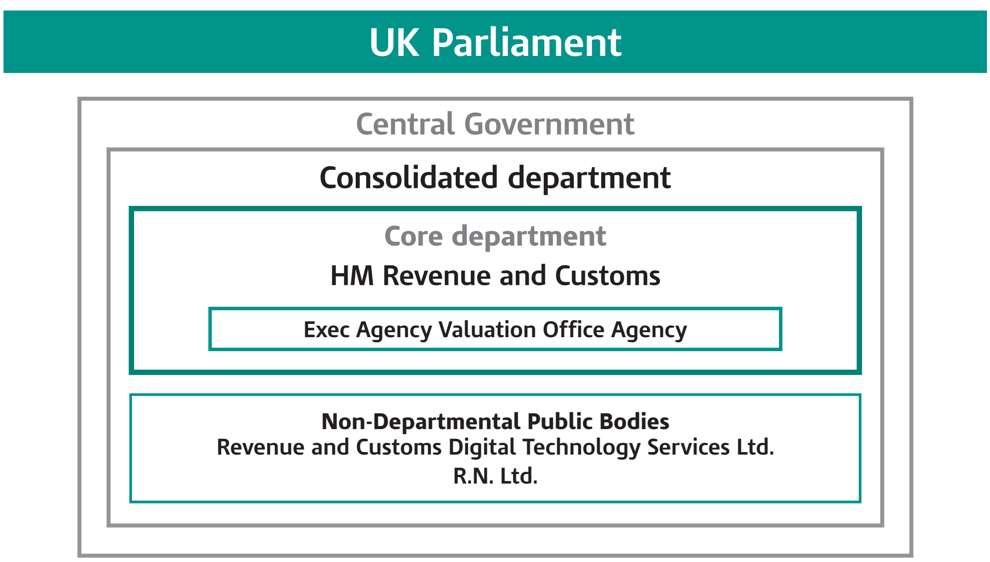
- In governance terms, the past year has seen HMRC leadership build on the firm foundations set last year. Improvements have focused on developing an appropriate enterprise process and capability model fit for the future, that reflects the way we work and the interlinkages across activities. It is important that this effort is translated into understandable and practical concepts that resonate with staff or this effort will not reap the intended benefits
- HMRC's overall level of risk exposure remains high. It is unlikely to reduce as EU exit diverts resources, competing against transformation activity and funding pressures for management attention. However risks are clearly understood. The generally strong risk management framework in place will help HMRC deal with these challenges, although capability and capacity to manage the competing risks will be an ongoing challenge
- Individual internal audit findings show a similar pattern of assurance to the previous year. Whilst areas of good control could be found at a business / operational level across the department, there remain some operational weaknesses in common processes which affect a number of business groups. Steps are being taken in these areas, although effective solutions can be slow to deliver when issues cross business group boundaries or relate to legacy systems
- Common across all business groups in HMRC is a strong leadership commitment to improving the underlying control environment. This has translated into a greater understanding across HMRC of the three lines of defence assurance model. Although progress has been made, particularly with regard to mapping core processes and identifying any controls gaps, there is still more to be done in embedding this consistently across the whole organisation and developing more integrated assurance activity. Achieving greater consistency across the organisation is what will enable HMRC's level of assurance with respect to its framework of governance risk management and internal control to increase.

Accountability relationships with arm's length bodies

HMRC has three arm's length bodies: Valuation Office Agency (VOA), which is an executive agency of HMRC, Revenue and Customs Digital Technology Services Limited (RCDTS Ltd), and R.N. Limited - which are both non-departmental public bodies.

In 2018-19, HMRC reviewed its arm's length bodies to ensure each body was well run and that risks to HMRC are well understood and managed. The review assessed whether arm's length bodies were compliant with cross-government guidance and considered: sponsor team arrangements, governance arrangements, framework documents, service level agreements, the latest set of accounts, risk management processes and financial arrangements. I am satisfied that each arm's length body has systems in place which meet the appropriate standards of governance, decision-making and financial management.

Figure 14: HMRC accountability system



Valuation Office Agency (VOA)

VOA is an executive agency of HMRC and provides valuations and property advice to the government and local authorities in England, Scotland and Wales.

The VOA receives its funding to undertake valuations for local taxation purposes through the Parliamentary Supply process from HMRC. It also recovers elements of its expenditure from other government departments for whom valuation services are provided.

Monitoring of performance: Melissa Tatton was appointed as CEO and Additional Accounting Officer for the VOA in September 2017. Melissa is a member of HMRC's Executive Committee (ExCom) and, from November 2017, a Commissioner of HMRC. HMRC's ExCom Performance Hub and ExCom Transformation performance pack include VOA data, and assurance is provided by HMRC's Internal Audit function.

HMRC has a dedicated sponsor team for the VOA as well as a dedicated ExCom sponsor, Justin Holliday. The team has a good understanding of the VOA and the risks posed and provides me with an update in advance of VOA Board meetings on a monthly basis. I am content that our oversight is working well and that our work to strengthen governance arrangements and integrate corporate services will bring further benefits and efficiencies to both the VOA and HMRC.

The Chair of HMRC's Audit and Risk Committee attends at least one meeting of the VOA Audit and Risk Assurance Committee (ARAC) each year, and the Chair of the VOA ARAC is invited to attend at least one HMRC Audit and Risk Committee meeting annually. VOA Executive Board members are part of HMRC functional leadership teams in HMRC's Chief Digital and Information Officer (CDIO), Chief People Officer (CPO) and Chief Finance Officer (CFO) business areas and we hold working level meetings on a regular basis.

The VOA provides monthly financial statements to HMRC that are consolidated into HMRC's accounts for HM Treasury returns and end-of-year statutory accounts. The VOA produces its own statutory accounts which are audited by the National Audit Office.

Accountability for spending: Melissa Tatton is accountable to Parliament for ensuring the propriety and regularity of the public finance within her charge, including meeting the requirements of Managing Public Money, HM Treasury or Cabinet Office guidance and fulfilling requirements of the Public Accounts Committee or other Parliamentary select committees or authorities. As Principal Accounting Officer, I am accountable for ensuring a high standard of financial management and strategic oversight.

Tailored review: A tailored review of the VOA commenced during 2018-19. The review report is due to be published in summer 2019.

Revenue and Customs Digital Technology Services Limited (RCDTS Ltd)

RCDTS is a private company limited by guarantee with no share capital, and was set up to facilitate phased IT resourcing. It is owned and controlled by HMRC through arrangements with the Treasury Solicitor. It is a separate legal entity with an arm's length relationship with HMRC, demonstrated by a Framework Agreement and services and funding agreements. The RCDTS Board has five directors, all of whom are HMRC employees.

RCDTS has received funding from HMRC in the form of a long-term repayable loan. There is a funding facility between HMRC and RCDTS which details the terms of the agreement. The funding has been provided for general working capital and investment purposes for the supply of IT services to HM Treasury. RCDTS invoices HMRC for the services it provides. RCDTS is non-profit making company recharging all costs to HMRC (which is its only customer).

Monitoring of performance: HMRC has put in place a sponsor team for RCDTS to provide me with assurance as Accounting Officer of the company. The sponsor team advises HMRC and ExCom and, where appropriate, acts on our behalf in managing the financial risk and return of RCDTS, by challenging and supporting the Board and RCDTS in achieving its objectives. It interacts with RCDTS at an operational level by ensuring its compliance with the Master Services Agreement and the Framework Agreement.

Accountability for spending: The HMRC finance and operations team are responsible for keeping the accounts for RCDTS. The team also keeps a control register for RCDTS where all controls are listed and monitored.

R.N. Limited

R.N. Ltd is a private company limited by shares. The shares of the company are held by the Treasury Solicitor on trust for the HMRC Commissioners. R.N. Ltd, as nominee for the Commissioners, holds charges over assets that secure tax debts owing to HMRC and holds registered title over assets assigned to HMRC in settlement of tax liabilities. The R.N. Ltd Board has five directors, all of whom are HMRC employees. The Accounting Officer is Patrick Whittome, HMRC Director of Finance Operations, who has authority delegated by the Commissioners to give directions to the Treasury Solicitor in relation to the shareholding of R.N. Ltd.

There is a formal agreement between HMRC and R.N. Ltd and ExCom-level sponsorship from Justin Holliday. The HMRC Finance and Operations team provides a case work administration, accounts production and company secretarial service for the company. The running costs of R.N. Ltd are met by HMRC.

Monitoring of performance: The R.N. Ltd Board meets on a quarterly basis. All Board meetings discuss strategy and monitor the success of the strategies R.N. Ltd has in place as well as any associated risks. The finance operations team monitor the risks and provide regular updates to the R.N. Ltd Board.

Accountability for spending: R.N. Ltd has no specific budget. The value of the assets over which the company holds charges and has title assigned amounts to £22.2 million and these assets are excluded from the R.N. Ltd balance sheet as the company holds these in a nominee capacity. In addition to preparing the accounts for RN Ltd, the HMRC Finance Operations team also keeps a control register for R.N. Ltd where all controls are listed and monitored.

Other organisations

Entrust is the regulator (since 1 October 1996) of the Landfill Communities Fund (LCF), a tax credit scheme which enables Landfill Operators to contribute money to enrolled Environmental Bodies to carry out projects that meet environmental objects contained in The Landfill Tax Regulations 1996 (Regulations). Entrust is funded by a levy on contributions to Environmental Bodies, which is set annually by HMRC and announced at Budget. While Entrust is not an arm's length body of HMRC, it has a close relationship to HMRC in a similar way to other bodies, including oversight of its business plan and operating model.

Accountability for major contracts and outsourced services*

HMRC has a number of major contracts that are significant in ensuring that it can deliver its core services. We have a contract with Mapeley STEPS Contractor Limited (Mapeley) to provide accommodation and other services. Our IT services are provided through contracts with Capgemini, Fujitsu, Accenture and Kcom. The approximate annual value of the Mapeley contract is £119 million and the approximate value of the IT contracts referred to is £617 million in total.

* The scope of this section is limited to major contracts and outsourced services. HMRC does not distribute grants to devolved administrations, local government or any other local organisations.

Mapeley

We obtain and ensure value for money from our Mapeley STEPS contract by using a set of value for money and performance measures, as well as a benchmarking and governance structure that regularly monitors, evaluates and reports on value for money in-year and for the whole life of the contract. We take management action through various contractual mechanisms, including a performance measurement system that enables HMRC to make financial deductions from Mapeley for failure to achieve key performance targets and through commercial negotiations in respect of current performance and future opportunities.

IT contracts

HMRC continue to deliver better value for money from the IT contracts by using well established performance measures which include benchmarking. These contracts have allowed HMRC to take better advantage of technical innovations and keep pace with technology trends in order to support HMRC's digital transformation and move to lower cost and highly resilient cloud services. Since the exit of the former Aspire contracts the benchmarking programme will deliver extra savings of circa £30.7 million by the end of June 2020.

Update on control challenges reported during 2017-18

Tax credits error and fraud

HMRC continues to improve its understanding of the causes and levels of tax credits error and fraud and to develop solutions to address them within HMRC's existing resource. This includes an increased focus on ways to promote voluntary compliance alongside mainstream compliance interventions.

We have implemented education and reminder campaigns to promote the correct reporting of the various factors that affect a customer's entitlement. Examples of these campaigns include targeted letters to increase understanding of the criteria for single or joint claims ('undeclared partner') and how to declare self-assessed income for tax credits purposes.

HMRC's analysts estimate that the undeclared partner campaign will have reduced the level of error and fraud in 2018-19 by 0.4 percentage points. We are looking to embed this type of activity further in our compliance strategy.

HMRC continues to work closely with DWP on opportunities to smooth the transition to Universal Credit (UC) and to manage error and fraud ahead of migration. We have tested the opportunities from engaging once with claimants of multiple benefits. This is informing future work to improve the customer experience and put claims and claimant behaviour on the right footing.

HMRC also devotes significant effort each year to addressing error and fraud through our compliance checks and through helping customers claim what they are entitled to receive. We have embedded customer service improvements, building further on the lessons learnt from the failure of the Concentrix contract.

HMRC is implementing Connecting Customer Services, a programme of work which aims to allow frontline advisors to have conversations with customers about their entire award, resolving issues as rapidly as possible and promoting compliance.

Control challenges in 2018-19

Over the past year, we have actively managed an issue that posed a risk to delivery of our core work.

Tax credits error and fraud

The Comptroller and Auditor General (C&AG) has qualified his opinion on HMRC's Resource Account for payments that we make that are not in accordance with Parliamentary intent, due to error and fraud in personal tax credits. The underlying cause of this is the design of the tax credit system (an annual cycle and year-end reconciliation). Tax credits are being replaced by Universal Credit, so opportunities to resolve this issue through major system, product or process changes are significantly limited.

Error and fraud has reduced from the high levels of 8.9% seen in 2008-09, hitting an all-time low of 4.4% in 2014-15. HMRC has achieved levels below 5%, the target set by Ministers, between 2013-14 and 2016-17. Levels have increased to 5.7% in 2017-18, our most recent published results. HMRC's accounts have been qualified throughout this period.

Ministers have retained the target to restrict error and fraud to no more than 5% of entitlement for 2017-18, 2018-19 and 2019-20.

These estimates take account of the impact of the migration to Universal Credit and continued pressures on error and fraud compliance resourcing as staff are diverted to support EU exit activity. We expect the qualification of the accounts to continue as error and fraud will remain a significant issue until the closure of tax credits.

Conclusion and compliance with the Code of Good Practice

I have assessed HMRC's compliance with the Corporate Governance in the Central Government Departments' Code of Good Practice 2017*. The code focuses on governance arrangements for ministerial departments and there are elements which are not directly relevant to HMRC due to our statutory framework and status as a non-ministerial department - for example, Commissioners make arrangements for the conduct of their proceedings and the delegation of functions (Section 12 and Section 14, CRCA 2005) and ministers attending the Board. However, we comply with the spirit and principles of the code and by this, and other means, good governance is achieved in HMRC.

Our corporate governance arrangements have continued to evolve during the year. An organisation of HMRC's size and complexity will always have multiple risks to manage at any one time, but I am satisfied that the governance arrangements that were in place throughout 2018-19 have been sufficient to continue managing risks effectively. Based on the review outlined above, I conclude that HMRC has a sound system of governance, risk management and internal control that supports the department's aims and objectives for 2019-20.

* The Corporate Governance in the Central Government Department's Code of Good Practice 2017 can be found at: https:/www.gov.uk/government/publications/corporate-governance-code-for-central-government-departments.

Sir Jonathan Thompson
Accounting Officer
11 July 2019

"HMRC aims to avoid tax disputes and make it a simple as possible for taxpayers to pay the correct tax at the right time."

How we resolve tax disputes: Tax Assurance Commissioner's Report

Foreword

As HMRC's Tax Assurance Commissioner (TAC), I provide assurance to Parliament and the public that HMRC handles civil tax disputes in accordance with the law and its Litigation and Settlement Strategy (LSS) - in other words, avoiding unnecessary disputes, conducting them in a non-confrontational, collaborative and transparent way and resolving them to collect the tax that is due under the law without unnecessary delay.

HMRC aims to avoid tax disputes and make it a simple as possible for taxpayers to pay the correct tax at the right time. Where the department does get into dispute with a taxpayer, it aims to settle the dispute by agreement and it only litigates when it is unable to reach agreement. HMRC's governance arrangements allow Parliament and the public to be confident that the department handles tax disputes in order to secure the tax that is due under the law in all cases and is even-handed in its treatment of all taxpayers, large and small.

As TAC, I chair a panel of three Commissioners who make decisions in the largest and most sensitive cases as well as a sample of smaller cases. I also oversee HMRC's Tax Settlement Assurance programme to ensure that the department monitors and continuously improves its management of tax disputes. From 1 April 2018, this programme moved from reviewing cases settled in the previous year to one where we examined cases settled in the previous quarter, allowing HMRC to identify issues faster to improve both the quality and governance of casework. This year's review continued to highlight areas for improvement.

I have also taken note of the feedback from stakeholders who have raised concerns about some aspects of HMRC's work, including how we interact with vulnerable customers during compliance checks. I am encouraged by the engagement of HMRC's business areas in putting firm plans in place to improve the effectiveness and quality of HMRC's compliance activities and their approach to working with stakeholders to address the concerns raised. After discussions with external bodies and agents, we gave greater weight to existing legal provisions which allow more time for taxpayers to provide information in support of their statutory review.

In recent years, Parliament has given HMRC new powers, which have enabled the department to continue to bear down on the tax gap - especially tax avoidance - and collect the tax that is due, to fund vital public services. This year saw increased parliamentary and public interest in whether HMRC exercises its powers fairly and pays sufficient regard to the impact that tax disputes can have on the well-being of taxpayers and in the safeguards that protect taxpayers from abusive or disproportionate use of those powers. In particular, concerns have been raised about the impact of HMRC's work to tackle the disguised remuneration tax avoidance schemes and the loan charge, which has been introduced to counteract these schemes, People who used these tax avoidance schemes face large tax bills.

During the year, the government accepted most of the recommendations made by the House of Lords Committee in its December 2018 report: 'The Powers of HMRC: Treating Taxpayers Fairly.' HM Treasury published its report about the time limits for assessing off-shore liabilities and the disguised remuneration loan charge.

HMRC also fulfilled its statutory obligation to publish a report on its use of the Direct Recovery of Debts (DRD) powers given to it by Parliament to collect tax from tax debtors who have the means to pay their tax but repeatedly refuse to do so. This report demonstrates that DRD has had a significant deterrent effect, leading to improved recovery of tax debts. Therefore the measure is meeting the policy objectives of ensuring the Exchequer is paid when it is owed and reducing the unfair advantage these debtors have over those who pay on time.

Jim Harra CB
Tax Assurance Commissioner and Deputy Chief Executive

Read House of Lords Report - The Powers of HMRC: Treating Taxpayers Fairly
www.parliament.uk/documents/lords-committees/economic-affairs/Govt%20HMRC%20Powers%20report%2022%20Jan%202019%20.pdf

Read HM Treasury Report on time limits and the disguised remuneration loan charge
www.gov.uk/government/publications/report-on-time-limits-and-the-disguised-remuneration-loan-charge

Our approach to tax disputes

We strive to avoid disputes by helping taxpayers comply with their obligations through well framed legislation, accessible guidance and additional support where required. But inevitably there are occasions when we disagree with taxpayers about the amount of tax that is due.

Where there is a dispute, we strive to resolve it as quickly and cost-effectively as possible in accordance with the law and the LSS. We aim to settle by agreement but where we cannot reach agreement with the taxpayer on the correct amount of tax due, we will ask an independent tax tribunal to decide the matter. We make decisions about resolving disputes in accordance with our 'Code of Governance for resolving tax disputes'.

We deal with fraud by using cost-effective civil fraud investigation procedures wherever appropriate. We reserve our criminal investigation powers for cases where HMRC needs to send a strong deterrent message, or where the conduct involved merits a criminal sanction.

We have complete discretion over whether or not to conduct a criminal investigation in any case and to carry out these investigations across a range of offences and in all the areas for which the Commissioners of HMRC have responsibility.

Read HMRC's Litigation and Settlement Strategy:
www.gov.uk/government/publications/litigation-and-settlement-strategy-lss

Read HMRC's code of governance for resolving tax disputes:
www.gov.uk/government/publications/resolving-tax-disputes

Read HMRC's Criminal Investigation Policy:
www.gov.uk/government/publications/criminal-investigation/hmrc-criminal-investigation-policy

How we avoid unnecessary disputes

We aim to minimise tax disputes by helping customers pay the correct tax at the right time, in accordance with the law - and this involves everyone in HMRC.

Our approach is to:

- promote compliance by designing our policies, systems and processes to help customers get things right from the very start
- prevent non-compliance by using the data we hold to personalise services, automate calculations, prevent mistakes and block fraudulent claims
- respond to non-compliance by identifying tax at risk and using a range of measures to tackle error, avoidance and evasion. These include criminal investigation with a view to prosecution where appropriate, to tackle those who deliberately try to cheat the system.

How we select cases for enquiry

Generally, we carry out risk assessments to determine when and how to enquire into cases where there is a risk that the taxpayer has not paid the correct tax. Our aims are:

- to identify and rectify non-compliance
- deter and prevent future non-compliance
- encourage positive behavioural change in relation to tax compliance
- reassure the compliant majority that HMRC acts against those who try to cheat the system.

Our Risk and Intelligence Service continuously collects and analyses data, information and intelligence from a wide range of sources. We keep up to date with changes in the economy and society, and carry out research into the hidden economy and taxpayer attitudes towards tax. We use this insight to understand and manage risks to the tax system. In addition to our risk-based compliance interventions, we also randomly select a small number of cases to learn about general levels of compliance risk and to measure compliance levels within our main customer populations.

How we conduct tax disputes

We aim to work collaboratively with taxpayers and their agents to establish the correct tax position. We resolve the vast majority of tax disputes by agreement, securing the tax due under the law in the most cost-effective way. Where we cannot reach an agreement that secures the tax we believe is due, we will use the legal process to end the dispute in accordance with the principles set out in the LSS.

Alternative dispute resolution

In some circumstances, we may use alternative dispute resolution (ADR) methods, which use mediation to help taxpayers and our caseworkers to reach agreement. We consider all requests for ADR. Where our facilitators have concerns about whether mediation will be effective, the case is referred to an ADR governance panel to decide whether to offer ADR.

We have seen a drop in the number of requests for ADR and have liaised with external stakeholders, including the Dispute Resolution Sub Group, to promote the benefits of ADR.

Figure 15: Alternative dispute referrals

	2018-19	2017-18
Total requests for ADR (either side can propose ADR)	1,144	1,411
Requests rejected by governance panels	334	667
Requests awaiting decision	36	120
Active cases	146	309
Cases resolved successfully	367	455
Cases going to litigation	50	98
Cases resolved through ADR*	88%	82%

* The number of cases resolved successfully (fully or partially) by agreement as a percentage of the number of case accepted for ADR which were closed during the year.

Published settlement terms

Where multiple taxpayers are affected by a similar disputed issue, such as a tax avoidance scheme, we may publish our position on the disputed issue and invite affected taxpayers to resolve their case on the published basis. This enables us to handle such issues efficiently whilst ensuring transparency and consistency.

Following changes announced at Budget 2016 to tackle the use of disguised remuneration tax avoidance schemes, on 7 November 2017 we published settlement terms for users of these schemes. To help and support those who had used such schemes and who wanted to settle their liability ahead of the loan charge coming into force, we set up a dedicated helpline to support all customers, including those who might need some extra support.

We simplified the payment process for those who chose to settle before the loan charge came into force on 5 April 2019. Those with an income of less than £50,000 and no longer involved in tax avoidance could automatically spread their payments over five years. This was extended to seven years for those with an income of less than £30,000. For those who required longer or had an income of more than £50,000, extended payments terms were available on a case by case basis, subject to the provision of supporting information.

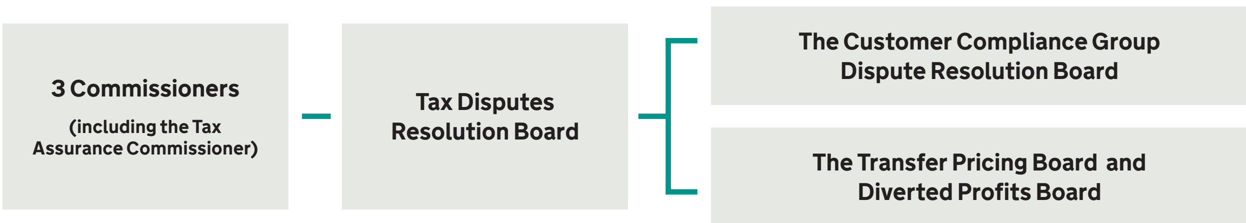
More than 28,000 scheme users expressed an interest in settling their tax affairs, with over 19,000* returning their settlement packs under the published settlement terms. We continue to agree settlements for this population. Between Budget 2016 and 31 March 2019, around 7,000 settlements were agreed, bringing in over £1.5 billion for the Exchequer.

* This figure follows an end of year reconciliation and is an update from the previous number published in the government's Section 95 report.

Governing the resolution of disputes

In small cases, the case worker makes the decision on how to resolve the dispute with appropriate management oversight and, where relevant, advice from our specialists. For larger cases, decisions are taken by departmental governance boards or, in the case of the largest or most sensitive disputes, a panel of three HMRC Commissioners, of which one will always be the Tax Assurance Commissioner.

Figure 16: Structure of HMRC's dispute resolution governance



In 2018-19, the Commissioners considered cases referred from the Tax Disputes Resolution Board (TDRB), some of which were first considered by the Transfer Pricing Board (TPB) or Diverted Profits Board (DPB). Additionally, they also considered sample cases from the Customer Compliance Group Dispute Resolution Board (CCG DRB). These governance boards comprise members from across HMRC and include senior representatives from policy, technical and operational business areas and lawyers, independent of those who have worked on the case.

Where tax risk exceeds £100 million, cases fall within the remit of the Commissioners and TDRB. If the tax risk is less than that, and more than £15 million (large businesses) or more than £5 million (other taxpayers) it falls within the remit of CCG DRB.

Issues governance

We also have internal processes in place to enable us to manage issues that affect multiple taxpayers in a consistent and even-handed manner. Case teams refer these issues for a decision to our Contentious Issues Panel (CIP) or Anti-Avoidance Board (AAB), which comprise operational, legal and policy experts.

Decisions taken in **2018-19**

HMRC Commissioners

Figure 17: Outcome of referrals

	2018-19	2017-18
Referrals to the Commissioners	**53**[1]	**40**
Taxpayer's position accepted	22	21
Taxpayer's position rejected	31	18
Conditional accept	0	0
Further work needed	0	1
£100m plus tax or £500m adjustment	41[2]	29
Decisions on sensitive case or risk	4[2]	3
Decisions on sample cases	9	8
Novel and unusual	0	0
Director referral	0	0

Figure 18: Tax under consideration in decisions referred to the Commissioners (£m)

	2018-19	2017-18
Taxpayer's position accepted	3,102.5	2,076
Taxpayer's position rejected	7,672	2,721
Remitted	0	[3]
	10,774.5	**4,797.0**

Tax Disputes Resolution Board

Figure 19: Outcome of referrals

		2018-19	2017-18
	Referrals to TDRB	**49**	**38**
Referred to Commissioners			
	Taxpayer's position accepted	26	18
	Taxpayer's position rejected	18	11
	Taxpayer's position conditionally accepted	1	0
Total referred to Commissioners		**45**	**29**
	Remitted for further work	1	3
	Guidance provided	0	0
	Decision taken by TDRB under its remit[4]	3	6
	Total not referred to Commissioners	**4**	**9**

The Customer Compliance Group Dispute Resolution Board

Figure 20: Outcome of the total referrals to the CCG DRB

	2018-19	2017-18
Total referrals	**64**	**94**
Taxpayer's position accepted	13	20
Taxpayer's position accepted with conditions[5]	7	0
Taxpayer's position rejected	40	63
Board remitted for further work before the re-referral[6]	3	3
Referral sent to the Commissioners as a sample case	8	8
Board provided advice and guidance – no decision sought[7]	1	0

1. This figure does not include one referral from TDRB as this referral was not decided by the Commissioners at this time.
2. One case was both over £100 million and sensitive - shown here in both categories.
3. The amount could not be determined at this stage last year.
4. Unusual/novel features.
5. This includes where there is acceptance of parts of the position.
6. Remitted in terms of the customer's position, 8 cases were remitted based on the case teams' position.
7. Decision was not made as decided not in the remit of the board.

In 2018-19 three Commissioners met 13 times (17 times 2017-18), additionally two cases were completed via correspondence. Of the 53 referrals (40 in 2017-18), eight decisions were referred directly from the CCG DRB (eight in 2017-18), and 44 decisions from the TDRB (32 in 2017-18). During 2018-19, the Commissioners accepted the TDRB's recommendation in all bar one of the referrals.

The Commissioners noted that case teams had paid attention to establishing the correct penalty position to ensure that all taxpayers, whatever the size of the case, were charged penalties when appropriate. In the year 2018-19 the Commissioners included a review of the penalty position in cases covering 40 decisions out of the total 53 decisions made.

Of the nine decisions on cases referred by CCG DRB, seven decisions included a review of the penalty position (78% of decisions). Of the 44 decisions on cases referred by TDRB, 33 decisions included a review of the penalty position (75% of decisions).

The Commissioners were generally impressed with the high quality of the work in the cases referred to them and the high standards of the case teams' presentations. They continued to identify areas for improvement and of our processes, guidance and training.

Transfer Pricing Board and Panel

The Transfer Pricing Board (TPB) makes decisions on large or sensitive transfer pricing enquiries, which do not require referral to the TDRB. It also makes recommendations to the TDRB about transfer pricing risks that fall within the TDRB's remit. The TPB is supported by the Transfer Pricing Panel (TPP) which makes decisions on transfer pricing enquiries that do not come within the TPB's remit. In some smaller cases a single transfer pricing expert on the TPP considers the issue. In 2018-19, the TPB considered 29 cases (27 in 2017-18).

The TPP considered 159 resolution proposals (219 in 2017-18). The 2017-18 comparative figure has been restated from 158 to 219. The figure of 158 reported last year omitted some of the single TPP member cases, which are now included.

Diverted Profits Board

The Diverted Profits Board looks at arrangements identified as potentially within the scope of the Diverted Profits Tax. The board comprises senior officials from a wide range of HMRC directorates. It met 15 times in 2018-19 (21 in 2017-18) and considered 41 resolution proposals (16 in 2017-18). The increased number of proposals reflects our increasing focus on tackling profit diversion. It referred five (two in 2017-18) for further work and sent 12 (four in 2017-18) on to the Commissioners via the TDRB.

Contentious Issue Panel (CIP) and Anti-Avoidance Board (AAB)

- The CIP met nine times and considered 16 issues (10 times and 15 issues in 2017-18). The panel considered a variety of issues involving income tax, Corporation Tax, VAT, Landfill Tax, Excise Duty and Customs Duty
- The AAB met 11 times and considered 94 issues, including three issues considered via correspondence (14 times and 114 issues in 2017-18, with three considered via correspondence).

The Commissioners considered one referral from the CIP and decided on strategies for handling the contentious issues concerned. This referral is not included in the TAC figures above.

Tax Settlement Assurance Programme

Since 2013 we have reviewed a sample of settled cases to test whether we had met our professional standards and managed cases using the appropriate governance.

On 1 April 2018 we enhanced this review process by:

- testing more cases per quarter and drawing the sample from the previous quarter rather than the previous year as we did in the past
- expanding the scope of our testing so that we assess both how well we have met our professional standards that impact directly on customers and how we adhere to internal processes, including following the correct governance and customer service requirements.

This change in approach means that this year's results cannot be compared to previous years due to the significant enhancements to the programme.

The results

In 2018-19, the Customer Compliance Assurance Team (CCAT), which is responsible for assuring the quality of our compliance casework, reviewed 518 settled cases. Internal Audit has positively validated CCAT's methodology and results.

Using this broader set of criteria:

- 44% met or exceeded our enhanced standards
- 49% fell short of the standards but with no or minimal impact on taxpayers
- 7% fell short of the standards with an impact on taxpayers.

In terms of professionalism and customer service, our analysis shows that where our work fell short of the expected standards, the vast majority of these shortfalls related to internal processes, that had no or minimal impact on the customer outcome.

It also reveals that 88% of cases were correctly referred to formal governance where required and in 92% of cases settlement was approved at the appropriate level.

Action

Our efforts to get a more detailed picture of how cases are worked has given us the information and impetus to focus more clearly on opportunities for improvement.

We have created a director-led Customer Experience & Professionalism Committee to concentrate on the actions we should take in response to the outcomes of the assurance work. Short term actions include, for example, improving guidance on how to correspond with customers by e-mail, making it easier for caseworkers to follow the agreed protocol. Over the longer term, our approach is to examine customer journeys through a compliance check to understand where HMRC can improve and then embed those improvements in our professional standards and guidance.

We are satisfied that our expanded criteria and the detailed data they provide give us the necessary insights to take forward improvement actions. This first year's results will now act as a benchmark as we move into the second year of expanded testing.

Reviews and Appeals

Customers who disagree with a decision we have made that is open to appeal can ask for a statutory review, appeal to the independent tax tribunal or take both actions. Reviews and appeals are generally dealt with by tax, legal and accountancy professionals working in our legal department.

How we review decisions

Statutory review is open to all and is often used by customers without an agent. This year 77% of reviews were requested by unrepresented customers (79% in 2017-18). The review officer is independent of the decision maker and will not have been involved in the case before. They consider all information or representations from the customer or their representative and check whether the decision is legally and technically correct and made in accordance with departmental policy.

The nature and extent of a review will vary according to the complexity of the case, the number of review requests that are linked to one specific decision, the steps taken to reach the decision, for example whether specialist advice has been obtained, and the steps taken to resolve the dispute.

If the review officer considers that more information or work is required, they return the case to the decision maker. Review officers can uphold, vary or cancel the original decision and most are counter-signed by a senior officer in the review team for accuracy and consistency. At the end of the review, the review officer produces a letter explaining the matter under review, listing the events leading to the review, analysing the position and stating their conclusion, which can also provide a further explanation of the original decision, if it is upheld.

When the review is complete the review officer may give feedback to the decision maker, highlighting what could be improved, to enhance future decisions. Review teams have senior technical specialists who actively improve the quality of review conclusions; identifying trends and feeding back key learning points to review officers and decision-makers.

Overview of outcomes of reviews

Figure 21: Overview of outcomes of reviews

All cases	2017-18	2016-17*
Dealt with in the year	28,068	34,114
Original decision upheld	13,790	16,668
Varied	3,066	2,429
Cancelled	11,212	14,992
Other	0	25
Percentage where original decision was upheld	49%	49%
Number and percentage closed where the taxpayer was not represented by an agent	21,551	26,928
	77%	79%
VAT Penalty cases including default surcharge cases		
Dealt with in the year	14,905	17,700
Original decision upheld	4,937	5,354
Varied	1,992	1,957
Cancelled	7,976	10,379
Other	0	10
Percentage where original decision was upheld	33%	30%
All other reviews		
Dealt with in the year	13,163	16,414
Original decision upheld	8,853	11,314
Varied	1,074	472
Cancelled	3,236	4,613
Other	0	15
Percentage where original decision was upheld	67%	69%

* Following further analysis some figures for 2016-17 have been restated to correct minor arithmetical errors.

Appeals

We settle disputes by agreement only where we can reach agreement with the customer on the right tax due under the law. Where a dispute cannot be settled by agreement or Statutory Review, the taxpayer can appeal to the First-tier Tribunal (Tax). The tribunal is independent of HMRC and listens to both sides of the argument before making a decision.

In 2018-19 the tribunal notified us of 6,698 appeals that it had received (7,377 in 2017-18). During the year 6,935 were settled either by formal hearing or by agreement before the hearing (8,417 in 2017-18). 23% of appeals related to late payment or late filing penalties and surcharges.

There were 22,625 appeals on hand on 31 March 2019. Over 15,000 (16,000 in 2017-18) of the appeals to the First-tier Tribunal that are on hand are stood over. This is, generally, where we and the taxpayer have agreed to put the appeal on hold waiting for a decision in a related lead case that is being litigated. As stood over cases are not actively progressed by the tribunal they can remain on hand for many years while the lead case is decided. The on-hand figures also include 7,500 lead cases actively making their way through the tribunal. An appeal not stood behind a lead case would typically be resolved within 12 to 18 months. Staying appeals behind lead cases ensures that disputes are resolved as efficiently as possible and minimises costs to both customers and HMRC.

We have been working with the Ministry of Justice and HM Courts and Tribunal Service on digital working with the courts and tribunals in 2018-19. A pilot of video hearings in the First-tier Tribunal (Tax) was concluded in July and we are currently working on sharing papers electronically ahead of a hearing.

The success rate is calculated as the percentage of hearings where the decision is for HMRC or substantive elements of our case succeeded.

The tax protected through litigation activity in the year was £17.5 billion (£37 billion in 2017-18). Included in the figures above were decisions issued in a total of 32 (24 in 2017-18) cases involving or related to tax avoidance, with 31 (23 in 2017-18) decided wholly or partially in HMRC's favour - protecting tax revenue of over £1 billion (£3.2 billion in 2017-18). Earlier year figures did not include any judicial review decisions. The figures this year include five judicial review decisions, all of which were decided in HMRC's favour.

Figure 22: Data relating to decided appeals for 2018-19

	2018-19					2017-18				
	First-tier Tribunal	Upper Tribunal	High Court	Court of Appeal	Supreme Court	First-tier Tribunal	Upper Tribunal	High Court	Court of Appeal	Supreme Court
Total	**1,642**	**59**	**8**	**31**	**5**	**1,966**	**77**	**15**	**29**	**5**
Decision for HMRC	1,029	42	7	20	4	1,420	55	12	24	3
Partial win*	204	4	0	3	1	104	2	2	2	1
Decision for customer	409	13	1	8	0	442	20	1	3	1
HMRC success rate	75%	78%	88%	74%	100%	78%	74%	93%	90%	80%

* Decision where substantive elements of HMRC's case succeeded.

Read HMRC's tax avoidance litigation decisions:
www.gov.uk/government/publications/tax-avoidance-litigation-decisions

HMRC powers, customer safeguards and strategies to tackle avoidance

HMRC powers and taxpayer safeguards

Our powers incorporate a comprehensive suite of safeguards for taxpayers, built into the tax administration and criminal justice framework, helping to ensure we act proportionately in response to different taxpayer circumstances.

Safeguards for customers include:

- the right to request a statutory review by somebody not involved with their case
- the right to appeal to an independent tribunal, with or without a statutory review
- an opportunity to refer their case to the independent Adjudicator's Office, if they are not happy with how we have handled a complaint
- the right to apply to the tribunal to direct us to close an enquiry
- the requirement for us to obtain an independent opinion from the General Anti-Abuse Rules (GAAR) advisory panel before making a decision about whether to seek to counteract a tax avoidance scheme using GAAR
- the requirement to contact taxpayers before invoking Direct Recovery of Debts (DRD) powers.

How we work with customers who need extra help

We recognise that some taxpayers with whom we are in dispute may need extra help due to their personal circumstances, such as a physical or mental health condition, dealing with life events such as separation or bereavement, or because of the financial implications for them of the dispute itself.

When we discover someone needs extra help, we are committed to providing it. Our Needs Enhanced Support (NES) service provides extra help to ensure we make all reasonable adjustments in accordance with equalities legislation. For example, we provide signers or interpreters where there are specific communication needs or additional support for those suffering from mental health conditions or other impairments, and those finding it difficult to deal with the resolution of tax disputes.

We are also working with the Voluntary and Community Sector (VCS) to provide a holistic service for people who need extra help understanding and complying with their obligations and claiming their entitlements.

Our new Customer Experience Committee (CEC) also performs a crucial role in supporting and challenging our Executive Committee to improve the customer experience. The committee includes members from a wide range of industries and sectors, who share their learning and best practice.

We are improving visibility of what our customers can expect from us, such as described in our commitments in 'Your Charter'. The CEC plans to review 'Your Charter' in 2019 to make sure it continues to effectively promote customers' rights and obligations.

Read more about this funding scheme on the Government Grants Register:
www.gov.uk/government/publications/government-grants-register

Direct Recovery of Debts

Direct Recovery of Debts (DRD) came into effect in November 2015 and became fully operational in March 2016. It gives us the power to recover established debts directly from debtors' bank and building society accounts and targets those debtors who can and should pay, but have repeatedly refused to do so. DRD supports our objective of maximising collection of legally due tax. DRD has collected £178 million.

A very low proportion of debtors considered for DRD were found to be vulnerable and DRD was not used for those customers. We believe our approach to DRD and vulnerable customers, along with the low number of complaints and objections, with only one resulting in a successful appeal, demonstrates that we are using the measure for the correct debtors.

Read HMRC's Review of the direct debt recovery intervention
www.gov.uk/government/publications/direct-recovery-of-debts-intervention-review/review-of-the-direct-debt-recovery-intervention

Tackling tax avoidance

Avoidance powers

We have a suite of powers to deter and tackle the promotion and use of tax avoidance schemes. These come with a range of customer rights and safeguards, including strict internal governance on when we can use our powers.

Our powers have helped change the attitudes and behaviours of people using the schemes and others who have promoted or enabled tax avoidance schemes - with many moving out of avoidance altogether.

Disclosure of Tax Avoidance Schemes

Promoters and users must notify us of tax avoidance schemes under a range of legislation. In 2018-19, 16 schemes (15 in 2017-18) were disclosed under the Disclosure of Tax Avoidance Scheme (DOTAS) regime and we litigated five cases (one in 2017-18) for failure of promoters and others to disclose a scheme.

Read more about Disclosure of Tax Avoidance Schemes:
www.gov.uk/guidance/disclosure-of-tax-avoidance-schemes-overview
www.gov.uk/government/publications/disclosure-of-tax-avoidance-schemes-guidance
www.gov.uk/government/statistics/tax-avoidance-and-disclosure-statistics

Accelerated Payments/Follower Notices

Accelerated Payments remove the cash flow incentive of entering into avoidance by ensuring that we hold the tax while it is in dispute. Follower Notices encourage tax avoiders to settle their dispute, following court decisions in similar tax avoidance cases, reducing the time taken to bring cases to conclusion.

Customers can make representations about the issue of an Accelerated Payment Notice or Follower Notice and we are required to consider them. Customers are free to carry on their dispute or appeal if they wish, although if they do and HMRC eventually wins the case, they face the risk of penalties if Follower Notices have been issued to them.

General Anti-Abuse Rule (GAAR)

The purpose of the General Anti-Abuse Rule (GAAR) is to discourage taxpayers from entering into abusive arrangements, and to deter promoters and others from promoting such arrangements.

The GAAR Advisory Panel is an independent body made up of experts with legal, accountancy and commercial backgrounds. It provides an early opinion on whether tax arrangements are unreasonable.

We must consider the opinions issued by the panel in reaching a final decision on whether to use the GAAR to address the tax advantage arising from the arrangements. Courts must also take into account the panel's opinion if the tax arrangements are considered by them. The advisory panel's opinions are published on GOV.UK to help customers recognise abusive tax avoidance schemes.

In 2018-19 the panel provided opinions in four cases (six in 2017-18). In each case the opinion of the panel has been that entering into and carrying out the arrangements was not a reasonable course of action.

As a result we have issued GAAR opinion notices to over 2,300 customers who have used these arrangements. They have the right to appeal against the adjustments made under the GAAR and any associated penalties.

Read more about the General Anti-Abuse Rule (GAAR):
www.gov.uk/government/collections/tax-avoidance-general-anti-abuse-rule-gaar

Remuneration and staff report

This report describes the shape, make up and diversity of our workforce and the work we're doing to improve the employee experience. It also sets out our staff-related costs and the remuneration of our leadership team of senior civil servants.

Our workforce in 2018-19

HMRC (including Revenue and Customs Digital Technology Services Ltd and the Valuation Office Agency) had 62,078 (58,038 HMRC, 735 RCDTS and 3,305 VOA) full-time equivalent employees at the end of 2018-19 - nearly 500 less than the previous year.

This year we recruited 6,390 (5,830 from HMRC and 560 from VOA) full-time equivalent roles to ensure we have the skills we need in our key strategic locations. We also promoted 5,200 people in HMRC, including more than 60 Administrative Assistants, into different types of roles, as automation reduces the need for many manual and support roles.

Diversity characteristic figures and percentages shown in the following tables can only be calculated using headcount figures and as a result differ from full-time equivalent figures shown above. Diversity declaration rates, on average, are down by just under 2% from last year.

Figure 23: Male and female employees

	2018-19					2017-18				
	Female	% Female	Male	% Male	Total at 31 March 2019	Female	% Female	Male	% Male	Total at 31 March 2018
Directors General, Directors and Deputy Directors*	175	46.7%	200	53.3%	375	160	44.0%	205	56.0%	370
All other employees	34,565	54.4%	29,010	45.6%	63,575	35,610	55.3%	28,810	44.7%	64,420

* Directors General are grade SCS3, Directors and Deputy Directors are grades SCS2 and SCS1. Due to different reporting methods the total reported here for SCS will not correspond with the detail published on page 131.

Figure 24: Declared ethnicity category of employees

	2018-19				2017-18			
	BAME	% BAME	White	% White	BAME	% BAME	White	% White
Directors General, Directors and Deputy Directors*	20	7.3%	280	92.7%	15	4.9%	290	95.1%
All other employees	6,080	12.9%	41,075	87.1%	5,830	11.9%	42,960	88.1%

* Directors General are grade SCS3, Directors and Deputy Directors are grades SCS2 and SCS1.

We offer development opportunities for people from Black, Asian and Minority Ethnic (BAME) backgrounds and other minority groups. We are committed to improving representation rates, particularly at senior levels, and have set aspirational goals at Senior Civil Servant (SCS) level and feeder grades (Grade 6 and Grade 7). The position at the end of March 2019 is set out in the table above. We have set out what leaders, managers and staff need to do to achieve our goals in our diversity and inclusion strategic action plan.

Figure 25: Declared disability status of employees

	2018-19				2017-18			
	Disabled	% Disabled	Non-disabled	% Non-disabled	Disabled	% Disabled	Non-disabled	% Non-disabled
Directors General, Directors and Deputy Directors*	15	5.2%	275	94.8%	15	5.4%	280	94.6%
All other employees	5,775	13.9%	35,695	86.1%	5,985	14.0%	36,625	86.0%

* Directors General are grade SCS3, Directors and Deputy Directors are grades SCS2 and SCS1

We employ disabled people across all grades and locations. We operate a Guaranteed Interview Scheme and have a team dedicated to ensuring reasonable adjustments. We also run disability awareness sessions across the department and continue to improve access to our services for disabled customers, raising awareness of their needs with our front-line employees.

Figure 26: Declared sexual orientation category of employees

	2018-19				2017-18			
	Heterosexual/ straight	% Heterosexual/ straight	Lesbian/gay /bisexual/ other	% Lesbian/ gay / bisexual/ other	Heterosexual/ straight	% Heterosexual/ straight	Lesbian/gay /bisexual/ other	% Lesbian/ gay / bisexual/ other
Directors General, Directors and Deputy Directors*	240	96.0%	10	4.0%	245	95.3%	10	4.7%
All other employees	34,775	95.1%	1,785	4.9%	35,485	95.3%	1,765	4.7%

* Directors General are grade SCS3, Directors and Deputy Directors are grades SCS2 and SCS1.

We have a support and consultation group for people who identify as lesbian, gay, bisexual and trans (LGB&T+) or describe themselves as non-binary. We also have an active ExCom LGB&T+ champion and 700 colleagues are members of our Role Models programme, promoting LGB&T+ diversity and inclusion.

Read our latest gender pay gap report at
https://gender-pay-gap.service.gov.uk/employer/L42Z4lcU

How we're making HMRC a better place to work

The principles of our People Strategy are to be values led, insight driven and outcomes focussed. To respond to a changing environment, we will invest in skills, digital capabilities and our overall approach to strategic workforce planning. We will support our people during the moves to our new regional centres and trial smarter ways of working to make best use of modern technology.

In our annual People Survey, the highest positive scoring questions were around awareness of our values, teamwork and professionalism. Around 88% of our people are now aware of HMRC's values, which we launched in 2017 - we are professional, we act with integrity, we show respect, we are innovative. However, our employee engagement score decreased by 1% on the previous year to 49%, which is in line with other departments of a similar size.

We want everyone working for HMRC to know they are valued and will be treated fairly. So, to bring our values to life, we have set a five-year target to create the culture we want within HMRC.

We're committed to improving the experience of colleagues moving to new locations, as we build our network of modern regional centres (see page 53). We vacated 12 offices over the past year, and worked with our people to understand what the change has meant for them so we can offer better support for future moves, including for those who leave the department. In 2018-19, 771 people left under voluntary or compulsory exit schemes as part of the office closures programme with exit packages agreed in-year or the previous year.

Our People Survey results also indicate instances of bullying, harassment and discrimination, which are never acceptable in any circumstances. We're driving behavioural change to address this - holding workshops to promote how people can report concerns and helping them feel safe to challenge. During 2018-19, we commissioned Laura Whyte, former HR Director at John Lewis Partnership, to carry out an independent review of what it's like to work in HMRC. The report found that most people in HMRC have amazing dedication, pride and commitment in the work they do and come to work every day to do a good job, serve customers and support their colleagues. They expect and deserve to work in a safe, tolerant and supportive environment. However, the report made for uncomfortable reading in its findings that there is a significant gap between our stated ambitions and the reality on the ground and identified a range of areas for HMRC to consider taking action.

We published Laura Whyte's 2019 'Respect at Work' report in February and accepted all the recommendations. These included setting clear standards of behaviour, improving our policies and processes, using mediation more effectively, making better reasonable adjustments for colleagues with disabilities, raising awareness of mental health conditions and looking at how we use and collect people's data. We're now undertaking a full review of our policies, processes and standards to ensure we provide our employees with a working environment they deserve, and a culture that meets our values. We aim to provide updated guidance on a suite of respect-related policies by winter 2019.

Read more on Laura Whyte's report here:
www.gov.uk/government/publications/hmrcs-respect-at-work-review

How we supported the wider community

- We funded 4,722 days of employee time to assist in schools, voluntary groups, charities and other good causes
- We celebrated 25 years of our partnership with The Prince's Trust, which has seen around 3,000 colleagues support around 38,000 young people take the first step to a more positive working future
- We expanded Tax Facts, our tax education programme for young people, with new products on the Construction Industry Scheme, National Insurance Numbers and Personal Tax Account and also translated Tax Facts resources into the Welsh language
- We worked with the Welsh government to produce the new Welsh language version of Tax Facts
- We provided 941 Movement to Work placements, an initiative providing work experience placements for young people aged 18 to 30 who aren't in employment, education or training and receive Jobseekers Allowance or Universal Credit
- We had 100 HMRC and Valuation Office Agency colleagues serving as reservists in the Army, Navy and Air Force (as at 1 January 2019)
- We raised £1.2 million for a wide variety of charities, including £28,000 for our annual Children in Need appeal and £650,000 donated to 900 charities chosen by individuals through our online payroll giving arrangements
- We were named the Best Government and Public Sector Employer at the National Payroll Giving Excellence Awards in November 2018.

Diversity and inclusion

We want our workforce to understand and reflect the diversity of our customers so that we can use our collective experience to deliver a high-quality service for everyone.

To support our diversity and inclusion values, we have Executive Committee Champions and employee networks or consultation groups in place for eight diversity strands. These networks and groups offer people the opportunity to share experiences and comment on new initiatives. They help make sure that every one of our colleagues is treated fairly and can contribute their best.

We're proud to be an acknowledged trailblazer with our approach towards equality, diversity and inclusion. We've developed neurodiversity learning for line managers and ran a recruitment exercise to attract people on the autistic spectrum into HMRC analytical roles. To advocate social mobility, we piloted a work experience programme in Nottingham for young people from disadvantaged backgrounds, which we're developing for wider roll-out.

Awards we won for diversity and inclusion

- We gained silver status in this year's Employers Network for Equality and Inclusion TIDE awards
- We won the Business in the Community's Responsible Business Award for Gender Equality 2018
- We were listed in Business in the Community's 2018 Best Employers for Race
- We were in the top 50 UK employers in the Social Mobility Employer index
- We featured in 'The Times' list of the Top 50 Employers for Women 2018
- We were shortlisted in the Responsible Business Awards for our work to improve gender equality
- HMRC colleagues joined the cross-government Suffrage Centenary Volunteer team that won the 2018 Championing Gender Equality Award at the Civil service Diversity and Inclusion Awards.

Read more about our compliance with public sector equality duties in 2017-18:
www.gov.uk/government/publications/hmrc-compliance-with-public-sector-equality-duties-2017-to-2018

Health and wellbeing

Our Wellbeing and Mental Health Strategies are delivered through a range of activities and led by the ExCom Well-being Champion, Angela MacDonald. We have:

- delivered the PERMA (Positive emotion, Engagement, Relationships, Meaning, Achievement) Model 'Developing Wellbeing Confident Leaders', to more than 400 SCS, and we are cascading the model so that our people have further opportunities to have a conversation about emotional resilience and wellbeing
- consulted with colleagues through a series of engagement events, to gain insight into our peoples' wellbeing priorities and inform future activity
- procured a new contract for our Employee Assistance Programme (EAP), which underpins our support for the wellbeing of our people through detailed and specialist, targeted support
- started to develop a health and wellbeing dashboard to inform and drive our future activity
- continued to upskill and increase the number of our Mental Health Advocates (MHA) and supported our staff-led Mental Health Networks
- worked with our EAP supplier to develop and launch the 'Introduction to Mindfulness' workshop
- reported against the recommendations in the Stevenson/Farmer 'Thriving at Work' Mental Health for Employers review, to establish areas for continued focus and improvement
- supported wellbeing campaigns, including Mental Health Awareness Week, raised funds for the Mental Health Foundation charity, Active Wellbeing Week, World Mental Health Day, and Time to Talk Day
- continued to support managers and employees through Occupational Health advice, on a range of issues - musculoskeletal, mental health, cancer and the menopause.

Published sickness absence data

We measure the average number of days lost to sickness absence, known as average working days lost (AWDL), based on the number of full-time equivalent employees. In 2018-19 we had an AWDL of 6.90 days. This means we are under the target we set ourselves in 2016-17 of an AWDL of 7.0 days.

In September 2016, we implemented a new attendance management policy, aligned to the Civil Service employee policy, with revised guidance to support our managers in managing sickness absence proactively. We believe this was successful in driving down absence, but it was perceived in the organisation as inflexible and in some instances drove counter-intuitive decisions on cases which affected employee engagement with the policy. We conducted a review in the summer, which emphasised manager discretion and flexibility and reduced the level of formality. We flagged in the previous report that more discretion might lead to a slight increase in absences, and it appears we were correct.

We continue to increase our focus on promoting our people's health and well-being over reducing absence, particularly since stress-related absence consistently accounts for around one fifth of sickness absence. We feel that this approach has been well-received by our people.

Health and safety

Our managers and employees are supported by comprehensive health and safety arrangements and access to expert advice.

This year we improved our guidance on safely managing portable IT equipment, shared workstations and mobile devices. We also delivered expert health and safety advice across a range of activities including noise testing, upskilling display screen assessors, managing procurement specifications and reviewing risks from the use of scanners.

Our Estates team launched a new Health and Safety Management System in 2018, which also includes Fire Safety and Environmental Safety, for the teams that design, deliver and operate our physical assets. We also took action to assure that our new workplaces are safe for staff, visitors and contractors.

We encourage our people to report accidents or instances of work-related ill health so we can provide this information to directors to highlight trends and inform health and safety performance. The overall number of incidents reported reduced by almost 2% last year, following an increase of 7% in the previous year. There was one incident at our Cumbernauld site involving potential exposure of staff to asbestos. This resulted in 189 individuals reporting this through the department's system for reporting accidents and work-related ill health. There was also a significant reduction in the number of incidents we reported to the Health and Safety Executive under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDOR).

Figure 27: Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013 (Northern Ireland 1997): reports to the Health and Safety Executive

	2018-19	2017-18
RIDDOR incidents		
Specified injuries	9	9
Diseases	0	1
Fatal injuries	0	0
Dangerous occurrences	2	1
Over three-day injuries (Northern Ireland)	1	0
Over seven-day injuries	19	30
Total	**31**	**41**
Non-RIDDOR incidents		
Stress	741	747
Slips/trips/falls	451	446
Violence and verbal abuse	298	343
Environmental	221	244
Road traffic accident	177	296
Bite (animal/insect)	47	51
Burns	93	107
Struck by moving/flying object	105	100
Upper limb disorders	47	69
Cut	55	65
Lifting/carrying injury	63	47
Exposure to hazardous substances	9	22
Asbestos[1]	189	0
Acoustic	39	31
Electrical	79	45
Struck by moving vehicle	13	33
Contact with moving machinery	8	15
Fall from height	0	2
Other[2]	304	324
Total	**2,939**	**2,987**

1. This was one incident of potential asbestos exposure at one site.
2. Health and Safety incident categories are selected by the investigating officer on the report form. 'Other' is selected where none of the main categories are appropriate.

Our approach to 'whistleblowing'

We remain committed to ensuring the highest standards of conduct in all we do and our whistleblowing policy and guidance supports people who wish to raise a concern if they suspect wrongdoing. The way we manage whistleblowers continues to be monitored by the Executive Committee and the Audit and Risk Committee and we continue to provide summary data to the Public Accounts Committee and the Cabinet Office every quarter. In 2018-19, 39 whistleblowing cases were raised, a similar number to previous years.

We have continued to strengthen the profile of our whistleblowing policy and support over 2018-19 by:

- ensuring our data capture continues to meet our needs and enables identification of trends or themes where possible
- ensuring we are doing all that is possible to support whistleblowers and progress cases quickly
- broadening our guidance to enable sexual harassment concerns to be raised via the whistleblowing route and removing the time limit for raising concerns of this nature
- adding a message on every HMRC computer every six months to remind people of our policy and how to raise a concern should they wish to do so
- holding a training event twice a year for our nominated officers, sponsored by the Director of People, Policy and Programmes and including input from the Government Legal Department
- liaising across other government departments and participating in Cabinet Office whistleblowing events to share expertise and best practice
- using the Civil Service Employee Policy whistleblowing health check tool in order to better assess the effectiveness of our guidance
- regularly reviewing our guidance to ensure it is up to date and relevant
- considering the insight from the independent Respect at Work review to better understand the experience of people using the whistleblowing policy and consider how it can be further improved
- using the findings from the Respect at Work review to consider how we can create an improved culture for speaking up.

Staff numbers and costs

This section sets out the size of our workforce and how much we spent on staff-related costs over the course of this year.

The average number of full-time equivalent persons employed during the year was as follows:

Figure 28: Average number of persons employed[1]

	Permanently employed staff		Others	2018-19 Number Total	2017-18 Number Total
	Operational	Capital			
Core department	56,547	571	186	57,304	60,216
Valuation Office Agency	2,959	-	204	3,163	3,379
Revenue and Customs Digital Technology Services Limited	659	81	249	989	633
Departmental group total	**60,165**	**652**	**639**	**61,456**	**64,228**

The actual number of full-time equivalent persons employed at 31 March 2019 was 58,773 for the core department and Revenue and Customs Digital Technology Services Ltd - and 62,078 for the entire departmental group.

Staff costs[1]

Our staff costs figures relate solely to officials. The salary of the minister who has responsibility for HM Revenue and Customs is paid out of central funds and can be found in the Resource Accounts of HM Treasury.

The costs of persons employed during the year were as follows:

Figure 29: The costs of persons employed during the year

	Permanently employed staff	Others	2018-19 £m Total	2017-18 £m Total
Wages and salaries	1,847.1	14.7	1,861.8	1,896.8
Social security costs[2]	187.0	0.9	187.9	189.8
Other pension costs	368.0	1.7	369.7	375.7
Sub-total	**2,402.1**	**17.3**	**2,419.4**	**2,462.3**
Less recoveries in respect of outward secondments	(2.6)	-	(2.6)	(6.1)
Total net costs	**2,399.5**	**17.3**	**2,416.8**	**2,456.2**

1. This section has been subject to external audit.
2. Social security costs include the Apprenticeship Levy which is £9.4 million for 2018-19 (2017-18: £9.5 million).

Reconciliation to staff costs in the Resource Account [1]

In the Resource Account, staff costs do not include recoveries in respect of secondments, which are included as income, or the amount charged to capital.[2]

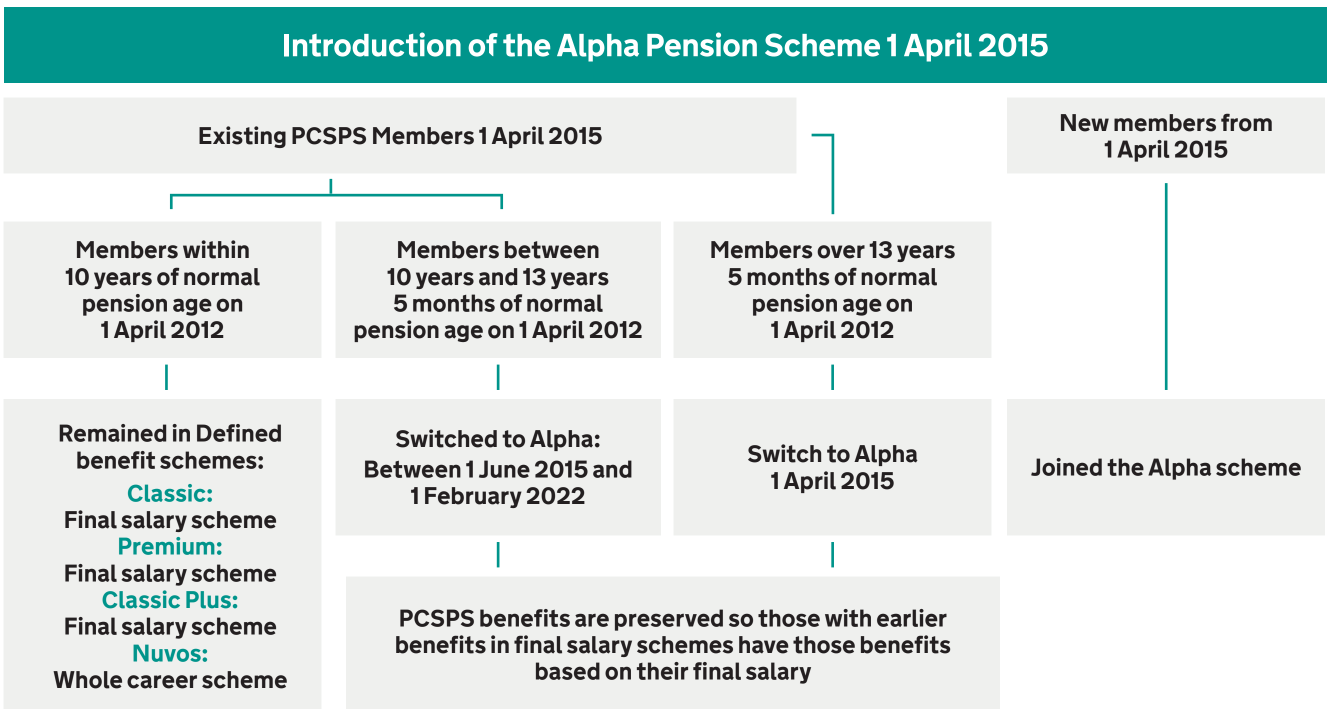
Figure 30: Reconciliation to staff costs in the Resource Account

	2018-19 Total £m	2017-18 Total £m
Total net costs	**2,416.8**	**2,456.2**
Recoveries in respect of outward secondments	2.6	6.1
Less net costs charged to capital budgets	(35.7)	(26.7)
Sub-total	**2,383.7**	**2,435.6**
Travel, subsistence and hospitality	68.0	67.8
Recruitment and training	22.0	20.7
Early severance schemes	8.5	15.6
Staff and related costs in Consolidated Statement of Comprehensive Net Expenditure (see page 194)	**2,482.2**	**2,539.7**

1. This section has been subject to external audit.
2. Capital spend reflects time spent building capital assets.

Civil Service Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 1 April 2015, a new pension scheme for civil servants was introduced, replacing Principal Civil Service Pension Scheme (PCSPS). The Civil Servants and Others Pension Scheme (CSOPS), known as Alpha, provides benefits on a career average basis. From this date members moved on the following basis



Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (partnership pension account).

Defined Benefit Schemes

These statutory arrangements are unfunded multi-employer defined benefit schemes with the cost of benefits paid for by funding that is voted on by Parliament each year. HMRC is unable to identify its share of the underlying assets and liabilities.

The Scheme Actuary usually reviews contributions every four years, following a full scheme valuation. The scheme was last valued as at 31 March 2016. You can find details in the resource accounts of the Cabinet Office: Civil Superannuation. Full information about the Civil Service pension arrangements can be found at **www.civilservicepensionscheme.org.uk**

Pensions payable under Classic, Premium, Classic plus, Nuvos and Alpha are increased annually in line with pensions increase legislation. Details of each pension scheme and the differences between them are shown in the table below.

Figure 31: Pension benefits

Pension scheme	Pension age	Employee contributions (% of pensionable earnings)	Benefits accrual rate (for each year of service)	Lump sum (payable on retirement)
Classic	60	4.6- 8.05	1/80th pensionable earnings	3 years initial pension
Classic +	60	4.6- 8.05	1/80th final pensionable earnings to 30 September 2002. Thereafter, 1/60th.	3/80th final pensionable earnings to 30 September 2002. Thereafter, optional.
Premium	60	4.6-8.05	1/60th pensionable earnings	Optional
Nuvos	65	4.6- 8.05	2.3% of pensionable earnings each scheme year	Optional
Alpha	The higher of 65 or state pension age	4.6 - 8.05	2.32% of pensionable earnings each scheme year	Optional

Additionally, members of Nuvos and Alpha have their accrued pension uprated in line with pensions increase legislation. In all cases, members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

For 2018-19, employers' contributions of £365,818 thousand were payable to the PCSPS and CSOPS (2017-18: £371,856 thousand) at one of four rates in the range 20% to 24.5% of pensionable earnings, based on salary bands. The contribution rates are set to meet the cost of the benefits accruing during 2018-19 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Partnership pensions

The partnership pension account is a defined contribution, stakeholder pension arrangement. The employer makes a basic contribution of between 8% and 14.75% (depending on the age of the member) into a stakeholder pension product chosen by the employee. The employee does not have to contribute, but where they do make contributions, the employer will also match these up to a limit of 3% of pensionable salary. Employers also contribute a further 0.5% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

For 2018-19, employers' contributions of £2,020 thousand (2017-18: £1,902 thousand) were payable for partnership stakeholder pensions. In addition, employer contributions of £82 thousand (2017-18: £78 thousand) were payable to the PCSPS for centrally-provided risk benefit cover.

87 individuals (2017-18: 87 individuals) retired early on ill-health grounds; the total additional accrued pension liabilities in the year amounted to £59 thousand (2017-18: £83 thousand).

Contributions due to the partnership pension provider at the reporting date were nil. Contributions prepaid at that date were nil.

Valuation Office Agency

A number of the Valuation Office Agency's employees are members of the Local Government Pension Scheme. Contributions into this scheme for 2018-19 were £685 thousand (2017-18: £737 thousand). Full information about the VOA employee contributions can be found in the VOA Annual Report and Accounts:

Read more at
www.gov.uk/government/organisations/valuation-office-agency

Revenue and Customs Digital Technology Services Ltd

Revenue and Customs Digital Technology Services Ltd (RCDTS Ltd) has a contract-based defined contribution pension scheme, which is administered by Aviva plc and overseen by the HR Team. Contributions into this scheme for 2018-19 were £1,957 thousand (2017-18: £1,589 thousand). A number of staff in RCDTS Ltd have contractual rights to the Principal Civil Service Pension Scheme under Fair Deal policy and RCDTS Ltd has Admitted Bodies status into the scheme, which is managed by the Scheme Management Executive within Cabinet Office. Contributions into this scheme for 2018-19 were £422 thousand (2017-18: £471 thousand).

HMRC's Remuneration Report, which details the salary and pension benefits for members of the Executive Committee, can be found on page 130.

Reporting of Civil Service and other compensation schemes - exit packages[1]

Figure 32: Exit packages 2018-19

	Core department and agency			Departmental group		
Exit package cost band	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band
←£10,000	24	23	47	24	23	47
£10,000 - £25,000	65	256	321	65	256	321
£25,000 - £50,000	-	491	491	-	492	492
£50,000 - £100,000	-	171	171	-	171	171
£100,000 - £150,000	-	12	12	-	12	12
£150,000 - £200,000	-	-	-	-	-	-
£200,000+	-	-	-	-	-	-
Total number of exit packages by type	**89**	**953**	**1,042**	**89**	**954**	**1,043**
Total resource cost (£000s)	**1,114**	**34,939**	**36,053**	**1,114**	**34,971**	**36,085**

Figure 33: Exit packages 2017-18[2]

	Core department and agency			Departmental group		
Exit package cost band	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band
←£10,000	4	71	75	4	71	75
£10,000 - £25,000	53	207	260	53	207	260
£25,000 - £50,000	8	323	331	8	323	331
£50,000 - £100,000	-	149	149	-	149	149
£100,000 - £150,000	-	16	16	-	16	16
£150,000 - £200,000	-	-	-	-	-	-
£200,000+	-	-	-	-	-	-
Total number of exit packages by type	**65**	**766**	**831**	**65**	**766**	**831**
Total resource cost (£000s)	**1,004**	**27,427**	**28,430**	**1,004**	**27,427**	**28,430**

1. This section has been subject to external audit.
2. The prior year figures in the 2017-18 published account showed other departures agreed as 717 with a total resource cost of £25,945 thousand. These figures have been adjusted above to account for instances where individuals' final costs changed from the original estimate after the date of submission of the accounts.

Core department and agency exit packages include the Valuation Office Agency, to read more about the Valuation Office Agency exit packages go to:
www.gov.uk/government/organisations/valuation-office-agency

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972. Exit costs are accounted for in full in the year in which the obligation becomes binding on the department. Where the department has agreed early retirements, those costs in excess of obligations usually met by the Civil Service Pension Scheme, are met by the department. Ill-health retirement costs are met by the pension scheme and are not included in the table.

The numbers included in the table above include departures of staff who are members of the Local Government Pension Scheme. Their compensation arrangements are outside the scope of the Civil Service Compensation Scheme. The cost of their early retirements reflects the cost of providing any payment due to the individual on retirement. In certain circumstances, it also includes the cost associated with the increase in future liability to pay pension.

People off-payroll

We report to HM Treasury about off-payroll appointments of more than six months and more than £245 a day.

From 6 April 2017, reforms to intermediaries legislation (known as IR35) came into effect. These changed the rules for off-payroll people working in the public sector and moved the obligation to determine tax status from the contractor to the engager.

We have implemented changes to comply with the reforms and have determined the employment status of our contractors and conveyed these views to our suppliers.

Details of our contractors, who are in scope of the reformed legislation, are provided in Figures 34 and 35:

Figure 34: All off-payroll engagements as of 31 March 2019, for more than £245 per day and that last for longer than six months

	HMRC	RCDTS	VOA
Number of existing engagements as of 31 March 2018	**32**	**94**	**1**
Length of existing engagements:			
Less than one year at time of reporting	12	26	-
Between one and two years at time of reporting	12	38	-
Between two and three years at time of reporting	3	22	1
Between three and four years at time of reporting	-	8**	-
Four or more years at time of reporting	5*	-	-

* Relates to 5 individuals with specialist IT skills, not available in house or on the open market, who are supporting critical business activity as part of our Transformation programme.

** Relates to 8 individuals retained by RCDTS Ltd for their individual skills and specific knowledge that are essential for the project deliveries and process efficiencies. We continue to offer to convert these roles to permanent staff where possible.

Figure 35: All new off-payroll engagements, between 1 April 2018 and 31 March 2019, for more than £245 per day and that last for longer than six months

	HMRC	RCDTS	VOA
New engagements, or those that reached six months in duration between 1 April 2018 and 31 March 2019	29	58	-
No. assessed where the intermediaries legislation applies	28	58	-
No. assessed where the intermediaries legislation does not apply	1	-	-
No. engaged directly (via a PSC contracted to the department) and are on the departmental payroll	-	-	-
No. of engagements reassessed for consistency/ assurance purposes during the year	26	45	-
No. of engagements that saw a change to IR35 status following the consistency review	-	-	-

Figure 36: Board members, and/or, senior officials with significant financial responsibility between 1 April 2018 and 31 March 2019

	HMRC	VOA
Number of individuals who are Board members, and/or, senior officials with significant financial responsibility		
On payroll	94	9
Off payroll	-	-

Consultancy and temporary employees

HMRC uses professional service providers to help with specialist work – including consultancy, contingent labour (temporary workers), learning, legal advice, translation, interpretation and research services. Use of these services is limited to occasions when we do not have the necessary skills internally or where an independent external expert opinion on a complex issue is required.

External advisers provide us with specialist expertise to help with delivering our strategic objectives and major programmes. We use contingent labour to quickly deploy specialist expertise, drive change and deliver increased efficiency with tight resources.

We continue to support the Cabinet Office guidelines to reduce the use of consultancy across central government. These guidelines, and the fiscal discipline measures introduced from May 2010, had resulted in a significant reduction in our spending on consultancy. While we are continuing to look for ways of achieving savings, introducing new procurement tools to improve our data analysis and sharing best practice in the employment of consultants with different parts of HMRC we are also dealing with the impacts of EU exit.

Although our spend on consultancy increased from £2,957,366 in 2017-18 to £3,168,518* in 2018-19, this should be viewed in the context of EU exit and the major transformation agenda we are currently undertaking and is less than 0.21% of HMRC's annual external spend.

* Aligns with Cabinet Office definition of consultancy spend, which differs from the numbers reported in the Resource Accounts.

Trade union facility time allocation

HMRC and VOA continue to recognise the important role the Trade Unions can play in a modern workplace and we are committed to engaging constructively with the Trade Unions. HMRC recognises two unions for collective bargaining and staff representation. These are the Public and Commercial Services Union (PCS) and the Association of Revenue & Customs (ARC, a specialist section of the FDA specifically for HMRC staff). VOA recognises Prospect and the Public and Commercial Services Union (PCS). These arrangements follow the principles laid down in the Trade Union and Labour Relations (Consolidation) Act 1992 and the Codes of Practice issued by ACAS under that legislation.

Figure 37: Total number of employees who were relevant union officials during 2018 - 2019

HMRC	VOA
PCS: 1,272 ARC: 59 Total = 1,331 Full-time equivalent employees = 1,218.93	PCS: 7 Prospect: 4 Total = 11 Full-time equivalent employees = 10.43

Figure 38: Percentage of time spent on facility time

Percentage of time	Number of employees	
	HMRC	VOA
0%	445	0
1-50%	886	11

For 2018-19, facility time was managed within the Civil Service guidelines and was calculated in accordance with the Cabinet Office's guide figure of 0.1% of paybill* as follows:

Figure 39: Percentage of paybill spent

	HMRC	VOA
Paybill 2018-19	£2,251,777,886†	£135,768,353
0.1% of paybill	£2,251,777	£135,768
The total cost of facility time	£2,097,331	£83,834
Percentage of the total paybill spent on facility time, calculated as; (total cost of facility time / total pay) x 100	0.093%	0.061%

In accordance with the Cabinet Office's Facility Time Framework, these figures include all paid time off for union work, comprising:

- General representative duties; National official duties; Safety representative duties; Union learning representative duties, and Union training.

Paid trade union activities

Of the total paid facility time hours worked by relevant trade union officials during 2018-19, none were spent on paid trade union activities.

Further disclosure required for the Trade Union (Facility Time Publication Requirements) Regulations 2017 will be available here on 31 July 2019:
www.gov.uk/government/publications/trade-union-facility-time

* Paybill and salary figures comprise basic pay, allowances, overtime, non-consolidated performance payments and employer's National Insurance and superannuation payments.

† Calculation is based on projected paybill to ensure allocation of facility time as soon as possible at the start of the financial year, however end of year calculation is based on actual paybill figures.

Remuneration for Senior Civil Servants

This section contains information about HMRC's senior employees and covers our policies on salaries, bonuses and benefits in kind, as well as on performance assessment and contract termination.

Remuneration policy

The Senior Civil Service (SCS) are senior leaders employed across government, with a common framework of terms and conditions. SCS pay and conditions are not delegated to individual departments.

Recommendations on SCS pay are provided by the Review Body on Senior Salaries in an annual report to the Prime Minister. The government responds to its recommendations, and departments are then informed about its decision by the Cabinet Office.

In line with Cabinet Office guidance SCS pay and non-consolidated awards at HMRC are then decided by the department's Remuneration Committee.

Before making its recommendation, the Review Body considers:

- the need to recruit, retain and motivate suitably able and qualified people to exercise their different responsibilities
- regional/local variations in labour markets and their effects on the recruitment and retention of employees
- government policies for improving public services, including the requirement on departments to meet the output targets for the delivery of departmental services
- the funds available to departments as set out in the government's departmental expenditure limits
- the government's inflation target
- wider economic factors and the affordability of its recommendations.

Senior Civil Service (SCS) employee numbers and approved posts

HMRC's ongoing transformation agenda, as well as changes to government policy, continue to drive the need to 'buy, borrow and build' a cadre of highly-skilled professionals.

We have 460 SCS employees in total - 440 within HMRC and 20 in the Valuation Office Agency (VOA). As of 31 March 2019, the total number of SCS posts (as opposed to individual employees) was 457. This comprised of 437 posts within HMRC and 20 VOA posts.

There are a number of reasons for the difference between figures for posts and people. For example, some people fill a post through job sharing while others may be on maternity leave or special leave.

Figure 40-: HMRC and VOA Senior Civil Service (SCS) employee and post numbers

	HMRC	VOA	Total
SCS employee numbers	440	20	460
SCS posts	437	20	457

Figure 41: HMRC Senior Civil Service (SCS) employee numbers comparison

Grade	Number at 31 March 2019	Number at 1 April 2018	Percentage change
Permanent Secretary	2	2	0%
SCS3	8	9	11% decrease
SCS2	62	54	15% increase
SCS1	347	320	8% increase
On loan/secondment	21	20	5% increase
Totals	**440**	**405**	**9% increase**

SCS structure and recruitment

Our performance management system is governed by the Cabinet Office. Below the posts of Permanent Secretary are three levels of Senior Civil Servant: Director General, Director and Deputy Director. These are underpinned by a job evaluation scheme that creates a consistent way of comparing the relative value of jobs within and across the departments.

Our governance framework, along with a review of our approach to recruitment, ensures that we are successful in attracting both internal (to HMRC and Civil Service) and external talent to key strategic roles.

A total of 59 HMRC and VOA posts were advertised during the last year, with a number of appointments made on promotion into and within the SCS from HMRC and across the Civil Service. 18 posts were advertised across Whitehall and 41 posts were advertised via external recruitment campaigns.

Our recruitment activity has centred on specialist and digital posts and we have had a particular focus on transformation and EU exit-related appointments. This will enable us to better respond to planned and unexpected pressures and peaks, and to ensure a smooth and orderly exit from the EU.

Remuneration committees

Our main remuneration committee, which represents both HMRC and the Valuation Office Agency comprises the Chief Executive (First Permanent Secretary), the Deputy Chief Executive (Second Permanent Secretary), all Directors General and an independent observer.

The performance of deputy directors and directors is moderated by Directors General and, in the case of the latter, also by a remuneration committee. Performance of Directors General is moderated by Permanent Secretaries with advice from an independent observer with performance and award arrangements for our Permanent Secretaries being managed by the Cabinet Office. This is in line with Cabinet Office guidance to meet the required group distributions of 'Top' (top 25% of performers), 'Achieving' (next 65% of performers) and 'Low' (bottom 10% of performers).

The main remuneration committee signs off the overall departmental performance group allocations for deputy directors and directors.

Pay awards

Following a fundamental review of the SCS pay framework, it is envisaged that the pay structure will move towards professional groupings, emphasising and rewarding SCS who look to build depth as well as breadth of experience.

As an initial step, Cabinet Office pay award guidance for 2018-19 included increased pay flexibilities for the pay award, due on 1 April 2018 which was funded from 1.35% of the SCS basic paybill:

- uplifts to the minimum salaries of all SCS pay ranges at a cost of 0.10%
- consolidated pay increases limited to an average award of 1%
- discretion for departments to address any individual pay anomalies for a limited number of people at a cost of 0.25%.

Base pay awards were paid to all performers.

Non-consolidated performance awards

Exceptional delivery of performance against objectives is rewarded through non-consolidated end-of-year and in-year performance awards. In line with Cabinet Office guidance, non-consolidated end-of-year and in-year performance awards are funded from an agreed allocation of 3.3% of the SCS basic paybill and subject to a pay control limit of £17,500:

- awards of £9,000 (SCS1); £12,000 (SCS2); and £15,000 (SCS3) were paid to 91 'Top' performers for 2017-18 performance due on 1 April 2018
- in-year awards up to a maximum of £5,000 were paid to 66 members of the SCS, based on performance during 2018-19.

Bonuses that are above and beyond the control limit of £17,500 are agreed in non-standard contracts and are in line with HMT senior pay approval process.

Non-consolidated performance award decisions are monitored to guard against bias or discrimination.

Policy on notice periods and termination payments

We follow the standard policy for SCS notice periods and termination payments contained in the Civil Service Management Code.

Service contracts

There is a legal requirement that all Civil Service appointments must be made on merit, and on the basis of fair and open competition. The recruitment principles published by the Civil Service Commission explain the limited circumstances when other appointments can be made.

Read the Civil Service Commission recruitment principles at:
www.civilservicecommission.independent.gov.uk/civil-service-recruitment

Executive members hold appointments which are open-ended unless otherwise stated in the remuneration tables. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme. No such compensation payments were made to those included in this remuneration report during 2018-19.

Executive Committee (ExCom) and Non-Executive Board members

The following sections provide details of the service contracts, salaries and pension entitlements of the department's most senior officials. Where there is no end date of term, it means their appointment is on a permanent basis.

The individuals within this table are presented in line with our structure. Details are shown for each individual, including those who have held more than one role within the year, by their current or last-held role.

Figure 42: Senior officials single total figure of remuneration and pension benefits[1]

	Salary (full year equivalent) (£000)		Bonus payments (£000)		Benefits in kind (to the nearest £100)		Pension benefits (£000)		Total (£000)	
Senior official	2018-19	2017-18	2018-19	2017-18	2018-19	2017-18	2018-19	2017-18	2018-19	2017-18
Sir Jonathan Thompson[2] Appointed to ExCom 4 Apr 2016 Chief Executive and First Permanent Secretary	190-195	185-190	15-20	15-20	600	400	-	-	210-215	205-210
Jim Harra[2] Appointed to ExCom 16 Apr 2012 Deputy Chief Executive and Second Permanent Secretary (From 1 Jan 2018)	150-155	140-145	10-15	15-20	700	300	70-75	30-35	235-240	190-195
Ruth Stanier Appointed to ExCom 18 July 2018 Director General Customer Strategy and Tax Design	95-100 (130-135)	-	10-15	-	600	-	200-205	-	310-315	-
Angela MacDonald Appointed to ExCom 7 Aug 2017 Director General Customer Service	155-160	95-100[3] (160-165)	-	-	400	300	50-55	30-35	210-215	125-130
Penny Ciniewicz Appointed to ExCom 20 Jul 2015 Director General Customer Compliance (From 4 Sep 2017)	135-140	130-135	-	-	600	400	30-35	25-30	165-170	155-160
Karen Wheeler Appointed to ExCom 3 Jul 2017 Director General Border Delivery Group	155-160	115-120 (150-155)	10-15	-	100	100	60-65	0-5	235-240	115-120
Justin Holliday Appointed to ExCom 9 Mar 2015 Chief Finance Officer	160-165	160-165	-	-	600	600	80-85	55-60	245-250	220-225
Esther Wallington Appointed to ExCom 1 Dec 2016 Chief People Officer	120-125[4]	125-130[4]	-	-	600	400	45-50	45-50	170-175	170-175
Alan Evans Appointed to ExCom 1 Jan 2019 General Counsel and Solicitor	30-35 (130-135)	-	-	-	100	-	5-10	-	40-45	-
Jacky Wright Appointed to ExCom 16 Oct 2017 Chief Digital and Information Officer (to 15 Oct 2019)	180-185	80-85 (175-180)	50-55[5]	-	500	100	-	-	235-240	80-85

Continued

Senior official	Salary (full year equivalent) (£000) 2018-19	2017-18	Bonus payments (£000) 2018-19	2017-18	Benefits in kind (to the nearest £100) 2018-19	2017-18	Pension benefits (£000) 2018-19	2017-18	Total (£000) 2018-19	2017-18
Melissa Tatton Appointed to ExCom 4 Sep 2017 Chief Executive of the Valuation Office Agency	135-140	75-80 (130-135)	-	-	200	100	160-165	135-140	295-300	215-220
David Richardson Appointed to ExCom 1 Jun 2017 Director General Customer Strategy and Tax Design [Interim] (from 1 Jan 2018 to 31 Jul 2018)	40-45 (120-125)	60-65 (120-125)	10-15	-	100	100	15-20	60-65	70-75	120-125
Nick Lodge Appointed to ExCom 6 Aug 2012 Director General Strategy Group[2] (to 16 Sep 2018)	60-65 (140-145)	135-140	-	-	100	300	5-10	5-10	70-75	145-150
David Bunting Appointed to ExCom 1 Jul 2018 General Counsel and Solicitor [Interim] (to 31 Dec 2018)	55-60 (110-115)	-	-	-	200	-	75-80	-	130-135	-
Gill Aitken Appointed to ExCom 27 Jan 2014 General Counsel and Solicitor (to 13 Aug 2018)	50-55 (140-145)	135-140	10-15	-	100	400	5-10	55-60	70-75	195-200

1. This section has been subject to external audit.
2. Following the departure of Nick Lodge the responsibilities of the Director General Strategy Group (formerly Transformation Group) have been shared between Sir Jonathan Thompson and Jim Harra.
3. Angela MacDonald transferred to HMRC from Department for Work and Pensions (DWP) on 7 August 2017 but was paid by DWP on her existing payscale until 31 August 2017. The figures shown in these accounts represent payments made by HMRC.
4. The full-time equivalent salary is £135,000-£140,000 (2017-18 £135,000-£140,000). Esther Wallington works part-time hours 0.9 FTE.
5. This bonus related to terms agreed in the non-standard contract and was in line with HMT senior pay approval process.

The fees of the external appointees are detailed below. Non-Executive Board members are appointed for a fixed term of usually three years.

Figure 43: Non-Executive directors single total figure of remuneration[1]

	Fees (full year equivalent) (£000)		Benefits in kind (to the nearest £000)		Total (£000)	
Non-Executive director	2018-19	2017-18	2018-19	2017-18	2018-19	2017-18
Mervyn Walker (Lead Non-Executive and Chair of the Board) 1 Sep 2014 – 30 Jun 2020	20-25	20-25	300	300	25-30	25-30
Joanna Baldwin 1 Jan 2016 – 31 Mar 2019	20-25	15-20	100	400	20-25	20-25
Alice Maynard[2] 1 Jul 2016 – 30 Jun 2019	30-35	15-20	200	100	30-35	15-20
Simon Ricketts 1 Sep 2014 – 31 Aug 2020	15-20	20-25[3]	100	100	15-20	15-20
Juliette Scott 21 Nov 2017 - 21 Nov 2020	15-20	5-10 (10-15)	200	-	15-20	5-10
John Whiting 1 Apr 2013 – 31 July 2019	20-25	15-20	200	400	20-25	20-25

1. This section has been subject to external audit.
2. Fees incorporate the cost of a support worker as a reasonable adjustment under the Equality Act 2010.
3. The prior year figure has been restated as certain travel and subsistence costs have been reassessed as being taxable.

Salary

Salary covers both pensionable and non-pensionable amounts and includes gross salary, overtime, recruitment and retention allowances; reserved rights to other allowances and any other allowance to the extent that it is subject to UK taxation.

Fees

Fees also include any other allowance that is subject to UK taxation.

Bonus payments

Bonus payments paid whilst serving on ExCom for exceptional work within the performance year. Year-end performance awards are based on performance achieved in post(s) held in the previous year and are made as part of the performance and pay award process. Bonus payments are considered non-consolidated pay awards.

Benefits in kind

The monetary value of benefits in kind covers any benefits provided by the department and treated by HMRC as taxable, such as hospitality provided at external development events.

Pension benefits

Pension benefits accrued during the reporting period are calculated as follows:

	Real increase in pension x 20
add	Real increase in any lump sum
less	Contributions made by the individual
=	The value of pension benefits accrued during the period

The real increases exclude increases due to inflation or any increases or decreases due to a transfer of pension rights. The value of the pension benefits can vary year to year due to a number of factors that include the date an individual joined or left the department, an individual receiving a higher pay increase in one year to another.

Fair Pay[1]

The pay multiple is the ratio between the mid-point of the banded remuneration of the highest paid director in the department and the median remuneration of other HMRC and VOA staff. The median represents the employee that lies in the middle of the lowest remuneration and the highest remuneration of staff, excluding the highest paid director.

This includes salary, non-consolidated performance-related pay and benefits in kind. It does not include severance payments, employer pension contributions and the cash equivalent transfer value of pensions.

Figure 44: Fair pay disclosure

	2018-19	2017-18
Highest paid director	£235,000-£240,000	£205,000-£210,000
Highest band of staff remuneration	£210,000-£215,000	£180,000-£185,000
Median total remuneration	£25,216	£24,502
Lowest band of staff remuneration	£17,000-£17,500	£16,500-£17,000
Ratio	**9.42**	**8.47**

In both 2018-19 and 2017-18, no employees received remuneration in excess of the highest-paid director.

The increase in the median for 2018-19 is largely as a result of the payment of recognition bonuses. The increase in the ratio is primarily a consequence of a bonus payment having been made under the terms of a non-standard contract, this being in excess of the bonus control limit of £17,500 applying to standard contracts.

1. This section has been subject to external audit.

Pension benefits

The pension figures quoted for officials show pension earned in PCSPS or alpha - as appropriate. Where the official has benefits in both the PCSPS and alpha the figure is the combined value of their benefits in the two schemes, but note that the pension components may not be payable from the same age. The accrued pension is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age.

Figure 45: Pension benefits[1]

Senior official	Accrued annual pension at pension age and related lump sum (£000) as at 31 March 2019[2]	Real increase in pension and related lump sum at pension age (£000)	Cash Equivalent Transfer Value (CETV) (to the nearest £000) as at 31 March 2019[2]	Cash Equivalent Transfer Value (CETV) (to the nearest £000) as at 31 March 2018[3]	Cash Equivalent Transfer Value (CETV) (to the nearest £000) Real increase	Employer contribution to partnership pension account (to the nearest £100)
Sir Jonathan Thompson[4] **Appointed to ExCom 4 Apr 2016** **Chief Executive and Permanent Secretary**	-	-	-	-	-	26,300
Jim Harra[5] Appointed to ExCom 16 Apr 2012 Second Permanent Secretary (From 1 Jan 2018)	65-70 (Lump sum 195-200)	2.5-5 (Lump sum 10-12.5)	1,475[5]	1,291	69	9,300
Ruth Stanier[6] Appointed to ExCom 18 Jul 2018 Director General Customer Strategy and Tax Design	40-45	10-12.5	690	484	156	-
Angela MacDonald[6] Appointed to ExCom 7 Aug 2017 Director General Customer Service	25-30	2.5-5	320	249	26	-
Penny Ciniewicz[7] Appointed to ExCom 20 Jul 2015 Director General Customer Compliance (From 4 Sep 2017)	35-40 (Lump sum 110-115)	0-2.5 (Lump sum 5-7.5)	832	716	29	-
Karen Wheeler[8] Appointed to ExCom 3 Jul 2017 Director General Border Coordination	65-70	2.5-5	1,328	1,204	63	-
Justin Holliday[6] Appointed to ExCom 9 Mar 2015 Chief Finance Officer	65-70	2.5-5	1,009	834	47	-
Esther Wallington[6] Appointed to ExCom 1 Dec 2016 Chief People Officer	20-25	2.5-5	257	195	20	-
Alan Evans[6] Appointed to ExCom 1 Jan 2019 General Counsel and Solicitor	45-50	0-2.5	780	768	4	-
Jacky Wright[9] Appointed to ExCom 16 Oct 2017 Chief Digital and Information Officer (to 15 Oct 2019)	-	-	-	-	-	-
Melissa Tatton[6] Appointed to ExCom 4 Sep 2017 Chief Executive of the Valuation Office Agency	50-55 (Lump sum 115-120)	7.5-10 (Lump sum 12.5-15)	964	741[10]	128	-

Continued

Figure 46: Pension benefits[1]

Senior official	Accrued annual pension at pension age and related lump sum (£000) as at 31 March 2019[2]	Real increase in pension and related lump sum at pension age (£000)	Cash Equivalent Transfer Value (CETV) (to the nearest £000) as at 31 March 2019[2]	as at 31 March 2018[3]	Real increase	Employer contribution to partnership pension account (to the nearest £100)
David Richardson[7] Appointed to ExCom 1 Jun 2017 Director General Customer Strategy and Tax Design [Interim] (to 31 Jul 2018)	55-60 (Lump sum 170-175)	0-2.5 (Lump sum 2.5-5)	1,316	1,301	19	-
Nick Lodge[7] Appointed to ExCom 6 Aug 2012 Director General Transformation (to 16 Sep 2018)	60-65 (Lump sum 180-185)	0-2.5 (Lump sum 0-2.5)	1,287	1,264	5	-
David Bunting[7] Appointed to ExCom 1 Jul 2018 General Counsel and Solicitor [Interim] (to 31 Dec 2018)	45-50 (Lump sum 140-145)	2.5-5 (Lump sum 10-12.5)	1,075	919	75	-
Gill Aitken[7] Appointed to ExCom 27 Jan 2014 General Counsel and Solicitor (to 13 Aug 2018)	50-55 (Lump sum 130-135)	0-2.5 (Lump sum 0-2.5)	1,130	1,108	6	-

1. This section has been subject to external audit.
2. Unless stated otherwise, values reported are as at 31 March 2019 or the date the individual ceased to be a member of ExCom where earlier.
3. Unless stated otherwise, values reported are as at 31 March 2018 or the day before the individual was appointed to ExCom where later.
4. Member of the Partnership Pension Account.
5. Member opted to have a Partnership Pension Account 1 November 2018, CETV is at 31 October 2018.
6. Member of the Alpha scheme.
7. Member of the Classic scheme.
8. Member of the Premium scheme.
9. Member opted out of PCSPS.
10. The prior year CETV figures have been recalculated due to a retrospective change in pensionable pay.

Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme.

The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity.

The figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are worked out in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

Real increase in CETV

This reflects the increase in CETV that is funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Jonathan Thompson

Sir Jonathan Thompson
Chief Executive and Permanent Secretary
11 July 2019

Parliamentary, public and stakeholder accountability

As a government department that touches the lives of virtually everyone in the UK, we're serious about our responsibility to be accountable to customers, stakeholders and external scrutiny bodies.

This accountability goes to the heart of our role in government, and helps us in our efforts to get tax right for everyone. Our focus is on listening and responding to external opinion - and managing and protecting the customer data that we hold.

Recommendations made by external scrutiny bodies

We monitor the implementation of recommendations made by external scrutiny bodies. The bulk of recommendations for HMRC are made by the National Audit Office, the Public Accounts Committee, the Treasury Select Committee and the Infrastructure Projects Authority.

A central part of the monitoring process is review by the Audit and Risk Committee. Our Chief Executive, or his representative, presents a report to each meeting of the committee, updating it on the status of recommendations and whether any are overdue. The committee reviews progress and can call responsible Directors General to its meetings to explain why a recommendation has not been implemented within its target. Recommendations are categorised as either significant or routine, based on the greatest financial, operational, or reputational risk of not implementing them. Membership of the Audit and Risk Committee consists of HMRC Non-Executive Directors and members. Officials from the National Audit Office also attend each meeting.

Last year we implemented 103 significant and 66 routine recommendations. A full breakdown is set out below.

Figure 47: Significant recommendations made by external bodies in 2018-19

External body making recommendation	Opening balance[1]	New	Closed	Closing balance[2]
Parliamentary and NAO reports	5	0	5	0
NAO Audit recommendations[3]	6	29	14	21
Infrastructure Projects Authority	15	80	84	11
Others[4]	0	0	0	0
Total	**26**	**109**	**103**	**32**

1. Balance at 1 April 2018.
2. Balance at 31 March 2019.
3. Section 2 audit recommendations and management letter recommendations.
4. HM Inspectorate of Constabulary, Office of the Surveillance Commissioner (now known as the Investigatory Powers Commissioners Office (IPCO), H&S, UK Stats Authority, GCHQ, Low Pay Commission.

Figure 48: Routine recommendations made by external bodies in 2018-19

External body making recommendation	Opening balance[1]	New	Closed	Closing balance[2]
Parliamentary and NAO reports	9	36	16	29
NAO Audit recommendations[3]	16	4	16	4
Infrastructure Projects Authority	7	20	24	3
Others[4]	9	8	10	7
Total	**41**	**68**	**66**	**43**

1. Balance at 1 April 2018.
2. Balance at 31 March 2019.
3. Section 2 audit recommendations and management letter recommendations.
4. HM Inspectorate of Constabulary, Office of the Surveillance Commissioner (now known as the Investigatory Powers Commissioners Office (IPCO), H&S, UK Stats Authority, GCHQ, Low Pay Commission.

Responding to external opinion

We carry out a wide range of activities with organisations and individuals representing our customers, from Board-level meetings through to forums, events and detailed discussions between our policy teams and our external stakeholders.

This engagement helps to keep our stakeholders involved in issues affecting them or our customers - whether they are business representative groups, professional accountancy bodies or charities that support customers who need extra help. It means we're able to listen to and act on their feedback, to ensure that their expertise is helping us to shape day-to-day and future work.

We also undertake annual qualitative and quantitative research with Parliamentarians, stakeholders and journalists. The results enable us to gauge stakeholders' perceptions of HMRC, track improvements over time and inform changes to help us keep stakeholders better informed.

This insight is also helping to direct our future engagement work including, for example, the need to strengthen our support for Parliamentarians and their support staff. Here are some of the key pieces of engagement work we've undertaken during 2018-19:

Consultative groups

We have a number of stakeholder consultative forums which seek expert advice and help shape the way we work, these include the Agents' Joint Initiative Steering Group and Voluntary Sector's Individual Stakeholder Forum. We consult with businesses, individuals, agents, representative bodies and charities that deal with customers who need extra help. The forums meet regularly to provide advice on a wide range of strategic and operational issues, as well as cross-government policies such as Tax-Free Childcare.

Roundtable events

We have increased our engagement during 2018-19 through more interactive sessions, including a roundtable event to strengthen relationships between communications professionals at HMRC and our key stakeholders. This has enabled us to improve our awareness of stakeholder concerns and has given us opportunities to sound our communications approach, while accessing stakeholder communication channels.

Engagement with Parliamentarians

We are improving our engagement with Parliamentarians to help MPs deal with tax-related enquiries from constituents. This includes:

- presentations showing the support HMRC offers MPs and their staff at the House of Commons Information Service events on tax credits and other general issues
- drop-in surgeries at Portcullis House where experts from our tax credits and PAYE MP hotlines help to resolve HMRC-related cases that MPs can bring in on behalf of any constituents.

Grants to private voluntary sector bodies

In 2018-19, we administered the final year of a three-year funding scheme to the Voluntary and Community Sector (VCS). The scheme totalled £1,670,454 and we administered eight awards to organisations.

This funding supports our customers who need extra help understanding and complying with their obligations and claiming their entitlements, including those who are currently digitally excluded. The VCS organisations help customers form or rebuild a positive relationship with HMRC, which enables them to engage directly with us in the future.

The scheme is administered in line with the Cabinet Office Standards for grant funding. There are elements that need to be aligned more strongly which we will address in any future funding rounds. The current scheme is administered through a dedicated account management process with regular reporting milestones.

HMRC does not distribute grants to devolved administrations, local government or any other local organisations, nor commercial or civil society sector organisations.

Read more about this funding scheme on the Government Grants Register:
www.gov.uk/government/publications/government-grants-register

Engagement activity on EU exit

HMRC carried out extensive stakeholder engagement as part of our preparations for EU exit. Initially, we consulted heavily with stakeholders to develop tax and customs policy for after the UK leaves the EU, through roundtables and detailed policy discussions. Alongside this, HMRC maintained a detailed programme of engagement to ensure our stakeholders understood the implications of EU exit on the introduction of the Customs Declaration Service.

As government priority increasingly shifted towards ensuring the UK was ready for a possible no deal EU exit, HMRC introduced business readiness engagement alongside more detailed consultation to develop no deal policy.

Our approach was to work in partnership with stakeholders, seeking their input into policy development and communications messages, and securing their support in sharing those messages with UK businesses. We took a variety of approaches to stakeholder engagement to ensure as many UK businesses as possible were prepared for EU exit, including:

- Senior level engagement with major stakeholder leaders to share HMRC's strategic approach to EU exit preparations
- Regular official-level roundtables to seek stakeholder input into policy development
- Providing major stakeholders with advance sight of communications materials, for example no deal trader letters, to seek their advice on messaging

- Producing a comprehensive partner pack containing the latest communications resources for stakeholders to share with UK businesses
- Hosting events and webinars for HMRC's wider stakeholder community to share latest policy and communications messages, including an EU exit event at the QEII Centre in London.

HMRC worked closely with the cross-government Border Delivery Group to ensure a working border after we leave the EU and supported the stakeholder engagement of other government departments as part of the wider government business readiness campaign.

Sharing our data with others

HMRC collects and processes substantial volumes of data in support of our core purpose, administering the UK tax system. The value of the data we hold is widely recognised by others, particularly elsewhere in government, and we share our data, when appropriate, with other public bodies within a strict legal framework.

Sharing this data helps the government deliver policies more effectively, for example, combating fraud in the welfare system and setting the right level of state benefits. Sharing our information also helps to inform the design and implementation of new policies that will go on to have a wider benefit to the public. HMRC also captures trade data, which is important to EU exit planning and management.

In the past year, we have worked with a variety of government departments and non-ministerial departments, including the Department for Work and Pensions, Home Office, Cabinet Office and the Office for National Statistics to improve policy making, and service delivery. Initiatives have included policy to promote growth, manage debt and prevent fraud, support immigration and improve national statistics.

Whenever we share data, we thoroughly respect and safeguard its confidentiality. All our information handling and sharing is governed by the Commissioners for Revenue and Customs Act 2005, the Data Protection Act 2018 and the General Data Protection Regulation. We adhere to the Information Commissioners Office guidance and best practice, and have governance controls to ensure that legality, proportionality and security for new provisions of data are checked and approved by relevant expert areas in HMRC.

During 2018-19, we established a Data Sharing Service to help us manage and meet the increasing demands for cross-government data sharing in the most-effective way.

We continued to support the introduction of the new information sharing provisions in the Digital Economy Act 2017, so we can use the data we hold more effectively and continue to maximise the value of data sharing - both to HMRC and to support wider government policy.

We are working with different government partners to reduce public fraud and debt through greater use of HMRC data sharing, enabled by the Digital Economy Act.

We continue to support the government-wide objective to reach an agreement for the UK leaving the European Union and to establish the future relationship between the UK and EU. Data sharing has been important in supporting this.

We facilitate access to and use of our data by external researchers and other government departments through our secure Datalab - a highly secure and controlled environment in which approved research projects meeting legal requirements can be undertaken. In the past year, Datalab projects have explored issues relating to HMRC's functions such as tax policy, compliance, labour market analysis and business characteristics.

We also publish key figures on our performance and activities online, as well as findings of projects in our external research programme and a wealth of Official and National statistics releases.

+ **Read a full list of our published statistics in Annex 3**
+ **Read more information about using data on page 52**

Personal data-related incidents

All government departments are required to publish information about any serious data-related incidents, which have to be reported to the Information Commissioner.

Figure 49: Summary of protected personal data-related incidents formally reported to the Information Commissioner's Office (ICO) in 2018-19

Date of incident (Month)	Nature of incident	Nature of data involved	Number of people potentially affected	Notification steps
June 2018	Sensitive disclosure relating to ongoing fraud investigation	Multiple data	1	Information classified
August 2018	Mismanagement of National Insurance Numbers (NINO) led to significant detriment to customer	Mixed customer records	2	Customers aware
September 2018	Missing pre-employment check documentation	Multiple data	141	Customers aware
November 2018	Sensitive transgender detail disclosed	Staff who are transgender or do not associate with any gender	64	Customers aware
November 2018	Missing parcel of case file data	Names, NINOs, Dates of birth.	50	Customers not made aware as parcel later found unopened
November 2018	Form sent to violent ex-partner in error	Multiple data	2	Customer aware
December 2018	Internal email sent to third party	Customer data relating to debts	53	Customers not made aware as risk low
January 2019	Sensitive staff data seen by senior manager	Details of 'reasonable adjustment' work taken to enable staff members to work	1	Customers not made aware as risk low
January 2019	Internal Child Reference (ICR) Numbers issued in error	ICR numbers. These become NINOs when a child approached 16 years of age	3,535	Customers not made aware as risk low
January 2019	Fraudulent access to customer accounts	Personal and financial/banking detail	26	Customers aware

Other protected personal data-related incidents

Incidents which did not require reporting to the Information Commissioner are recorded centrally within the department and are set out in the table below. Small, localised incidents are not recorded centrally and are not included in these figures. Figures for 2017-18 are shown in brackets.

Figure 50: Summary of other protected personal data related incidents in 2018-19

Category	Nature of incident	Total
I	Loss of inadequately-protected electronic equipment, devices or paper documents from secured government premises	2 (0)
II	Loss of inadequately-protected electronic equipment, devices or paper documents from outside secured government premises	2 (4)
III	Insecure disposal of inadequately-protected electronic equipment, devices or paper documents	0 (0)
IV	Unauthorised disclosure	7 (26)
V	Other	1 (0)

Statement on information risk

The number of centrally-managed security incidents impacting on protected personal data in HMRC fell from 30 to 12 in 2018-19. This reduction was partly because of a decision we took to realign management responsibilities for certain less serious security incidents, removing them from the centrally-managed process.

This was part of a risk-based strategy to increase focus on our most significant security incidents. The number of customers potentially affected by these centrally-managed incidents was 4,227 (previous year 1,737). This increase is due to an isolated incident potentially affecting 3,535 customers. The number of notifications to the ICO was 12 (previous year 2). The increase was due to changes in reporting requirements following the introduction of the General Data Protection Regulation (GDPR).

Further action on information risk

We deal with millions of customers every year and tens of millions of paper and electronic interactions. We take the issue of data security extremely seriously and continually look to improve the security of customer information.

We investigate and analyse all security incidents to understand and reduce security risk, and we actively learn and act on our incidents - for example, by making changes to business processes relating to post moving throughout HMRC and undertaking assurance work with third party service providers to ensure that agreed processes are being carried out.

We also educate our people to reinforce good data-handling processes through award-winning targeted and departmental-wide campaigns. These focus on reducing the risk of data loss and the likelihood of reoccurrence. All HMRC employees are required to complete mandatory security training, which includes the requirements of the Data Protection Act and GDPR. By doing so, we can make sure HMRC is seen as a trusted and professional organisation.

Sir Jonathan Thompson
Chief Executive and Permanent Secretary
11 July 2019

Parliamentary accountability

HMRC's budget is set by Parliament – and our Consolidated Statement of Parliamentary Supply shows that we delivered within that budget.

In 2018-19, we delivered all of our business activities within Parliamentary controls despite the volatility of entitlement to tax credits, which are challenging to estimate.

Consolidated Statement of Parliamentary Supply[1]

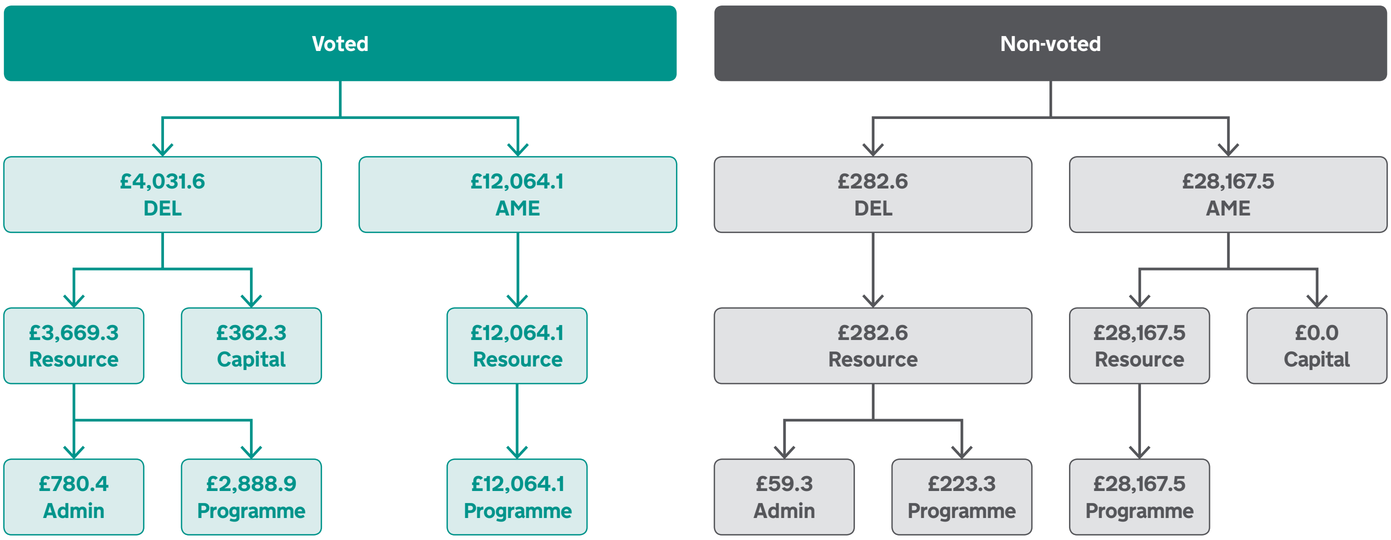
The Government Financial Reporting Manual requires us to prepare a Statement of Parliamentary Supply (SoPS) and supporting notes to show outturn against the Supply Estimate we presented to Parliament, in respect of each of our budgetary control limits.

The Supply Estimate is our request to Parliament to fund our expenditure. The total amount the department spends consists of both a voted element, authorised by Parliament through the annual Supply Estimate procedure, and a non-voted element for categories of expenditure not subject to annual approval such as tax credit expenditure, but still closely controlled through the financial reporting and budgeting process. A full breakdown of the lines of the Estimate which form the voted and non-voted totals below are shown in SoPS note 1.

Parliament also controls our expenditure by further categorising it between Departmental Expenditure Limit (DEL) and Annually Managed Expenditure (AME). DEL spending is tightly controlled by HM Treasury and firm multi-year plans are required, whereas AME spending is led by demand and therefore more volatile.

The figures in the areas highlighted within this statement are voted totals which are subject to parliamentary control. Although not a separate voted limit, any breach of our administration budget will also result in an excess vote.

Figure 51: Budget structure and expenditure outturn (£m)



1 The Consolidated Statement of Parliamentary Supply and its related notes have been subject to external audit.

Figure 52: Summary of Resource and Capital outturn

		Estimate			Outturn			2018-19 £m	2017-18 £m
	SoPS note	Voted	Non-voted	Total	Voted	Non-voted	Total	Voted variance: saving	Total Outturn
Departmental Expenditure Limit									
– Resource	1.1	3,787.7	287.0	4,074.7	3,669.3	282.6	3,951.9	118.4	3,945.7
– Capital	1.2	375.9	—	375.9	362.3	—	362.3	13.6	280.8
Annually Managed Expenditure									
– Resource	1.1	12,605.9	28,099.9	40,705.8	12,064.1	28,167.5	40,231.6	541.8	41,959.8
– Capital	1.2	—	—	—	—	—	—	—	—
Total budget		**16,769.5**	**28,386.9**	**45,156.4**	**16,095.7**	**28,450.1**	**44,545.8**	**673.8**	**46,186.3**
Of which:									
Total Resource	1.1	16,393.6	28,386.9	44,780.5	15,733.4	28,450.1	44,183.5	660.2	45,905.5
Total Capital	1.2	375.9	—	375.9	362.3	—	362.3	13.6	280.8
Total		**16,769.5**	**28,386.9**	**45,156.4**	**16,095.7**	**28,450.1**	**44,545.8**	**673.8**	**46,186.3**

	SoPS note	Estimate	Outturn	2018-19 £m Variance: saving	2017-18 £m Outturn
Net Cash Requirement	3	**16,417.2**	**15,629.5**	**787.7**	**15,506.0**
Administration costs		**966.1**	**839.7**	**126.4**	**841.5**

Explanations of material variances between the Estimate and outturn are provided in SoPS note 1 on page 151. A reconciliation of total resource outturn to the Statement of Comprehensive Net Expenditure is provided in SoPS note 2 on page 152.

SoPS 1. Net outturn

We are required to ensure that our expenditure remains within the voted limits set by Parliament. This note provides details of how we performed against each line of the Estimate.

Voted expenditure includes the costs of running HMRC as well as payments to individuals for social benefits and payments in lieu of tax relief. It also includes certain rates payments, shown as Line J, made by the Valuation Office Agency. RCDTS Ltd expenditure and income is included within Lines A, B, C, I and L as appropriate.

HMRC also makes payments for which the funding is not subject to the vote system. This non-voted expenditure mainly relates to personal tax credits, other reliefs including certain corporation tax reliefs and our costs related to the National Insurance Fund.

HM Treasury requires us to further analyse our income and expenditure between administration, which relates to running the department (for example: human resources, finance, estates management) and programme, which relates to delivering our frontline services (for example: parts of HMRC that interact directly with our customers).

The following tables record our actual outturn expenditure for DEL and AME, voted and non-voted, against the limits set by Parliament for each line of the Estimate. Table 1.1 provides analysis of resource expenditure and table 1.2 of capital expenditure.

Full information about the Valuation Office Agency activities can be found within their accounts viewed at:
www.gov.uk/government/organisations/valuation-office-agency

SoPS 1.1 Analysis of net resource outturn by section

Figure 53: Analysis of net resource outturn by section

	2018-19 £m									2017-18 £m
	Estimate	Outturn								
		Administration			Programme			Outturn	Variance: saving/ (excess)	Outturn
	Net Total	Gross	Income	Net	Gross	Income	Net	Net Total		Total
Spending in Departmental Expenditure Limit										
Voted:										
A HMRC administration	3,578.6	809.1	(35.7)	773.4	2,841.0	(130.7)	2,710.3	3,483.7	94.9	3,450.3
B VOA administration	156.3	—	—	—	178.0	(35.3)	142.7	142.7	13.6	143.5
C Utilised provisions	52.8	7.0	—	7.0	35.9	—	35.9	42.9	9.9	31.6
Total voted	3,787.7	816.1	(35.7)	780.4	3,054.9	(166.0)	2,888.9	3,669.3	118.4	3,625.4
Non-voted:										
D National Insurance Fund	287.0	59.3	—	59.3	223.3	—	223.3	282.6	4.4	320.3
Total non-voted	287.0	59.3	—	59.3	223.3	—	223.3	282.6	4.4	320.3
Total spending in Departmental Expenditure Limit	**4,074.7**	**875.4**	**(35.7)**	**839.7**	**3,278.2**	**(166.0)**	**3,112.2**	**3,951.9**	**122.8**	**3,945.7**
Spending in Annually Managed Expenditure										
Voted:										
E Child Benefit	11,969.3	—	—	—	11,475.3	—	11,475.3	11,475.3	494.0	11,689.6
F Tax Free Childcare	145.9	—	—	—	115.7	—	115.7	115.7	30.2	28.8
G Providing payments in lieu of tax relief to certain bodies	97.4	—	—	—	97.4	—	97.4	97.4	—	85.0
H Lifetime ISA	312.6	—	—	—	251.0	—	251.0	251.0	61.6	—
I HMRC administration	55.0	—	—	—	93.7	—	93.7	93.7	(38.7)	38.0
J VOA payments of Local Authority rates	76.5	—	—	—	71.7	(4.9)	66.8	66.8	9.7	76.1
K VOA administration	2.0	—	—	—	7.1	—	7.1	7.1	(5.1)	5.7
L Utilised provisions	(52.8)	—	—	—	(42.9)	—	(42.9)	(42.9)	(9.9)	(31.6)
Total voted	12,605.9	—	—	—	12,069.0	(4.9)	12,064.1	12,064.1	541.8	11,891.6
Non-voted:										
M Personal tax credits	23,475.1	—	—	—	22,288.3	—	22,288.3	22,288.3	1,186.8	26,363.0
N Other reliefs and allowances	4,624.8	—	—	—	5,879.2	—	5,879.2	5,879.2	(1,254.4)	3,705.2
Total non-voted	28,099.9	—	—	—	28,167.5	—	28,167.5	28,167.5	(67.6)	30,068.2
Total spending in Annually Managed Expenditure	**40,705.8**	**—**	**—**	**—**	**40,236.5**	(4.9)	**40,231.6**	**40,231.6**	**474.2**	**41,959.8**
Total voted	16,393.6	816.1	(35.7)	780.4	15,123.9	(170.9)	14,953.0	15,733.4	660.2	15,517.0
Total non-voted	28,386.9	59.3	—	59.3	28,390.8	—	28,390.8	28,450.1	(63.2)	30,388.5
Total	**44,780.5**	**875.4**	**(35.7)**	**839.7**	**43,514.7**	**(170.9)**	**43,343.8**	**44,183.5**	**597.0**	**45,905.5**

Full information about VOA payments of Local Authority rates can be found at: **www.voa.gov.uk**

SoPS 1.2 Analysis of net capital outturn by section

Figure 54: Analysis of net capital outturn by section

					2018-19 £m	2017-18 £m
	Estimate	Outturn		Outturn	Variance:	Outturn
	Net Total	Gross	Income	Net total	saving/ (excess)	Total
Spending in Departmental Expenditure Limit						
Voted:						
A HMRC administration	366.6	378.6	(25.0)	353.6	13.0	273.3
B VOA administration	9.3	8.9	(0.2)	8.7	0.6	7.5
C Utilised provisions	—	—	—	—	—	—
Total voted	375.9	387.5	(25.2)	362.3	13.6	280.8
Non-voted:						
D National Insurance Fund	—	—	—	—	—	—
Total non-voted	—	—	—	—	—	—
Total spending in Departmental Expenditure Limit	**375.9**	**387.5**	**(25.2)**	**362.3**	**13.6**	**280.8**
Spending in Annually Managed Expenditure Voted:						
E Child Benefit	—	—	—	—	—	—
F Tax Free Childcare	—	—	—	—	—	—
G Providing payments in lieu of tax relief to certain bodies	—	—	—	—	—	—
H Lifetime ISA	—	—	—	—	—	—
I HMRC administration	—	—	—	—	—	—
J VOA payments of Local Authority rates	—	—	—	—	—	—
K VOA administration	—	—	—	—	—	—
L Utilised provisions	—	—	—	—	—	—
Total voted	—	—	—	—	—	—
Non-voted:						
M Personal tax credits*	—	306.9	(306.9)	—	—	—
N Other reliefs and allowances	—	—	—	—	—	—
Total non-voted	—	306.9	(306.9)	—	—	—
Total spending in Annually Managed Expenditure	**—**	**306.9**	**(306.9)**	**—**	**—**	**—**
Total voted	375.9	387.5	(25.2)	362.3	13.6	280.8
Total non-voted	—	306.9	(306.9)	—	—	—
Total	**375.9**	**694.4**	**(332.1)**	**362.3**	**13.6**	**280.8**

* The transfer of personal tax credit receivables balance to DWP results in Capital Grant in Kind entries that net to nil.

The total resource outturn for the year was £44,183.5 million, £597.0 million (1.3%) below the Estimate. The total capital outturn for the year was £362.3 million, £13.6 million (3.6%) below the Estimate. Explanations of material variances between the Estimate and outturn are provided below.

Resource Departmental Expenditure Limit (DEL)

C Utilised provisions – outturn was £9.9 million (18.8%) less than the Estimate. Utilisations of provisions are inherently unpredictable in terms of the timing and value of settlements. HMRC have an established process in place to regularly review and monitor provisions. The saving is a consequence of unpredictability, specifically in settling legal claims against the department.

Resource Annually Managed Expenditure (AME)

E Child Benefit – outturn was £494.0 million (4.1%) less than the Estimate. Payments are driven by demand and entitlement and therefore fluctuate throughout the year.

F Tax-Free Childcare – outturn was £30.2 million (20.7%) less than the Estimate. Take up of the policy has not achieved anticipated levels.

H Lifetime ISA – outturn was £61.6 million (19.7%) less than the Estimate. Take up of the policy has not achieved anticipated levels.

I HMRC administration – outturn was £38.7 million (70.4%) more than the Estimate. This is primarily attributed to under-estimation of the provision created in relation to estates rationalisation workforce plans.

K VOA administration – outturn was £5.1 million (255.0%) more than the Estimate. This relates to new provisions required for legal claims and provisions for early departure costs being greater than anticipated.

L Utilised provisions – outturn was £9.9 million (18.8%) less than the Estimate. Utilisations of provisions are inherently unpredictable in terms of the timing and value of settlements. HMRC have an established process in place to regularly review and monitor provisions. The saving is a consequence of unpredictability, specifically in settling legal claims against the department.

M Personal tax credits – outturn was £1,186.8 million (5.1%) less than the Estimate. Payments are driven by demand and entitlement and therefore fluctuate throughout the year.

N Other reliefs and allowances – outturn was £1,254.4 million (27.1%) more than the Estimate. Changes in determinants, methodology and data inclusions resulted in an increase in expenditure relating to 2018-19. Outturn also included additional expenditure relating to prior years to the extent that these values, estimated at the time, have now stabilised. Neither of these expenditure impacts were fully included in the Estimate.

SoPS 2. Reconciliation of outturn to net operating expenditure

As certain items are treated differently in the Statement of Parliamentary Supply (SoPS) and the Statement of Comprehensive Net Expenditure (SoCNE), this note reconciles the net resource outturn from SoPS note 1.1 to the net operating expenditure in the SoCNE. These are detailed and explained below.

Figure 55: Reconciliation of net resource outturn to net operating expenditure

		SoPS note	2018-19 £m Outturn	2017-18 £m Outturn
Statement of Parliamentary Supply: Total resource outturn				
Departmental Expenditure Limit		1.1	3,951.9	3,945.7
Annually Managed Expenditure		1.1	40,231.6	41,959.8
			44,183.5	**45,905.5**
Excluded from SoPS Total resource outturn:				
Expenditure:	Transfer of personal tax credits receivables to DWP	1.2	306.9	44.1
	Non-current assets granted to Cabinet Office	1.2	—	2.0
	Capital element of grants to customs intermediaries and traders		0.2	—
	Child Trust Fund	1.2	—	—
	Non-current asset costs outside of budgeting		18.9	23.1
Income:	Developer contribution received to purchase non-current assets		(11.4)	(19.2)
	Payable to the Consolidated Fund		(0.7)	(1.0)
			313.9	**49.0**
Excluded from SoCNE Net operating expenditure:				
Expenditure:	Service concession arrangements liability repayment		(16.6)	(18.5)
			(16.6)	(18.5)
Consolidated Statement of Comprehensive Net Expenditure: Net operating expenditure			**44,480.8**	**45,936.0**

Explanation of additions and deductions

Transfer of personal tax credits receivables to DWP

The receivable balance relating to customers who have made a valid claim to Universal Credit, now administered by DWP.

Non-current assets granted to Cabinet Office

The value of non-current assets granted to Cabinet Office by way of a Capital Grant in Kind as they now host Civil Service Resourcing.

Capital element of grants to customs intermediaries and traders

Capital element of grants to support IT for customs intermediaries and traders completing customs declarations.

Developer Contribution

The value of capital grants received as a result of property lease arrangements.

Non-current asset costs outside of budgeting and Service Concession arrangements

The National Accounts basis for recognising service concession arrangements is broadly similar to UK-Generally Accepted Accounting Practice (UK-GAAP), applying a risk-based test to determine the financial reporting. International Financial Reporting Standards (IFRS)-based recognition of service concession arrangements (International Financial Reporting Interpretations Committee (IFRIC) 12) is determined using control tests, which can result in a different on/off Statement of Financial Position treatment. With the introduction of IFRS accounting, properties that HMRC sold to private sector contractors and subsequently leased back under a PFI contract were capitalised as finance leases under IFRIC 12.

Income payable to the Consolidated Fund

Income that is either in excess of limits included in the vote or is outside the scope of what is allowed to be retained. For these reasons, this income is excluded from the SoPS.

SoPS 3. Reconciliation of net resource outturn to Net Cash Requirement

Net Cash Requirement calculation only applies to core department and agency. This note reconciles the net resource and capital outturn to the net cash requirement in the Statement of Parliamentary Supply, showing the adjustments for non-cash items, movements in the Statement of Financial Position and other adjustments which include funding other than from the Consolidated Fund.

Figure 56: Reconciliation of net resource outturn to Net Cash Requirement

	SoPS note	Estimate £m	Outturn £m	Outturn compared to Estimate: saving/excess £m
Resource outturn	1.1	44,780.5	44,183.5	597.0
Capital outturn	1.2	375.9	362.3	13.6
Remove Arms Length Bodies (ALBs) resource and capital		—	—	—
Accruals to cash adjustments:				
Remove non-cash items:				
Depreciation and amortisation		(401.4)	(275.3)	(126.1)
New provisions and adjustments to existing provisions		(57.0)	(98.8)	41.8
Other non-cash items		(2.4)	(24.4)	22.0
Reflect movement in working balances:				
Capital grant in kind:				
Transfer of personal tax credit receivables to DWP		—	306.9	(306.9)
Increase/(decrease) in inventories		—	(0.4)	0.4
Increase/(decrease) in receivables		326.7	402.3	(75.6)
(Increase)/decrease in payables		(271.0)	(3,099.2)	2,828.2
Use of provisions		52.8	42.9	9.9
Other adjustments:				
Remove non-voted budget items:				
Funded outside the Vote		(28,386.9)	(25,881.9)	(2,505.0)
Finance lease liability repayment		—	5.8	(5.8)
Change in reporting - implementation of IFRS 9		—	(307.6)	307.6
Other		—	13.4	(13.4)
Net Cash Requirement		**16,417.2**	**15,629.5**	**787.7**

The net cash requirement outturn for 2018-19 was £15,629.5 million, £787.7 million (4.8%) below the Estimate.

Explanations of material variances between the Estimate and outturn are provided on the next page.

Depreciation and amortisation – outturn varied from the Estimate by £126.1 million. Disposal of certain assets had not been anticipated when the Estimate was determined.

New provisions and adjustments to existing provisions – outturn varied from the Estimate by £41.8 million. This is due to a higher than anticipated need for new provisions particularly in relation to estates rationalisation as part of Building our Future Locations.

Receivables – outturn varied from the Estimate by £75.6 million, largely due to a decrease in the level of personal tax credits debt.

Payables – outturn varied from the Estimate by £2,828.2 million. This is largely a consequence of a change in corporation tax relief forecasting methodology resulting in an increase in the associated payable, and that payable profiles are now estimated to span three years rather than two.

Use of provisions – outturn varied from the Estimate by £9.9 million. Utilisation of provisions is inherently unpredictable in terms of the timing and value of settlements. HMRC has an established process in place to regularly review and monitor provisions. The variance is driven by the timing of, in particular, legal settlements against the department.

Other adjustments – outturn varied from the Estimate by £2,216.6 million. Payable profiles for corporation tax reliefs are now estimated to span three years rather than two resulting in a reduction to the disbursement required from the Trust Statement.

SoPS 4. Income payable to the Consolidated Fund

SoPS 4.1 Analysis of income payable to the Consolidated Fund

In addition to income retained by HMRC, the following income is payable to the Consolidated Fund. This is income which is outside the ambit of the Supply Estimate and is required to be paid over to HM Treasury.

Figure 57: Analysis of income payable to the Consolidated Fund

	Outturn 2018-19 £m		Outturn 2017-18 £m	
	Income	*Receipts*	Income	*Receipts*
Income outside the ambit of the Estimate	0.7	*0.7*	1.0	*1.0*
Excess cash surrenderable to the Consolidated Fund	—	—	—	—
Total amount payable to the Consolidated Fund	**0.7**	***0.7***	**1.0**	***1.0***

SoPS 4.2 Consolidated Fund income

Consolidated Fund income shown in SoPS note 4.1 above does not include any amounts collected by the department where it was acting as agent of the Consolidated Fund rather than as principal. Full details of income collected as agent for the Consolidated Fund are in the department's Trust Statement, see page 173.

Regularity of expenditure[1]

HMRC understands and complies with the concept of regularity, which is fundamental to the right use of public funds.

The term regularity is used to convey the idea of probity and ethics in the use of public funds - that is, delivering public sector values in the round and applying the seven principles of public life.

Regularity specifically encompasses compliance with all relevant legislation, delegated authorities and the guidance set out in HM Treasury's Managing Public Money publication.

The importance of operating with regularity and the need for efficiency, economy, effectiveness and prudence in the administration of public resources to secure value for public money, is the responsibility of the department's Principal Accounting Officer.

To discharge this responsibility the following controls have been put in place:

- detailed annual business planning and delegation of budgets to Directors General in line with the single departmental plan and the purpose for which Parliament intends
- formal delegation of budgets by Directors General to the appropriate level, supported by qualified finance directors
- detailed monitoring of expenditure and monthly reporting to the Chief Executive, Chief Finance Officer, ExCom, and the Board, as well as HM Treasury
- a professional finance community, with the task of guiding and supporting the right use of public funds and compliance with Cabinet Office controls guidance
- monthly publication of all spending of more than £25,000 as part of our commitment to transparency and open government
- close links with HM Treasury colleagues to ensure planned expenditure transactions do not set precedents that could cause repercussions elsewhere in the public sector.

1 This section has been subject to external audit.

The table below provides details of the main estimate for HMRC spending and the supplementary estimate which provides the final estimate (budget) shown. It then shows the actual spend (outturn) against the final budget.

Figure 58: Public spending control[1]

	Main Estimate	Supplementary Estimate (Adjustment)	Final Provision	2018-19 £m Outturn
Resource DEL				
Voted				
HMRC Administration	3,271.0	307.6	3,578.6	3,483.7
VOA Administration	151.3	5.0	156.3	142.7
Utilised Provisions	30.0	22.8	52.8	42.9
Non-Voted				
National Insurance Fund	287.0	—	287.0	282.6
Total spending DEL	**3,739.3**	**335.4**	**4,074.7**	**3,951.9**
Resource AME				
Voted				
Child Benefit	11,545.5	423.8	11,969.3	11,475.3
Tax-free Childcare	247.7	(101.8)	145.9	115.7
Providing payments in lieu of tax relief to certain bodies	95.1	2.3	97.4	97.4
Lifetime ISA	480.0	(167.4)	312.6	251.0
HMRC Administration	30.0	25.0	55.0	93.7
VOA payments of rates to local authorities on behalf of certain bodies	79.4	(2.9)	76.5	66.8
VOA Administration	2.0	—	2.0	7.1
Utilised Provisions	(30.0)	(22.8)	(52.8)	(42.9)
Non-Voted				
Personal tax credits	23,455.0	20.1	23,475.1	22,288.3
Other reliefs and allowances	3,854.8	770.0	4,624.8	5,879.2
Total spending AME	**39,759.5**	**946.3**	**40,705.8**	**40,231.6**
Capital DEL				
HMRC Administration	240.8	125.8	366.6	353.6
VOA Administration	9.0	0.3	9.3	8.7
Total capital spending DEL	**249.8**	**126.1**	**375.9**	**362.3**
Capital AME				
Child Trust Fund	—	—	—	—
Total capital spending AME	—	—	—	—

1 This section has been subject to external audit.

Losses and special payments[1]

These losses and special payments relate to the running of the departmental group. Full details on revenue losses can be found in the department's Trust Statement, see pages 182 to 183.

Losses are made up of remissions and write-offs. Remission is the process used to identify and separate money owed to HMRC which we have decided not to pursue – for example, on the grounds of value for money. Write-offs is the term used to describe money owed to HMRC that was considered to be irrecoverable – for example, because there were no practical means for pursuing it.

Figure 59: Losses statement

				2018-19				2017-18
	Core department and agency		Departmental group		Core department and agency		Departmental group	
	cases	£m	*cases*	£m	*cases*	£m	*cases*	£m
Personal tax credits remissions	*1,267,632*	196.9	*1,267,632*	196.9	*1,386,882*	63.8	*1,386,882*	63.8
Personal tax credits write-offs	*27,549*	35.1	*27,549*	35.1	*29,271*	39.5	*29,271*	39.5
Child Benefit remissions and write-offs[2]	*27,826*	5.5	*27,826*	5.5	*29,755*	11.1	*29,755*	11.1
Exchange rate losses	*85*	0.1	*85*	0.1	*131*	3.1	*131*	3.1
Others	*4,228*	(0.1)	*4,228*	(0.1)	*4,566*	(0.1)	*4,566*	(0.1)
Total	***1,327,320***	**237.5**	***1,327,320***	**237.5**	***1,450,605***	**117.4**	***1,450,605***	**117.4**

1 This section has been subject to external audit.
2 Includes an estimate.

In 2018-19 £232.0 million of personal tax credit debt was remitted/written-off as it was uncollectable. For further information see the Resource Accounts on pages 210 to 212 (notes 4.1.1 and 4.1.2).

In 2018-19 the department wrote-off £5.5 million of Child Benefit debt that was uncollectable.

Exchange rate losses – HMRC operates the VAT Mini One Stop Shop (MOSS) program which collects VAT on behalf of EU member states. Due to the way the scheme works, money is collected and paid to member states in accordance with a strict timetable. For 2018-19 this has resulted in exchange rate losses of £0.1 million (2017-18: £3.1 million).

For more information on MOSS please visit: **https://www.gov.uk/guidance/register-and-use-the-vat-mini-one-stop-shop**

Details of cases more than £300,000

There were no individual cases of more than £300,000.

Special payments[1]

These include compensation and ex-gratia payments in respect of personal injury, damage to property and those which result from the department's redress policy. For further information on reporting requirements please see guidance in *Managing Public Money, see* Annex 4.13.

Figure 60: Special payments

	2018-19				2017-18			
	Core department and agency		Departmental group		Core department and agency		Departmental group	
	cases	£m	*cases*	£m	*cases*	£m	*cases*	£m
Payments and accruals	*18,822*	4.2	*18,822*	4.2	*20,955*	3.1	*20,955*	3.1

Severance payments are included within special payments shown above. These are paid under certain circumstances to employees, contractors and others outside of normal statutory or contractual requirements, when leaving employment in the public service, whether they resign, are dismissed, or reach an agreed termination of contract. For 2018-19, we made 19 payments totalling £340,775 (2017-18: 10 payments totalling £158,133) in respect of severance cases. The highest payment was £78,703 (2017-18: £50,000) and the lowest payment was £468 (2017-18: £2,700). The average payment was £17,936 (2017-18: £15,813).

Details of cases more than £300,000

There were no individual cases of more than £300,000.

1 This section has been subject to external audit.

Fees and charges[1]

The fees and charges table lists the services HMRC provides to external and public sector customers where the full cost to HMRC exceeds £1 million. In accordance with HM Treasury guidance on managing public money, it is HMRC's financial objective to recover the full cost of each service unless otherwise stated. Disclosed in the table for each service is the income received, the full cost incurred and the amount of any surplus or deficit between the income received or full cost charged. Surpluses and deficits can arise for a number of reasons, including demand fluctuations or variations to HMRC costs during the year.

Income received by the department which is not disclosed in this note amounts to £78.3 million and as this figure is not material to the accounts the department no longer publish a separate income note.

Figure 61: Analysis of income where full cost exceeds £1 million

			2018-19 £m			2017-18 £m
	Income	Full cost	Surplus/ (deficit)	Income	Full cost	Surplus/ (deficit)
Fees and charges raised by the Valuation Office Agency (VOA)						
Statutory Valuation Team[2]	15.3	15.8	(0.5)	2.1	2.1	—
Non-Domestic Rates and Council Tax	9.3	9.6	(0.3)	8.8	8.7	0.1
Local Housing Allowance and Fair Rents	8.9	9.2	(0.3)	9.5	9.5	—
Property Services[2]	1.7	1.8	(0.1)	16.3	16.2	0.1
Fees and charges raised by the core department[3]						
National Minimum Wage	25.3	25.3	—	24.0	24.6	(0.6)
Collection of Student Loans	14.4	14.6	(0.2)	15.7	15.7	—
UK Border Agency	13.3	13.3	—	14.2	14.1	0.1
Tax-Free Childcare	11.7	10.3	1.4	8.2	7.9	0.3
Anti-Money Laundering Supervision	11.4	12.9	(1.5)	11.8	11.6	0.2
Government Banking Service	10.4	8.2	2.2	11.5	9.1	2.4
Single Tier Pension Reform	8.4	8.5	(0.1)	12.0	11.2	0.8
Government Gateway	0.9	0.9	—	0.6	1.6	(1.0)
DWP Welfare Reform Agenda	0.8	0.8	—	0.8	1.0	(0.2)
Collection of Apprenticeship Levy	0.1	0.1	—	0.7	1.1	(0.4)
For devolved administrations						
Wales Act Implementation[4]	6.1	5.9	0.2	1.6	1.9	(0.3)
Scotland Act Implementation[5]	2.6	2.7	(0.1)	4.5	4.8	(0.3)
Northern Ireland Act Implementation[4]	0.4	0.5	(0.1)	1.7	1.6	0.1
Total	**141.0**	**140.4**	**0.6**	**144.0**	**142.7**	**1.3**

1 This section has been subject to external audit.
2 A £3.2 million adjustment has been made between Property Services and Statutory Valuation Team, the totals for 2017-18 have been restated.
3 Accommdation Recharge has been removed from the table because the full cost is below £1 million. The 2017-18 totals have been restated.
4 The Wales Act 2014 gave the Welsh Assembly the power to tax land transactions and disposals to landfill from April 2016 and, as amended by The Wales Act 2017, to set income tax rates from 2019-20 onwards. HMRC has incurred costs which are included in the Resource Accounts. The Corporation Tax (Northern Ireland) Act 2015 allows for the devolution of the power to set Corporation Tax rates to Northern Ireland.
5 The Scotland Act 2012 and Scotland Act 2016 gave the Scottish Parliament powers over rates of income tax which have applied from 2016-17 onwards. This tax is accounted for within HMRC's Trust Statement, see pages 191 to 192. HMRC has incurred costs which are included in the Resource Accounts.

Remote Contingent Liabilities[1]

These are remotely possible obligations that arise from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within HMRC's control.

The department has the following quantifiable remote contingent liabilities:

Figure 62: Indemnities

	1 April 2018 £m	Increase in year £m	Liabilities crystallised in year £m	Obligation expired in year £m	31 March 2019 £m	Amount reported to Parliament by departmental minute £m
Indemnities	3.8	6.8	—	(3.2)	7.4	—

The department has the following unquantifiable remote contingent liability:

On 29 March 2017, the UK Government submitted its notification to leave the EU in accordance with Article 50. The triggering of Article 50 started a two-year negotiation process between the UK and the EU.

On 11 April 2019, the government confirmed agreement with the EU on an extension until 31 October 2019 at the latest, with the option to leave earlier as soon as a deal has been ratified.

Any subsequent changes in legislation, regulation and funding arrangements are subject to the outcome of the negotiations. As a result, an unquantifiable remote contingent liability is disclosed, relating to potential impairments of intangible non-current assets, refer to note 6. In accordance with accounting standards, no contingent assets can be recognised.

Managing Public Money requires that the full potential costs of indemnified contracts be reported to Parliament.

1 This section has been subject to external audit.

Sir Jonathan Thompson
Chief Executive and Permanent Secretary

11 July 2019


HM REVENUE & CUSTO

Our accounts

HMRC's Trust Statement and Resource Accounts for **2018-19**

Foreword and Principal Accounting Officer's Responsibilities

Introduction

HMRC is responsible for collecting the majority of tax revenue and its financial information is reported in two separate accounts. The Trust Statement reports the revenues, expenditures, assets and liabilities related to the taxes and duties for the financial year. The Resource Accounts reports the costs of running HMRC including making payments of Child Benefit and tax credits. The Valuation Office Agency (VOA) and Revenue and Customs Digital Technology Services Limited (RCDTS Ltd) results are consolidated into the Resource Accounts.

Basis for the preparation of the accounts

Both sets of accounts are prepared under HM Treasury direction on an accruals basis.

Trust Statement

The HM Treasury accounts direction, issued under Section 2 of the Exchequer and Audit Departments Act 1921, requires HMRC to prepare the Trust Statement to give a true and fair view of the state of affairs relating to the collection and allocations of taxes and duties, the revenue income and expenditure, and cash flows for the financial year.

Resource Accounts

The HM Treasury accounts direction, issued under the Government Resources and Accounts Act (GRAA) 2000, requires HMRC to prepare consolidated Resource Accounts detailing the resources acquired, held or disposed of, and the use of resources, during the year by the department (inclusive of its executive agency) and its sponsored non-departmental public body designated by order made under the GRAA by Statutory Instrument 2018 no 1335 (together known as the 'departmental group', consisting of the department and sponsored bodies listed at note 16 to the accounts). These accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the department and of its net resource outturn, application of resources, changes in taxpayers' equity and cash flows for the financial year.

Further guidance followed in the preparation of the accounts

HMRC complies with all relevant accounting and disclosure requirements given in Managing Public Money (MPM) and other guidance issued by HM Treasury. This includes the Government Financial Reporting Manual (FReM) and the principles underlying it as well as International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector.

Principal Accounting Officer's responsibilities

HM Treasury has appointed the Chief Executive as Principal Accounting Officer of HMRC, VOA and RCDTS Ltd with overall responsibility for preparing the Trust Statement and Resource Accounts and for providing them to the Comptroller and Auditor General.

In preparing these accounts, the Principal Accounting Officer is required to:

- observe the accounts directions issued by HM Treasury, including the relevant accounting and disclosure requirements, applying suitable accounting policies on a consistent basis and explaining any material departures from the FReM
- ensure that the department has in place appropriate and reliable systems and procedures to carry out the consolidation process
- make judgements and estimates on a reasonable basis, including those judgements involved in consolidating the accounting information provided by the Valuation Office Agency and RCDTS Ltd

- state whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the accounts
- ensure that there is a high standard of financial management, including robust systems of internal control and that financial systems and processes promote the efficient and economical conduct of the business
- be responsible for the propriety and regularity of the public finances for which the Accounting Officer is answerable and for the keeping of proper records and safeguarding the department's assets as set out in MPM published by HM Treasury
- prepare the accounts on a going concern basis.

The Principal Accounting Officer confirms that this Annual Report and Accounts as a whole is fair, balanced and understandable. The Principal Accounting Officer takes personal responsibility for the Annual Report and Accounts and the judgements required for determining that it is fair, balanced and understandable.

Accounting Officers for the Resource Accounts

For 2018-19, the Principal Accounting Officer was Sir Jonathan Thompson. Melissa Tatton, Chief Executive of the Valuation Office Agency is an additional Accounting Officer accountable for those parts of the department's accounts relating to specified lines of the Estimate and the associated assets, liabilities and cash flows. This appointment does not detract from Sir Jonathan Thompson's overall responsibility for the department's accounts.

The allocation of Accounting Officer responsibilities in the department was as follows:

Estimate sections A, C-I and L-N: Sir Jonathan Thompson, Chief Executive and Permanent Secretary.

Estimate sections B, J and K: Melissa Tatton, Chief Executive of the Valuation Office Agency.

More detail about the performance against the Estimate can be found in SoPS notes 1.1 and 1.2 in the parliamentary, public and stakeholder accountability section on pages 149 to 150.

The Accounting Officer of the department is also the Accounting Officer of RCDTS Ltd. The Accounting Officer of the department is responsible for ensuring that appropriate systems and controls are in place to ensure that any grants that the department makes to its sponsored bodies are applied for the purposes intended and that such expenditure and the other income and expenditure of the sponsored bodies are properly accounted for, for the purposes of consolidation within the resource accounts. The Accounting Officer of the sponsored body is accountable for the use, including the regularity and propriety, of the grants received and the other income and expenditure of the sponsored body.

Auditors

Both sets of accounts are audited by the Comptroller and Auditor General. The Trust Statement is audited under Section 2 of the Exchequer and Audit Departments Act 1921. The Resource Accounts are audited under the Government Resources and Accounts Act 2000.

The notional charge for both these audit services is disclosed in the Resource Accounts (see note 2). No non-audit work was carried out by the auditors for HMRC. So far as I am aware, there is no relevant audit information of which the auditors are unaware. I have taken all steps that I ought to have taken to make myself aware of any relevant audit information and to establish that the auditors are aware of that information.

Sir Jonathan Thompson
Principal Accounting Officer

11 July 2019

The Trust Statement audit report of the Comptroller and Auditor General to the House of Commons

Opinion on financial statements

I have audited the financial statements of HM Revenue and Customs' Trust Statement for the year ended 31 March 2019 under the Exchequer and Audit Departments Act 1921. The financial statements comprise the Statement of Revenue, Other Income and Expenditure, the Statement of Financial Position, the Statement of Cash Flows, and the related notes, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them.

In my opinion:

- The HM Revenue and Customs Trust Statement gives a true and fair view of the state of affairs of the collection and allocation of taxes, duties, National Insurance Contributions, Student Loan recoveries, fines, penalties and related expenditures and disbursements administered by HM Revenue and Customs as at 31 March 2019 and of the net revenue for the year then ended; and
- the financial statements have been properly prepared in accordance with the Exchequer and Audit Departments Act 1921 and HM Treasury directions issued thereunder.

Opinion on regularity

In my opinion, in all material respects the income and expenditure recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of HM Revenue and Customs in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern

I am required to conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on HM Revenue and Customs' ability to continue as a going concern for a period of at least twelve months from the date of approval of the financial statements. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern. I have nothing to report in these respects.

Responsibilities of the Accounting Officer for the audit of the financial statements

As explained more fully in the Foreword and Principal Accounting Officer's responsibilities, the Principal Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit and report on the financial statements in accordance with the Exchequer and Audit Departments Act 1921.

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of HM Revenue and Customs' internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I am required to obtain evidence sufficient to give reasonable assurance that the income and expenditure recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Other Information

The Principal Accounting Officer is responsible for the other information. The other information comprises information included in the Annual Report but does not include the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Opinion on other matters

In my opinion:

- the information given in the 'Our Performance' and 'Our Accountability' sections of the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Gareth Davies
Comptroller and Auditor General

16 July 2019

National Audit Office
157-197 Buckingham Palace Road
Victoria
London SW1W 9SP

The Resource Accounts: Certificate of the Comptroller and Auditor General to the House of Commons

Opinion on financial statements

I certify that I have audited the financial statements of the HM Revenue and Customs and of its Departmental Group for the year ended 31 March 2019 under the Government Resources and Accounts Act 2000. The Department comprises the core Department and its agency. The Departmental Group consists of the Department and the bodies designated for inclusion under the Government Resources and Accounts Act 2000 (Estimates and Accounts) Order 2018. The financial statements comprise: the Department's and Departmental Group's Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them.

I have also audited the Statement of Parliamentary Supply and the related notes, and the information in the 'Our Accountability' report that is described in those reports and disclosures as having been audited.

In my opinion:

- the financial statements give a true and fair view of the state of the Department's and the Departmental Group's affairs as at 31 March 2019 and of the Department's net operating expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on regularity

In my opinion, except for the estimated levels of fraud and error in personal tax credits expenditure referred to in the basis for the qualified opinion on regularity paragraph, in all material respects:

- the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2019 and shows that those totals have not been exceeded; and
- the income and expenditure recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Basis for qualified opinion on regularity

Note 4 to the Accounts records personal tax credits expenditure of £22.3 billion in 2018-19. Where error and fraud result in overpayments and underpayments, the transactions do not conform with the relevant primary legislation specifying entitlement and calculation criteria, and the expenditure is irregular.

Due to the time taken to finalise awards, the Department's estimates of overpayments and underpayments of personal tax credits for 2018-19 will not be available until June 2020. Therefore, the estimates of error and fraud in 2017-18 are the most up to date indication available of the level of error and fraud in personal tax credits expenditure for 2018-19. For 2017-18, the Department estimates:

- overpayments of £1.46 billion (5.7% of related expenditure); and
- underpayments of £170 million (0.6% of related expenditure).

I consider these levels of overpayments and underpayments to be material to my opinion on the accounts.

I have therefore qualified my opinion on the regularity of personal tax credits expenditure because of:

- the estimated level of overpayments attributable to error and fraud where payments have not been made for the purposes intended by Parliament; and
- the estimated levels of overpayments and underpayments in such expenditure which do not conform with the relevant authorities.

Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the HM Revenue and Customs in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern

I am required to conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's and the HM Revenue and Custom's ability to continue as a going concern for a period of at least twelve months from the date of approval of the financial statements. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern. I have nothing to report in these respects.

Responsibilities of the Accounting Officer for the financial statements

As explained more fully in the Principal Accounting Officer's report, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000.

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's and the HM Revenue and Customs' internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the group financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I am required to obtain evidence sufficient to give reasonable assurance that the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals and that those totals have not been exceeded. The voted Parliamentary control totals are Departmental Expenditure Limits (Resource and Capital), Annually Managed Expenditure (Resource and Capital), Non-Budget (Resource) and Net Cash Requirement. I am also required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Other information

The Accounting Officer is responsible for the other information. The other information comprises information included in the annual report, other than the parts of the 'Our Accountability' report described in that report as having been audited, the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Opinion on other matters

In my opinion:

- the parts of the 'Our Accountability' report to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000;
- in the light of the knowledge and understanding of the group and the parent and its environment obtained in the course of the audit, I have not identified any material misstatements in the 'Our Performance' report or the 'Our Accountability' report; and
- the information given in the 'Our Performance' and the 'Our Accountability' reports for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the parts of the 'Our Accountability' report to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have prepared a Report on HM Revenue and Customs' 2018-19 Accounts, under Section 2 of the Exchequer and Audit Departments Act 1921, on page R1. This includes, at paragraphs 3.3 to 3.4, further information on the qualification of my audit opinion on the regularity of personal tax credits expenditure.

Gareth Davies
Comptroller and Auditor General
16 July 2019

National Audit Office
157-197 Buckingham Palace Road
Victoria
London SW1W 9SP

Trust Statement

Statement of Revenue, Other Income and Expenditure

For the year ended 31 March	Note	2019 £bn	2018 £bn
Taxes and duties			
Income tax	2.1	194.0	186.0
Value Added Tax	2.2	135.6	128.6
Corporation Tax	2.3	53.5	53.3
Hydrocarbon oils duties	2.4	28.0	27.9
Stamp taxes	2.5	15.7	16.6
Alcohol duties	2.6	12.1	11.5
Capital Gains Tax	2.7	9.3	7.8
Tobacco duties	2.8	9.2	8.8
Insurance Premium Tax	2.9	6.4	6.2
Other taxes and duties	2.10	25.5	24.5
Total taxes and duties		**489.3**	**471.2**
Other revenue and income			
National Insurance Contributions	3.1	135.0	130.5
Student Loan recoveries	3.3	2.5	2.4
Fines and penalties	3.4	1.1	1.7
Total other revenue and income		**138.6**	**134.6**
Total revenue		**627.9**	**605.8**
Less expenditure			
Impairment charges	4.4	(6.5)	(4.2)
Movement in provisions	7.1	5.1	(3.4)
Total expenditure		**(1.4)**	**(7.6)**
Less disbursements			
National Insurance Contributions due to the National Insurance Funds and National Health Services	3.1	(133.4)	(130.0)
Appropriation of revenue to Resource Account	3.2	(25.6)	(29.5)
Student Loan recoveries due to the Department for Education	3.3	(2.5)	(2.4)
Taxation paid to the Isle of Man	3.5	(0.2)	(0.2)
Total disbursements		**(161.7)**	**(162.1)**
Total expenditure and disbursements		**(163.1)**	**(169.7)**
Net revenue for the Consolidated Fund		**464.8**	**436.1**

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

The notes at pages 176 to 192 form part of this statement.

Statement of Financial Position

As at 31 March	Note	2019 £bn	2018 £bn
Non-current assets			
Receivables falling due after one year	4.1	1.5	1.5
Current assets			
Receivables	4.1	19.4	21.9
Accrued revenue receivable	4.1	115.9	111.6
Total current assets		**135.3**	**133.5**
Total assets		**136.8**	**135.0**
Current liabilities			
Payables	5	21.2	19.6
Accrued revenue payable	5	33.7	33.4
Deferred revenue	5	1.9	1.8
Cash and cash equivalents	5.1	1.5	1.3
Total current liabilities		**58.3**	**56.1**
Assets less current liabilities		**78.5**	**78.9**
Non-current liabilities			
Provision for liabilities	7	13.0	18.8
Net assets		**65.5**	**60.1**
Movements on Consolidated Fund account:			
Balance on Consolidated Fund account as at 1 April		60.1	55.5
Net revenue for the Consolidated Fund		464.8	436.1
Less amount paid to Consolidated Fund		(459.4)	(431.5)
Balance on Consolidated Fund account		**65.5**	**60.1**

Sir Jonathan Thompson
Accounting Officer

11 July 2019

The notes at pages 176 to 192 form part of this statement.

Statement of Cash Flows

For the year ended 31 March	Note	2019 £bn	2018 £bn
Net cash flow from operating activities	A	459.2	431.1
Cash paid to the Consolidated Fund		(459.4)	(431.5)
Increase/(decrease) in cash and cash equivalents in this period	B	**(0.2)**	**(0.4)**

Notes to the Statement of Cash Flows

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

For the year ended 31 March	2019 £bn	2018 £bn
Net revenue for the Consolidated Fund	464.8	436.1
(Increase) / decrease in non-cash assets	(1.8)	(13.6)
Increase / (decrease) in current liabilities	2.0	4.0
Increase / (decrease) in provision for liabilities	(5.8)	4.6
Net cash flow from operating activities	**459.2**	**431.1**

B: Analysis of changes in net funds

For the year ended 31 March	2019 £bn	2018 £bn
Increase / (decrease) in cash and cash equivalents in this period	(0.2)	(0.4)
Net funds as at 1 April (opening cash and cash equivalents balance)	(1.3)	(0.9)
Net funds as at 31 March (closing cash and cash equivalents balance)	**(1.5)**	**(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 Section 2 of the Exchequer and Audit Departments Act 1921
- the 2018-19 Financial Reporting Manual (FReM) 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 2018-19. 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 financial information presented is rounded to the nearest £0.1 billion, except for Certificates of Tax Deposit, Isle of Man and revenue losses which are rounded to the nearest £1 million, due to the much smaller amounts disclosed in these notes.

1.2 Accounting convention

The Trust Statement has been prepared in accordance with historical cost convention. The majority of taxes and duties are accounted for on an accruals basis. As agreed with HM Treasury, Corporation Tax for smaller companies that do not pay by instalment and Capital Gains Tax are accounted for on a partial accruals basis, hence there is no accrued revenue receivable estimate in the Statement of Financial Position for these taxes.

Stamp Duty, National Insurance Classes 1A and 1B and some repayments are accounted for on a cash basis as agreed with HM Treasury. Student Loans are accounted for on a cash basis to reflect HMRC's role in the collection of Student Loan recoveries on behalf of the Department for Education. Accounting for these elements on a cash basis does not have a material impact on revenue.

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 below. 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.

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 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.

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.

Further accounting policies are explained under the relevant notes (starting at note 2).

2. Accounting policies and analysis

2.1 Income tax

For the year ended 31 March	2019 £bn	2018 £bn
Self Assessment	32.9	32.7
Other income tax revenue (including PAYE)	161.1	153.3
Total	**194.0**	**186.0**

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.

Given the significance of the Scottish income tax arrangements a full disclosure note appears at note 13.

2.2 Value Added Tax

For the year ended 31 March	2019 £bn	2018 £bn
Gross revenue	227.3	215.0
Less: revenue repayable	(91.7)	(86.4)
Net revenue	**135.6**	**128.6**

The taxable event for Value Added Tax (VAT) 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.

2.3 Corporation Tax

For the year ended 31 March	2019 £bn	2018 £bn
Total	**53.5**	**53.3**

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

2.4 Hydrocarbon oils duties

For the year ended 31 March	2019 £bn	2018 £bn
Total	**28.0**	**27.9**

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.

2.5 Stamp taxes

For the year ended 31 March	2019 £bn	2018 £bn
Stamp Duty Land Tax[1]	11.9	12.9
Stamp Duty Reserve Tax	2.9	2.8
Stamp Duty	0.8	0.7
Annual Tax on Enveloped Dwellings	0.1	0.2
Total	**15.7**	**16.6**

1 Scottish Land and Buildings Transaction Tax was devolved to Scotland from 1 April 2015 and data is published by Revenue Scotland. Welsh Land Transaction Tax has been devolved to Wales from 1 April 2018 and data is published by the Welsh Revenue Authority. Further information of devolution can be found in the section 'Our performance', 'Our relationship with devolved administrations' (page 62).

The taxable event for stamp taxes (Stamp Duty Land Tax and Stamp Duty Reserve Tax) is the purchase of property and additional residential properties or shares.

The majority of Stamp Duty is payable on paper documents that effect the transfer of shares. HMRC can only record the duty when the stamp is presented to HMRC and hence the duty is recognised on a cash basis.

Annual Tax on Enveloped Dwellings (ATED) is an annual tax payable by companies that own residential properties valued at £500,000 or above. ATED applies to a property that is a dwelling, if all or part of it is used, or could be used, as a residence.

2.6 Alcohol duties

For the year ended 31 March	2019 £bn	2018 £bn
Wine, cider and perry	4.7	4.5
Spirits	3.8	3.5
Beer	3.6	3.5
Total	**12.1**	**11.5**

The taxable event for alcohol duties is the date of production, date of import or movement of goods out of a duty suspended regime.

2.7 Capital Gains Tax

For the year ended 31 March	2019 £bn	2018 £bn
Total	**9.3**	**7.8**

The taxable event for Capital Gains Tax is the disposal of a chargeable asset leading to a taxable gain. Repayments for Capital Gains Tax are made principally on a cash basis and are recognised in the period the repayment is made.

2.8 Tobacco duties

For the year ended 31 March	2019 £bn	2018 £bn
Cigarettes	7.7	7.3
Hand rolling tobacco	1.4	1.4
Cigars	0.1	0.1
Total	**9.2**	**8.8**

The taxable event for tobacco duties is the date of production, date of import or movement of goods out of a duty suspended regime.

2.9 Insurance Premium Tax

For the year ended 31 March	2019 £bn	2018 £bn
Total	**6.4**	**6.2**

The taxable event for Insurance Premium Tax (IPT) is the tax on premiums received under taxable insurance contracts. Any insurer receiving premiums in relation to taxable insurance contracts is engaged in a taxable business for the purposes of IPT.

2.10 Other taxes and duties

For the year ended 31 March	Note	2019 £bn	2018 £bn
Inheritance Tax		5.3	5.5
Air Passenger Duty		3.8	3.4
Customs Duties		3.4	3.2
Betting and gaming duties		3.1	2.9
Apprenticeship Levy		2.8	2.6
Bank Levy		2.4	2.5
Climate Change Levy		1.9	1.8
Bank Surcharge		1.9	1.7
Landfill Tax[1]		0.8	0.7
Aggregates Levy		0.4	0.3
Soft Drinks Industry Levy	2.10.1	0.3	—
Diverted Profits Tax		—	0.2
Capital taxes (UK Swiss agreement)		—	0.1
Petroleum Revenue Tax	2.10.2	(0.6)	(0.4)
Total		**25.5**	**24.5**

1 Scottish Landfill Tax was devolved to Scotland from 1 April 2015 and data is published by Revenue Scotland. Welsh Landfill Disposal Tax has been devolved to Wales from 1 April 2018 and data is published by the Welsh Revenue Authority. Further information on devolution can be found in the section 'Our performance', 'Our relationship with devolved administrations' (page 62).

2.10.1 Soft Drinks Industry Levy

The Soft Drinks Industry Levy (SDIL) was first announced at Budget 2016. The levy was introduced in April 2018 as part of the government's initiative to tackle childhood obesity by encouraging manufacturers to reduce the sugar content in their drinks products. The levy is due on liable drinks packaged in the UK and the importation of soft drinks containing added sugar.

2.10.2 Petroleum Revenue Tax

Petroleum Revenue Tax (PRT) is a 'field-based' tax charged on the profits arising from individual oil and gas fields that were approved for development before 16 March 1993. The rate of PRT was permanently set at 0% effective from 1 January 2016 but it has not been abolished so that losses (such as losses arising from decommissioning PRT-liable fields) can be carried back against past PRT payments. This explains the negative income figure shown above.
For further information on decommissioning costs, please see note 7.3.

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

3.1 National Insurance Contributions

For the year ended 31 March	2019 £bn	2018 £bn
National Insurance Fund Great Britain (NIF GB)	106.7	102.6
National Insurance Fund Northern Ireland (NIF NI)	2.2	2.0
National Health Services (NHS)	26.1	25.9
Total National Insurance Contributions (NICs)	**135.0**	**130.5**
Less: NIC expenditure[1]	(1.6)	(0.5)
NICs due to NIF and NHS	**133.4**	**130.0**

1 From 2018-19, NIC expenditure includes impairment charges and movements in provisions in addition to losses. The NIC expenditure for 2018-19 also includes £0.8 billion of impairment charges and movements in provisions for prior years.

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 and 1B receipts are recognised in the accounting period in which the contributions are allocated.

3.2 Appropriation of revenue to the Resource Accounts

Appropriations of revenue are made from the Trust Statement to fund tax credit payments and corporation tax reliefs which are accounted for within the Resource Accounts.

Please see the Resource Accounts, Consolidated Statement of Changes in Taxpayers' Equity, page 198.

3.3 Student Loan recoveries

HMRC collects Student Loans on behalf of the Department for Education (DfE). The majority of Student Loans are collected through PAYE. An element of Student Loans is also collected through Self Assessment. Any difference between the cash received and the cash paid to the DfE 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.

3.4.1 High income Child Benefit charge (HICBC)

HMRC took the decision to review cases where a 'Failure to Notify' penalty was issued for the tax years 2013-14, 2014-15 and 2015-16, to customers who had not registered for the HICBC. HMRC listened to customers and stakeholders, and changed its view of when some customers may have a reasonable excuse for failing to notify liability to HICBC.

For more information on the outcome of the review:
https://www.gov.uk/government/news/review-for-high-income-child-benefit-charge-penalty-cases-concludes

3.5 Taxation due to 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). If the IoM agreed share is more than the revenue collected and retained by the IoM, this would result in the UK making payments to the IoM to ensure the IoM receives the correct revenue. This would be shown as a disbursement. If the IoM collect and retain more than the sharing agreement, the IoM would make payments to the UK. This would be shown as other revenue and income.

For 2018-19, payments to the IoM totalled £181 million (2017-18 payments to the IoM totalled £174 million).

4. Receivables, accrued revenue receivable and impairment charges

4.1 Receivables and accrued revenue receivable (ARR)

	Receivables as at 31 March 2019 £bn	Accrued revenue receivable as at 31 March 2019 £bn	Total as at 31 March 2019 £bn	Total as at 31 March 2018 £bn
Non-current assets				
Receivables due after one year:				
Inheritance Tax	1.5	—	1.5	1.5
Non-current assets after impairment	**1.5**	**—**	**1.5**	**1.5**
Current assets				
Receivables and ARR due within one year:				
Income tax	5.5	37.2	42.7	40.7
Value Added Tax	10.0	33.9	43.9	41.9
Corporation Tax	2.1	22.6	24.7	22.3
National Insurance Contributions	3.5	15.0	18.5	18.3
Other taxes and duties	6.2	8.2	14.4	17.2
Current assets before impairment	**27.3**	**116.9**	**144.2**	**140.4**
Less impairment of receivables (note 4.2)	(7.9)	(1.0)	(8.9)	(6.9)
Total current assets after impairment	**19.4**	**115.9**	**135.3**	**133.5**
Total assets before impairment	**28.8**	**116.9**	**145.7**	**141.9**
Less impairment of receivables (note 4.2)	(7.9)	(1.0)	(8.9)	(6.9)
Total assets after impairment	**20.9**	**115.9**	**136.8**	**135.0**

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. The FReM does not require HMRC to determine impairments in accordance with IFRS 9 as the standard relates to financial instruments and taxes and duties arise from statute and not a contract, however impairments have been measured applying the expected credit loss model set out in IFRS 9.

Accrued revenue receivable (ARR) represents amounts of taxes and duties where the taxable event has occurred but the return has not been received from the taxpayer by the end of the reporting period. For taxes where HMRC has received returns since the end of the reporting period, the department used this information to support its valuation of ARR. For those taxes where HMRC is yet to receive taxpayer returns, principally income tax (PAYE/SA) and Corporation Tax, the department has estimated ARR (see note 6). Following a review of the methodology an impairment on ARR is now included. ARR is shown net of impairments. The FReM does not require HMRC to determine impairments in accordance with IFRS 9 as the standard relates to financial instruments and taxes and duties arise from statute and not a contract, however impairments have been measured applying the expected credit loss model set out in IFRS 9.

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. HMRC undertakes a review of large postponed cases for Corporation Tax to ensure that revenue that meets the revenue recognition criteria, as set out in note 1.3 above, is recognised in the accounts. As a result, an amount of £2 billion (2017-18: £1.7 billion) has been included in accrued revenue receivables.

Further information on receivables can be found in the section 'Our performance', 'Receivables' (page 33).

4.2 Impairment of receivables and ARR

	Receivables as at 31 March 2019 £bn	Accrued revenue receivable as at 31 March 2019 £bn	Total as at 31 March 2019 £bn	Total as at 31 March 2018 £bn
Balance as at 1 April	6.9	—	6.9	6.4
Increase/(decrease) in impairment	1.0	1.0	2.0	0.5
Balance as at 31 March	**7.9**	**1.0**	**8.9**	**6.9**

Receivables and ARR in the Statement of Financial Position are reported after impairment to reflect an amount that is likely to be collected. This amount is estimated based on HMRC's analysis of existing receivables and ARR 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 and ARR, based on risk, and assessed collectively.

4.3 Revenue losses

	Remissions 31 March 2019 £m	Write-offs 31 March 2019 £m	Total 31 March 2019 £m	Remissions 31 March 2018 £m	Write-offs 31 March 2018 £m	Total 31 March 2018 £m
Income tax	313	695	1,008	137	590	727
Value Added Tax	44	1,641	1,685	61	1,474	1,535
Corporation Tax	4	333	337	5	322	327
Alcohol duties	5	26	31	8	57	65
Tobacco duties	7	5	12	8	16	24
Capital Gains Tax	7	57	64	5	35	40
National Insurance Contributions	51	507	558	23	473	496
Fines and penalties	356	361	717	113	357	470
Other remissions and write-offs	7	44	51	7	46	53
Total revenue losses	**794**	**3,669**	**4,463**	**367**	**3,370**	**3,737**

Revenue losses occur when we formally cease collection activity. The vast majority are driven by individual and business insolvencies.

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.

Further information on losses can be found in the section 'Our performance', 'Tax losses' (page 35).

Revenue losses — cases more than £10 million

There were 24 cases (21 cases in 2017-18) where the loss exceeded £10 million, totalling £973 million (£471 million in 2017-18). Details are shown below:

There were three write-off cases totalling £37 million (three cases in 2017-18 totalling £43 million plus one remission case of £12 million) relating to Missing Trader Intra-Community Fraud (MTIC). All MTIC cases are assessed to establish if there is potential to recover revenue and, where appropriate, proactive insolvency action is initiated.

There were 17 write-offs (12 cases in 2017-18) relating to Insolvency, totalling £380 million (£247 million in 2017-18).

There were two bulk remissions for SA totalling £398 million relating to over 200,000 cases (the vast majority being penalties), where it had been identified customers were no longer liable for SA or were no longer self-employed and had ceased to trade. HMRC decided not to pursue on the grounds of value for money.

There was a bulk remission for SA of £129 million relating to 40,076 cases, where it had been identified that a significant number of customers with State Pensions over the Personal Allowance threshold who were not in the Self Assessment regime. HMRC decided not to pursue on the grounds of value for money.

There was a bulk remission of £29 million for VAT relating to 124 cases. This follows on from a bulk remission in 2015-16 that relates to historic supplies of residential care services. A group of claimants chose to pursue a detriment argument through to Judicial Review which ultimately resulted in further claims being processed in 2018-19.

4.4 Breakdown of impairment charges

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

For the year ended 31 March	Note	2019 £bn	2018 £bn
Increase/(decrease) in impairment of receivables and ARR	4.2	2.0	0.5
Revenue losses	4.3	4.5	3.7
Total impairment charges		**6.5**	**4.2**

5. Payables, accrued revenue payable and deferred revenue

	Payables as at 31 March 2019 £bn	Accrued revenue payable as at 31 March 2019 £bn	Deferred revenue as at 31 March 2019 £bn	Total as at 31 March 2019 £bn	Total as at 31 March 2018 £bn
Value Added Tax	3.0	13.1	—	16.1	15.1
Corporation Tax	9.2	0.8	0.3	10.3	10.0
Income tax	2.2	3.6	—	5.8	6.1
National Insurance Funds and the NHS	2.2	16.0	—	18.2	18.3
Other revenue payables	1.7	0.2	1.6	3.5	3.0
Payments on account	2.9	—	—	2.9	2.3
Current liabilities before cash and cash equivalents	**21.2**	**33.7**	**1.9**	**56.8**	**54.8**
Cash and cash equivalents	1.5	—	—	1.5	1.3
Total current liabilities	**22.7**	**33.7**	**1.9**	**58.3**	**56.1**

Payables are amounts recorded as due by HMRC at the end of the reporting period but payment has not been made.

Accrued revenue payable (ARP) 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 after adjusting for expenditure, 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 which relate to future accounting periods.

There are no liabilities in the table above which fall due after one year.

5.1 Cash and cash equivalents

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 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 (ARR) and accrued revenue payable (ARP) 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 2019 Spring Statement 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 £6 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.

Each year HMRC reviews actual outturns against estimates to review the performance of its estimation models. In the last ten years the largest net overestimation has been £3 billion (0.5% of total revenue) and the largest net underestimation £5.6 billion (0.9% of total revenue). This is within the £6 billion figure quoted in the paragraph above. Due to the nature of tax legislation two of the most difficult taxes to estimate are Corporation Tax and Self Assessment income.

This uncertainty is based on a combination of evidence from the performance of the models over previous years and takes into account the changes to reflect the March 2019 Spring Statement Forecast and 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

The PAYE ARR is estimated to be £19.3 billion this year and is included in the total income tax ARR of £37.2 billion in note 4.1. 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

The Self Assessment (SA) ARR is estimated to be £17.9 billion this year and is included in the total income tax ARR of £37.2 billion in note 4.1. The ARR represents the liabilities due where the taxable event has already occurred but the return is still outstanding from the taxpayer by the end of the accounting period (end of the financial year).

The SA payment process involves long filing and payment lags, so the ARR is proportionately much larger for SA than for example PAYE and other taxes. This means that ARR estimates for SA income tax and NIC4 are instead driven by Spring Statement 2019 forecasts and the underlying economic determinants in these forecasts, rather than by receipts data.

The estimation process has three stages:

(i) Estimation of accrued tax liabilities for 2018-19. Information from SA returns relating to 2018-19 are not available at the point of estimation, therefore the March 2019 Spring Statement SA income tax and NIC4 forecast has been revised slightly in line with the latest data that has been received.

(ii) Deduction from the 2018-19 accrued tax liabilities of relevant payments received by 31 March 2019. An estimate of these payments is provided by the 'head of duty analysis', a proportional split is made between total SA receipts of income tax, NICs Class 4 & 2 and Capital Gains Tax.

(iii) A further deduction for payments due by 31 March 2019 but not made by that date. The amounts relate to payments on account due on 31 January of a given year. The total is proportionally split between income tax and NIC4.

There are a number of key economic factors that underpin these estimates. These include mixed income growth and Average Effective Tax Rates (AETR). AETR is total tax liability as a proportion of total income across all individuals.

Sensitivity analysis has been applied to understand the degree of uncertainty if these variables were to change from the current estimates and the results are shown in the tables below. Based on historic data, the change in AETR is unlikely to exceed 0.5 percentage points whereas a change in mixed income growth of 1 percentage point is more likely.

Impact on SA income tax ARR of varying key economic factors

Key Assumption (Change)	Increase £m	Decrease £m
Mixed Income Determinant (+/-1%)	(200)	200
Mainly SA Non Saving Non Dividend AETR (+/-0.5%)	(1,100)	1,100
Dividend AETRs (+/-0.5%)	(300)	300
Mainly SA PAYE deduction Rate (+/-0.5%)	(300)	300

Varying the mixed income growth has negligible impact on the NIC4 estimate so is not detailed in table below. Based on historic data, the change in AETR is unlikely to exceed 0.5 percentage points.

Impact on SA NIC4 ARR of varying key economic factors

Key Assumption (Change)	Increase £m	Decrease £m
NIC4 AETR (+/-0.5%)	(500)	500

Since 2017-18 ARR, the estimation of the average tax rates used in the calculation has been reviewed and improvements made. These are the tax rates that are applied to the forecast income to reach a tax liability estimate. These rates are now estimated separately for earnings from employment/self-employed, savings and dividend incomes.

6.4 Value Added Tax

A large amount of the VAT ARR (£33.9 billion) and ARP (£13.1 billion) is based on actual receipts data and is not therefore subject to significant 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.

To construct final estimates of ARR and ARP, 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

The Corporation Tax (CT) ARR amount of £22.6 billion disclosed in note 4.1 includes an estimated amount of £19.7 billion. As with SA, CT payments are subject to a considerable lag, so the initial ARR estimate is subject to greater uncertainty, since there is less outturn data available.

The key drivers of the ARR estimate are outturn CT receipts received to date and assumptions for future levels of late payments, overpayments (repayments) and net reallocations of past CT payments, all relating to the accounting periods in question. These assumptions are needed to estimate the total amount of CT accrued at the 31 March year end. A calibration factor is also applied in the model to reflect previous forecasting errors. Changing these assumptions can significantly affect the size of the ARR estimate. Sensitivity analysis has therefore been undertaken to illustrate the potential movement of the ARR estimate if these variables were to change from their current central values by plausible amounts, based on examining recent historic data. This is shown in the table below.

Impact on CT ARR of varying key economic factors

Key Assumption (Change)	Increase £m	Decrease £m
Late payments (+/-3%)	1,200	(1,200)
Overpayments (+/-2%)	(1,700)	1,800
Calibration Factor (+/-5%)	900	(900)

Varying the overpayments assumption has a relatively large impact on the ARR estimate, both in terms of per percentage point change and also taking account of the historic variance of overpayments. Varying the late payments assumption in line with the historic data has a smaller impact on the ARR estimate. The calibration factor is based on analysis of historic forecasting errors and could plausibly lie within a relatively wide range. However, it has a smaller impact on the overall ARR estimate compared with varying the overpayments and late payments assumptions.

CT for large onshore companies is paid by four quarterly instalment payments (QIPs). North Sea companies pay their CT liabilities in three instalment payments (TIPs). Therefore, separate ARR estimates have been calculated for onshore and North Sea companies. A reliable ARR estimate for companies not making QIPs cannot be formed so is not included in the accounts.

Onshore companies

CT ARR has been estimated where between one and four QIPs for onshore companies have been received, using a model that forecasts companies' CT liabilities based on the number and value of QIPs received by a given date.

For accounting periods where no QIPs have been received, ARR has been estimated based on prior year outturn liabilities at a sectoral level adjusted for forecast growth in CT liabilities.

CT is assumed to accrue evenly throughout the companies' accounting periods. Assumptions for the proportions of companies' CT liabilities that are remitted with each QIP and adjustments for overpayments and late payments of CT liabilities are based on analysis of historical data.

ARP 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' CT 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 a payment will be required, or the amount cannot be reliably measured.

Provision for liabilities

	Legal claims £bn	Oil and gas field decommissioning £bn	Total 2018-19 £bn	Total 2017-18 £bn
Balance as at 1 April	5.9	12.9	18.8	14.2
Provided in the year	2.3	—	2.3	7.0
Provision not required written back[1]	(3.3)	(4.1)	(7.4)	(3.6)
Provision utilised in the year[1]	(0.2)	(0.5)	(0.7)	1.2
Balance as at 31 March	**4.7**	**8.3**	**13.0**	**18.8**

1 An adjustment was made to legal claims in 2017-18 to "provision not required written back" and "provision utilised in the year" to reflect an amount paid back to HMRC that was previously reported as utilised.

Analysis of expected timing of cash flows

	Legal claims £bn	Oil and gas field decommissioning £bn	Total 2018-19 £bn
Amounts payable <5yrs	4.4	1.4	5.8
Amounts payable >5yrs	0.3	6.9	7.2
Balance as at 31 March	**4.7**	**8.3**	**13.0**

7.1 Expenditure — movement in provisions

	Legal claims £bn	Oil and gas field decommissioning £bn	Total 2018-19 £bn	Total 2017-18 £bn
Total provided in the year	2.3	—	2.3	7.0
Provision not required written back	(3.3)	(4.1)	(7.4)	(3.6)
Net movement increase/(decrease)	**(1.0)**	**(4.1)**	**(5.1)**	**3.4**

7.2 Legal claims

Provision for liabilities

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. Due to the inherent uncertainty in the estimate of the provision, 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 2018-19; discounting has not been applied on the basis of materiality.

Contingent liabilities

Contingent liabilities are disclosed at a value made in accordance with a best estimate based on the information available at the end of the reporting period. Those estimates are subject to change and, for some legal cases, are inherently uncertain. Regular review of the population of cases that comprises the contingent liability balance leads to cases being revalued, recognised as provisions, or removed from the contingent liability disclosures where the probability that HMRC will be required to make a payment to settle the liability is now considered to be remote.

As at 31 March 2019, HMRC has six cases estimated to have a value of £2.3 billion (compared to nine cases with an estimated value of £6 billion as at 31 March 2018) where the maximum potential tax repayment, before losses, capital allowances and other tax reliefs, is over £100 million. Each case may include a lead case with follower claimants and cover a range of heads of duty, including Corporation Tax, income tax and VAT.

The total value of estimates has reduced in 2018-19 for a variety of reasons, including revised costings, reduced likelihood of repayment, cessation of litigation action or recognition as provision.

In general, potential claimants who may opt to follow a lead case, but are not yet known to HMRC or the Courts and which are difficult to quantify with sufficient reliability and consistency, are not recognised in the Accounts or disclosed in these notes. Potential wider adoption claims of this nature are deemed to fall outside the criteria set out in relevant accounting standards.

7.3 Exchequer liabilities arising from oil and gas infrastructure

There are two taxes levied on companies exploring and producing oil and gas from the UK Continental Shelf (UKCS): Petroleum Revenue Tax (PRT) and offshore Corporation Tax (CT), the latter being comprised of two elements: Ring-fenced Corporation Tax and Supplementary Charge.

The legislation governing the losses from decommissioning costs (the Oil Taxation Act 1975) allows participators in an oil and gas field liable to PRT to carry-back decommissioning losses almost indefinitely against profits it has previously made from the field, or which previous participators in the field have made. This may result in the repayment of PRT. With respect to offshore CT, the Corporation Tax Act 2010 allows for a company's decommissioning loss to be carried back against its own historical profits dating back to April 2002. Again, this may result in a repayment of offshore CT.

Provision for oil and gas field decommissioning

A provision of £8.3 billion has been identified in the 2018-19 Trust Statement based on the estimated tax repayments of PRT £2.9 billion (2017-18: £6.7 billion) and offshore CT £5.4 billion (2017-18: £6.2 billion) by HMRC to companies incurring losses from decommissioning expenditure over the period 2019-20 to 2066-67. This is discounted to the present value using HM Treasury guidance.

The key determinants of the provision estimate are future decommissioning costs from the Oil and Gas Authority's (OGA) Asset Stewardship Survey, economic determinants (including oil & gas prices and production) from the Office for Budget Responsibility's (OBR) Spring Statement 2019 economic and fiscal outlook as well as the discount rate and the US Dollar/Sterling exchange rate.

There has been no significant change in the model used to calculate the provision since last year. The main driver of the overall reduction in the provision has been lower decommissioning costs. This is consistent with the target of reducing overall UKCS decommissioning costs referenced in the OGA Decommissioning Strategy.

The provision utilised in-year is the tax repayments in 2018-19 due to decommissioning expenditure.

Uncertainty around the estimate of the provision

The largest impact on the size of the provision, and biggest source of uncertainty in estimating it, is future decommissioning costs. Annually, the OGA estimates the total costs of remaining oil and gas decommissioning for the UKCS, including newly sanctioned projects, and changes to the portfolio of potential, as yet unsanctioned projects.

Recognising the uncertainty around this, the OGA gives a range for expected decommissioning costs for UKCS oil and gas infrastructure over the remaining life of the North Sea basin.

The £8.3 billion provision included in the Trust Statement is calculated using the OGA's central estimate for decommissioning costs of £51.3 billion. Using the OGA's lower (£40 billion) and upper (£67 billion) decommissioning cost estimates would instead give provision estimates of £7 billion and £10.9 billion respectively.

The main economic determinant which drives the provision are oil and gas prices. The model uses projections from the OBR where available and then applies a growth rate to project prices for later years. Upper and lower price projections have been estimated based on the distinct range of oil and gas prices as produced in the Department for Business, Energy and Industrial Strategy's Fossil Fuel Price Assumptions. Applying a higher price scenario reduces the provision by around £2 billion whilst lower prices require an increase in the provision of around £1 billion.

The provision is also impacted by interest rate and foreign exchange rates as follows:

a) An increase in the discount rate will reduce the present value of the provision. An overall increase in the discount rates of 100 basis points (i.e. 1%) will decrease the overall provision by £1 billion.

b) As oil prices are denominated in US Dollars, the overall provision is impacted by changes in the US Dollar/Sterling exchange rate. A 10 cent appreciation in the US Dollar gives rise to higher Sterling oil prices resulting in a £1 billion decrease in the provision. A 10 cent depreciation of the Dollar results in a less than £1 billion increase in the required provision.

8. Certificates of tax deposits

	CTD issues 2018-19 £m	CTD redemptions 2018-19 £m	CTD total 2018-19 £m	CTD total 2017-18 £m
Receipts	3	551	554	1,547
Payments	(3)	(545)	(548)	(1,552)
Net receipts/(payments)			**6**	**(5)**
Balance at 1 April			**(6)**	**(1)**
Balance at 31 March — included in (receivables)/payables			**—**	**(6)**

Under the Certificate of Tax Deposits (CTD) scheme, HMRC accepts deposits from people liable to UK taxes and other liabilities. Relevant taxes and liabilities can be found on the HMRC website (www.gov.uk). 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.

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.

From 23 November 2017, the CTD scheme has been closed for new purchases but existing certificates will continue to be honoured until 23 November 2023.

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 payments 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

There are no reportable events after the reporting period. These accounts have been authorised for issue by the Accounting Officer on the same date as the Comptroller and Auditor General's Audit Certificate.

13. Scottish income tax

13.1 Scottish income tax 2017-18

The Scottish Parliament has the power to set and change its own tax rate bands and limits, introduce new ones, and include a zero rate, to all non-savings non-dividend (NSND) income tax paid by Scottish taxpayers (Scotland Acts 2012, 2016). These powers were fully effective from tax year 2017-18.

A provisional estimate of £11.9 billion raised through Scottish income tax (SIT) for 2017-18 was disclosed in last year's accounts. This figure was estimated as much of the actual data, for example outturn data for Self Assessment (SA), was unavailable at that point.

Now that HMRC have established approximately 97% of the tax liabilities for the year, the final outturn figure of £10.9 billion for the funds raised through SIT in 2017-18 is shown in table 1 below. This is the accrued revenue for 2017-18, calculated using the actual liabilities data where available. Where actual data remains unavailable, there is some estimation required. For example, the further SIT liability represents the outstanding amounts to be collected. This has to be estimated because actual data remains unavailable and these liabilities will be established after the publication of the 2018-19 Accounts.

There are elements of estimation within the other adjustments and reliefs listed in the table below. The calculation follows broadly the same methodology as that used for the 2016-17 SIT final outturn but now also includes an additional estimate of the liabilities associated with a number of unreconciled PAYE accounts, which was higher for

2017-18 than for previous years. A detailed explanation of how the outturn has been calculated, including a description of each component shown in table 1, can be found in the HMRC Technical Note.

'Scottish income tax: figures in the 2017-18 HMRC Accounts'
www.gov.uk/government/publications/hmrc-annual-report-and-accounts-2017-to-2018

Table 1 SIT final outturn figure for the tax year ending 5 April 2018

			£bn
SA established SIT liability*			4.5
PAYE established SIT liability			6.3
Established further SIT liability**			0.4
Less amounts estimated for:			
Adjustment for uncollectable amounts		(0.1)	
Reliefs***	Relief at Source (RAS)	(0.1)	
	Gift Aid	(0.1)	(0.3)
Final SIT Revenue for the tax year 2017-18			**10.9**

* Includes an element of PAYE for SA customers
** Includes estimate for 2017-18 unreconciled PAYE accounts of £0.1 billion.
*** These reliefs are those not allocated to individual taxpayer accounts.

13.2 Scottish income tax 2018-19 provisional estimate

The provisional estimate of revenue raised from Scottish income tax (SIT) in 2018-19 is £11.7 billion. This figure has been estimated because actual data is unavailable. For example minimal disclosure has been made to HMRC in respect of SA revenue for the 2018-19 tax year, and PAYE revenue is not available for taxpayers whose accounts have not been reconciled before this document is published. It also includes estimates for the impact of budget measures, Gift Aid and other effects, such as broader demographic changes before the amount is apportioned between Scotland and the remainder of the UK.

The Scottish share of income tax liabilities is estimated using a model based on the HMRC Survey of Personal Incomes which reflects data collected in 2016-17, and is also adjusted to take account of the latest 2017-18 SIT final outturn data. This latter adjustment involves scaling the provisional estimate in 2018-19 by the percentage difference between the 2017-18 SIT final outturn data and the underlying methodology's estimate of 2017-18 based on the aforementioned Survey of Personal Incomes.

The underlying methodology estimated higher SIT receipts in 2017-18 than the final outturn, therefore, the 2018-19 provisional estimate has been scaled down by a proportionate amount.

The methodology behind the 2018-19 provisional estimate as a whole is broadly similar to the methodology used for estimating the 2017-18 SIT final outturn data. However, the estimate reflects the new tax rates and thresholds introduced on NSND income for Scottish taxpayers in 2018-19 (new 'starter' and 'intermediate' tax rates, raising the higher and top tax rate by 1 percentage point and setting the higher rate threshold at a lower level to the rest of the UK).

Further information available during 2019-20 will allow refinement of these calculations. Updated figures will be disclosed in the 2019-20 Trust Statement, allowing a final reconciliation for the prior tax year.

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 2019 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 2018-19.

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 6(3) of the Government Resources and Accounts Act 2000 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.

Vicky Rock
Deputy Director
Government Financial Reporting
Her Majesty's Treasury

19 December 2018

Resource Accounts

Consolidated Statement of Comprehensive Net Expenditure

for the year ended 31 March 2019

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	Core department and agency	2018-19 £m Departmental group	Core department and agency	2017-18 £m Departmental group
Cash items:					
Personal tax credits	4.1.1	22,288.3	22,288.3	26,363.0	26,363.0
Corporation tax reliefs	4.1.4	5,876.9	5,876.9	3,702.9	3,702.9
Child Benefit		11,477.6	11,477.6	11,691.9	11,691.9
Tax Free Childcare		115.7	115.7	28.8	28.8
Lifetime ISA		251.0	251.0	—	—
Staff and related costs		2,451.6	2,482.2	2,507.7	2,539.7
Goods and services		835.0	806.8	760.8	724.1
Service charges		256.9	256.9	292.4	292.4
Payments in lieu of tax relief and rates		169.1	169.1	165.8	165.8
Other cash expenditure		254.4	255.1	233.8	234.5
Non-cash items:					
Transfer of personal tax credit receivables to DWP		306.9	306.9	44.1	44.1
Amortisation	6	221.5	221.5	239.0	239.0
Provisions		98.8	94.9	36.3	37.0
Depreciation	5	72.7	72.8	80.8	80.8
Other		24.4	24.4	16.4	16.5
Total operating expenditure	2	**44,700.8**	**44,700.1**	**46,163.7**	**46,160.5**
Total operating income		**(220.0)**	**(219.3)**	**(227.7)**	**(224.5)**
Net operating expenditure		**44,480.8**	**44,480.8**	**45,936.0**	**45,936.0**
Other comprehensive net expenditure					
Items that will not be reclassified to net operating costs:					
Net loss/(gain) on:					
– revaluation of property, plant and equipment		(5.4)	(5.4)	1.9	1.9
– revaluation of intangible assets		(28.1)	(28.1)	(28.0)	(28.0)
– actuarial revaluation of pension scheme[1]		(11.3)	(11.3)	(10.2)	(10.2)
Total comprehensive expenditure for the year		**44,436.0**	**44,436.0**	**45,899.7**	**45,899.7**

1 Total comprehensive expenditure for 2017-18 has been reduced by £10.2 million, having been restated to include the effect of pension reserve actuarial gains and losses which has been included as a new line. This was previously reported only in the Consolidated Statement of Changes in Taxpayers' Equity.

The notes on pages 199 to 231 form part of these accounts.

Consolidated Statement of Financial Position

as at 31 March 2019

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	2018-19 £m Core department and agency	2018-19 £m Departmental group	2017-18 £m Core department and agency	2017-18 £m Departmental group
Non-current assets:					
Property, plant and equipment	5	502.5	502.8	495.2	495.6
Intangible assets	6	1,344.9	1,344.9	1,247.6	1,247.6
Receivables	9	2,156.3	2,142.3	1,466.5	1,456.8
Pension Asset	12	21.0	21.0	10.4	10.4
Total non-current assets		**4,024.7**	**4,011.0**	**3,219.7**	**3,210.4**
Current assets:					
Inventories		1.9	1.9	2.3	2.3
Trade and other receivables	9	1,276.4	1,275.6	1,584.8	1,586.2
Cash and cash equivalents[1]		41.6	50.2	69.4	69.4
Total current assets		**1,319.9**	**1,327.7**	**1,656.5**	**1,657.9**
Total assets		**5,344.6**	**5,338.7**	**4,876.2**	**4,868.3**
Current liabilities:					
Trade and other payables	10	(6,233.9)	(6,228.0)	(4,160.4)	(4,148.6)
Provisions	11	(11.3)	(11.3)	(88.0)	(91.9)
Total current liabilities		**(6,245.2)**	**(6,239.3)**	**(4,248.4)**	**(4,240.5)**
Total assets less current liabilities		**(900.6)**	**(900.6)**	**627.8**	**627.8**
Non-current liabilities:					
Payables	10	(1,229.0)	(1,229.0)	(252.3)	(252.3)
Provisions	11	(204.6)	(204.6)	(72.0)	(72.0)
Total non-current liabilities		**(1,433.6)**	**(1,433.6)**	**(324.3)**	**(324.3)**
Total assets less total liabilities		**(2,334.2)**	**(2,334.2)**	**303.5**	**303.5**
Taxpayers' equity and other reserves:					
General fund		2,456.0	2,456.0	(192.3)	(192.3)
Revaluation reserve		(100.8)	(100.8)	(100.9)	(100.9)
Pension reserve		(21.0)	(21.0)	(10.4)	(10.4)
Total equity		**2,334.2**	**2,334.2**	**(303.6)**	**(303.6)**

1 The departmental group 31 March 2019 value includes £47.2 million (2017-18: £68.2 million) held with the Government Banking Service. Of which, £38.6 million (2017-18: £68.2 million) relates to the core department and agency.

Sir Jonathan Thompson
Accounting Officer
11 July 2019

The notes on pages 199 to 231 form part of these accounts.

Consolidated Statement of Cash Flows

for the year ended 31 March 2019

This statement shows the changes to the department's cash and cash equivalents during the reporting period. It shows how the department generates and uses these by classifying cash flows as operating, investing and financing activities. Cash flows arising from financing activities include Parliamentary Supply.

Consolidated Statement of Cash Flows

			2018-19 £m		2017-18 £m
	Note	Core department and agency	Departmental group	Core department and agency	Departmental group
Cash flows from operating activities					
Net operating expenditure		(44,480.8)	(44,480.8)	(45,936.0)	(45,936.0)
Adjustments for non-cash transactions	2	724.3	720.5	416.6	417.4
(Increase)/decrease in trade and other receivables[1]		(402.3)	(395.9)	318.5	316.5
Adoption of IFRS 9: non-cash adjustment to personal tax credits receivables	18	307.6	307.6	—	—
Personal tax credits receivables, adjusted for impairment, transferred to DWP	4.1.2	(306.9)	(306.9)	(44.1)	(44.1)
(Increase)/decrease in inventories		0.4	0.4	(0.4)	(0.4)
Increase/(decrease) in trade and other payables[1]		3,099.1	3,105.1	299.7	301.3
Use of provisions	11	(42.9)	(42.9)	(31.2)	(31.6)
Net cash outflow from operating activities		**(41,101.5)**	**(41,092.9)**	**(44,976.9)**	**(44,976.9)**
Cash flows from investing activities					
Additions to property, plant and equipment	5	(75.3)	(75.3)	(64.2)	(64.2)
Less additions to leased property, plant and equipment		2.4	2.4	1.0	1.0
Additions to intangible assets	6	(314.3)	(314.3)	(243.0)	(243.0)
Less additions to leased intangible assets		—	—	—	—
Proceeds of disposal of property, plant and equipment		0.4	0.4	0.1	0.1
Proceeds of disposal of intangible assets		—	—	—	—
Net cash outflow from investing activities		**(386.8)**	**(386.8)**	**(306.1)**	**(306.1)**
Cash flows from financing activities					
From the Consolidated Fund (Supply) – current year		15,601.7	15,601.7	15,534.2	15,534.2
From the Consolidated Fund (non-Supply)		—	—	—	—
From the Trust Statement		25,584.0	25,584.0	29,484.3	29,484.3
From the National Insurance Fund		297.9	297.9	318.0	318.0
Capital element of payments in respect of finance leases and on-Statement of Financial Position PFI contracts		(22.4)	(22.4)	(24.3)	(24.3)
Net financing		**41,461.2**	**41,461.2**	**45,312.2**	**45,312.2**

	Note	2018-19 £m Core department and agency	2018-19 £m Departmental group	2017-18 £m Core department and agency	2017-18 £m Departmental group
Net increase/(decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund		**(27.1)**	**(18.5)**	**29.2**	**29.2**
Payments of amounts due to the Consolidated Fund		(0.7)	(0.7)	(1.0)	(1.0)
Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund		**(27.8)**	**(19.2)**	**28.2**	**28.2**
Cash and cash equivalents at the beginning of the period		**69.4**	**69.4**	**41.2**	**41.2**
Cash and cash equivalents at the end of the period		**41.6**	**50.2**	**69.4**	**69.4**

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

The notes on pages 199 to 231 form part of these accounts.

Consolidated Statement of Changes in Taxpayers' Equity

for the year ended 31 March 2019

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.

Core department and agency figures are the same as departmental group, therefore core department and agency are not shown.

Consolidated Statement of Changes in Taxpayers' Equity

					2018-19 Departmental group				2017-18 Departmental group
		General Fund	Revaluation reserve[1]	Pension reserve[2]	Total reserves	General Fund	Revaluation reserve[1]	Pension reserve[2]	Total reserves
	Note	£m	£m	£m	£m	£m	£m	£m	£m
Balance at 1 April		**192.3**	**100.9**	**10.4**	**303.6**	**769.8**	**107.7**	**1.1**	**878.6**
Change in reporting - implementation of IFRS 9	4.1.2	307.6	—	—	307.6	—	—	—	—
Restated balance at 1 April		**499.9**	**100.9**	**10.4**	**611.2**	**769.8**	**107.7**	**1.1**	**878.6**
Net Parliamentary funding – drawn down		15,601.7	—	—	15,601.7	15,534.2	—	—	15,534.2
Net Parliamentary funding – deemed[3]		69.3	—	—	69.3	41.1	—	—	41.1
Funding from Trust Statement[4]		25,584.0	—	—	25,584.0	29,484.3	—	—	29,484.3
National Insurance Fund		275.3	—	—	275.3	332.8	—	—	332.8
Supply (payable)/receivable adjustment		(41.5)	—	—	(41.5)	(69.3)	—	—	(69.3)
Income payable to the Consolidated Fund		(0.7)	—	—	(0.7)	(1.0)	—	—	(1.0)
Net expenditure for the year		(44,480.8)	—	—	(44,480.8)	(45,936.0)	—	—	(45,936.0)
Other net comprehensive expenditure:									
Revaluation of property, plant and equipment		—	5.4	—	5.4	—	(1.9)	—	(1.9)
Revaluation of intangible assets		—	28.1	—	28.1	—	28.0	—	28.0
Transfer between reserves		35.0	(33.6)	(1.4)	—	34.6	(32.9)	(1.7)	—
Pension reserve actuarial (losses)/ gains		—	—	11.2	11.2	—	—	10.1	10.1
Contributions to LGPS pension fund by DWP		—	—	0.8	0.8	—	—	0.9	0.9
Non-cash charges – auditor's remuneration	2	1.8	—	—	1.8	1.8	—	—	1.8
Balance at 31 March		**(2,456.0)**	**100.8**	**21.0**	**(2,334.2)**	**192.3**	**100.9**	**10.4**	**303.6**

1 The 31 March 2019 balance comprised £45.0 million in relation to property, plant and equipment assets (31 March 2018 £44.2 million, 1 April 2017 £54.9 million) and £55.8 million in relation to intangible assets (31 March 2018 £56.7 million, 1 April 2017 £52.8 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 subsequent financial year.
4 Personal tax credits and corporation tax reliefs are funded out of tax receipts from the Trust Statement. Please see the Statement of Revenue, Other Income and Expenditure in the Trust Statement, page 173.

The notes on pages 199 to 231 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 2018-19 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.

2018-19 FReM:
www.gov.uk/government/publications/government-financial-reporting-manual-2018-to-2019

Where the FReM permits a choice of accounting policy, HM Revenue and Customs has applied the most appropriate to give a true and fair view.

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 and intangible assets.

1.3 Basis of consolidation

This account consolidates the results of the bodies falling within the departmental boundary as defined by the FReM. For HMRC these are core department, Valuation Office Agency (VOA) and Revenue and Customs Digital Technology Services Limited (RCDTS Ltd).

1.4 Tax credits

1.4.1 Personal tax credits

Tax credits awards are based upon initial estimates and finalised at the end of the tax year. The process for finalising awards relies on claimants providing complete and accurate data, therefore overpayments are a feature of the system. As such, overpayments are not by arrangement, and are not credit assessed or loan agreements. Individuals are given a certain time to settle the debt - or enter into an arrangement to pay debt - but the debt is considered to be past due after 30 days.

The HMRC business model for managing personal tax credit overpayment debt is to collect the contractual cash flows only, there is no intention to sell the asset, and has been no historic sales of tax credit receivables. Tax credit debt is being transferred to DWP as part of the transition to Universal Credit, this is a transfer between government bodies and not a sale of the asset. The contractual cash flows are solely payments of principal and interest, as they are simple financial instruments held only to collect overpayments, and thus the asset is measured at amortised cost.

As per the FReM, the IFRS 9 simplified approach to impairing assets is used to impair tax credit overpayment debt over the lifetime of the debt. The model uses the average of last four years cash recovery data (as there has been no change to recovery methods that were operational over the past four years) to determine impairment rates based on the age of debt to create a provision matrix which is applied to current debt stock.

Tax Credit Receivables are reported net of losses which are detailed in the Losses Statement which is reported in the parliamentary, public and stakeholder accountability section on page 158. Losses are made up of remissions and write-offs. Remission is the process used to identify and separate money owed to HMRC which we have decided not to pursue – for example, on the grounds of value for money. Write-offs is the term used to describe money owed to HMRC that was considered to be irrecoverable – for example, because there were no practical means for pursuing it.

HMRC do not discount the future cash flows into Net Present Value. The effect of HMRC applying the discount rates for Financial Instruments, promulgated in PES papers by HM Treasury, to the forecast recoveries of personal tax credit debt, are immaterial by value.

1.4.2 Corporation tax reliefs

In the absence of a specific applicable accounting standard, management have determined the following accounting policy for recognising and measuring expenditure on corporation tax reliefs in line with the principles of IFRS. Expenditure on these reliefs is recognised as companies engaged in qualifying activities incur their qualifying expenditure, not when subsequent claims are received. This provides a consistent recognition point for income and expenditure between these Resource Accounts and the HMRC Trust Statement where the related corporation tax income is recognised as the taxable events occur, not when returns are filed.

Expenditure is measured using an estimate which is derived from an analysis of historic relief claims made by companies. The filing requirements for companies are such that these returns are not due until 12 months after the accounting period end. Additionally, claims can be received up to 24 months after the accounting period end, i.e. amendments can be made to returns already submitted within this period. Consequently, historic claim profiles are used to estimate expenditure and related accruals for the current year considering forecast growth rates and planned changes in relevant tax policy and rates. The accrual is unwound based on the expected receipt of claims following the year of recognition.

In subsequent accounting periods the department evaluates any new information available from claims received during the year and determines whether previous estimates of expenditure need to be adjusted. Five years after initial recognition, a final adjustment will be made and the resulting amount considered to be a reasonable proxy for final outturn.

All reliefs expenditure is funded by the Trust Statement. This funding is recognised in reserves.

1.5 Child Benefit

Child Benefit expenditure is recognised in the financial year a claim for Child Benefit is approved.

Child Benefit expenditure includes amounts paid to higher rate taxpayers earning greater than £50,000 per annum and recovered via future income tax charges. These income tax charges are accounted for in the Trust Statement

Where under or overpayments are identified adjustments are made to expenditure, with receivables and payables recognised appropriately. Overpayments are treated as receivables and the department seeks to recover these from future benefit entitlement or through direct repayment.

Child Benefit Receivables are reported net of losses which are detailed in the Losses Statement which is reported in the parliamentary, public and stakeholder accountability section on page 158. Losses are made up of remissions and write-offs. Remission is the process used to identify and separate money owed to HMRC which we have decided not to pursue – for example, on the grounds of value for money. Write-offs is the term used to describe money owed to HMRC that was considered to be irrecoverable – for example, because there were no practical means for pursuing it.

1.6 Non-current assets

1.6.1 General

Furniture, vehicles, IT hardware, software licences and website development costs reported by the core department (excluding certain low value assets) are capitalised. Accommodation refurbishments are capitalised once costs exceed £150,000 (VOA: £15,000). For other assets a £5,000 capitalisation threshold applies.

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.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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.

Assets are stated at cost less accumulated depreciation/amortisation and impairment losses. These are depreciated/amortised at rates calculated to write them down to estimated residual values on a straight-line basis over their useful lives. All intangible assets are assessed to have a finite useful life over which they are amortised. Asset useful lives are normally in the following ranges:

Asset category – property, plant and equipment	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 to which they relate
Office equipment	5 to 20 years
Computer equipment	4 to 7 years
Vehicles	5 to 8 years
Furniture and fittings	15 years
Scientific aids	3 to 10 years

Asset category – intangible assets	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

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

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

1.6.2 Property Plant and Equipment

Property

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 where the department has control within a contract and a material residual interest, 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 Consolidated Statement of Comprehensive Net Expenditure, financing and service charges 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 8.2) and these assets have been capitalised as finance leases. Of these, only buildings 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. 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 where appropriate.

Buildings to which we are contracted under Building our Future locations strategy are operating leases. Further such leases will be reviewed on a case-by-case basis to ensure they are classified correctly.

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. Each year, 100 Parliament Street and 20% of the remaining estate is physically revalued and the remainder undergoes a desktop revaluation exercise to identify material changes. The basis of the valuation is in accordance with the professional standards of the Royal Institute of Chartered Surveyors: RICS Valuation – Global Standards 2017 and the RICS Valuation – Professional Standards UK (January 2014, revised April 2015). Compliance with the RICS professional standards and valuation practice statements gives assurance also of compliance with the International Valuers Standards.

Information Technology

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 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 VOA 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 VOA. Whilst consolidated figures will report the correct aggregate position, this difference in approach is to be noted.

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

Assets under construction

Assets under construction are separately reported in note 5. In respect of the Building our Future locations strategy, this includes accommodation refurbishment and furniture assets. Costs are accumulated until the asset is available for use whereupon it is transferred to the relevant asset class and depreciation commences.

1.6.3 Intangible

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. Excluding additions in the financial year, and any software formally valued during the year, software assets are revalued annually by applying appropriate indices.

Software Licenses

Software Licences are capitalised where their useful life is greater than 12 months and value is over £5,000.

Assets under construction

Intangible assets under construction relate to software development by the department, our IT Partners and RCDTS Ltd. Intangible 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 amortisation commences.

1.7 Pensions

1.7.1 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 defined benefit schemes. 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. Further information can be found within the accounts of Civil Service Pensions.

Civil Service Pensions
www.civilservicepensionscheme.org.uk/about-us/resource-accounts/

1.7.2 Local Government Pension Scheme

A number of the Valuation Office Agency employees are members of the Local Government Pension Scheme (LGPS). The LGPS is one of the largest public sector pension schemes in the UK. It is a nationwide defined benefit pension scheme for people working in local government or working for other types of employer participating in the scheme.

Further information can be found within the Valuation Office Agency accounts (HC 2409) that can be viewed at **www.gov.uk/government/organisations/valuation-office-agency**.

1.7.3 Partnership pensions

The partnership pension account is a stakeholder pension arrangement with employees able to choose a stakeholder pension product from a panel of providers. The partnership pension account is a defined contribution scheme, provided as an alternative option for members who do not wish to join one of our defined benefit arrangements (classic, classic plus, premium, nuvos and alpha).

1.7.4 Aviva Friends Life plc

A number of RCDTS Ltd employees are members of the Aviva Friends Life plc pension scheme. A contract-based defined contribution pension scheme which is administered by Aviva plc and overseen by the RCDTS Ltd Board.

Further information will be found within the RCDTS Ltd accounts available at Companies House at: **www.gov.uk/government/organisations/companies-house** by 31 December 2019.

1.8 Provisions and Contingent liabilities

The department discloses provisions and contingent liabilities in excess of the de minimis limit for reporting of £0.1 million.

Where the time value of money is significant, provisions and contingent liabilities are stated at discounted amounts, as directed by Revised Public Expenditure System (PES) (2018) 12.

1.8.1 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 0.29% as set by HM Treasury (2017-18: 0.10%).

1.8.2 Remote Contingent liabilities

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 parliamentary, public and stakeholder accountability section on page 161.

Public Expenditure Statistical Analyses 2018
www.gov.uk/government/statistics/public-expenditure-statistical-analyses-2018

1.9 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 VAT 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. Non-recoverable 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.

1.10 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, reported at note 4.1.1, consist of Child Tax Credit and Working Tax Credit. 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. The estimate produced for 2018-19 excludes debt transferred to DWP under Universal Credit, considers the extent to which policies impact on the estimate and utilises the latest compliance information. It is therefore subject to uncertainty. The estimate disclosed in note 4.1.2 represents the mid-point of the range (see note 1.4.1).

The accrual for personal tax credits is calculated using the actual split of Working Tax Credit and Child Tax Credit payments made in the current year.

Corporation tax reliefs

The accounting policy for corporation tax reliefs is a judgement in the context of these accounts because management has determined an appropriate policy for recognition and measurement in the absence of a specific accounting standard. In adopting the current policy, we have selected a recognition point that maintains consistency between relief expenditure recognised in these accounts and the related corporation tax income recognised in the Trust Statement.

Expenditure is recognised for corporation tax reliefs in advance of claims being received because of the timing difference between when qualifying expenditure is incurred by companies and when they make claims. Estimation uncertainty results from this timing difference because assumptions about qualifying expenditure need to be made based on historic experience and the expected amounts need to be adjusted to reflect forecast growth rates and planned changes in relevant tax policy and rates. Note 4.1.4 provides further detail on the estimation uncertainty relating to corporation tax reliefs.

Personal tax credits error and fraud

In arriving at our personal tax credits estimates we consider two types of uncertainty – variance, which is a consequence of the sample size, and bias. In particular, we seek to manage the risk of potential bias through customer non-response in several ways including; ensuring that compliance officers are in a position to make a valid decision without customer response, completion of extensive quality checks of error and fraud cases, and monitoring of the outcome of non-response cases against those where customers do respond.

Error and fraud results are reported at note 4.1.3.

For error and fraud in the claimant's favour, the difference in the proportion of cases that are incorrect is not statistically significant. Consequently, HMRC have no concerns about non-response causing bias in the statistics for error and fraud favouring the claimant.

For error in HMRC's favour, the difference in the proportions is statistically significant, but for HMRC to consider making an adjustment we would need a high level of certainty that we would find more errors on these cases if the customer did respond, and no evidence is held to suggest this.

Consequently, no adjustment is made to the estimate of error and fraud favouring the claimant to account for non-response.

Impairment of receivables

The following receivables balances have been impaired: personal tax credits, Child Benefit, law costs, and other receivables (see note 9).

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.

Personal tax credits

In line with the introduction of IFRS 9: Financial Instruments, for accounting periods after 1 January 2018, HMRC have re-assessed the business model for managing personal tax credits receivables and the contractual cash flow characteristics of this financial asset. HMRC have determined that our business model is to collect contractual cash flows, being solely the principal debt. Consequently, we continue to measure the financial asset at amortised cost.

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.

1.11 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.

HMRC has not applied IFRS 16 Leases that has been issued, but is not yet effective. The date for adoption of IFRS 16 has been determined by HM Treasury to be 2020-21.

- IFRS 16 Leases will replace IAS 17 Leases and fundamentally changes the accounting treatment of leases for lessees. The current IAS 17 model, which requires entities to distinguish between finance leases (on Statement of Financial Position (SoFP)) and operating leases (off SoFP) will be replaced by a 'right of use' model that requires lessees to recognise on SoFP their rights of use of assets and associated liabilities.

The transition into IFRS 16 will also necessitate a review of existing and future contracts to identify lease and non-lease (i.e. service) elements. HMRC have completed an initial impact assessment of their lease exposure and have created a project team to manage the transition to IFRS 16.

HMRC continue to assess live contracts to assess whether sufficient information exists to enable the assessment under IFRS 16 criteria. HMRC exposure falls primarily into two areas, Estates and IT. Key stakeholders from these business areas have been engaged to assist with this work, alongside Legal and Commercial teams.

To enable efficient routine reassessment of leases throughout their lifecycle, as required by IFRS 16, new software is being tested. These IT enhancements will enable real time amendments to lease parameters in line with contractual changes that will automatically post the appropriate accounting transactions.

The scope of the change includes, but is not limited to HMRC future lease commitments that are currently presented under IAS 17 in note 8.

HMRC continue to engage with HM Treasury to understand potential FReM adaptions to IFRS 16, and are investigating the impacts in the context of mandated adherence to IFRS and potential practical expedients upon transition.

2. Expenditure

	Note	Core department and agency 2018-19 £m	Departmental group 2018-19 £m	Core department and agency 2017-18 £m	Departmental group 2017-18 £m
Personal tax credits	4.1.1	**22,288.3**	**22,288.3**	**26,363.0**	**26,363.0**
Corporation tax reliefs	4.1.4	**5,876.9**	**5,876.9**	**3,702.9**	**3,702.9**
Child Benefit					
Child Benefit[1]		11,475.3	11,475.3	11,689.6	11,689.6
Guardian's Allowance (funded from National Insurance Fund)		2.3	2.3	2.3	2.3
		11,477.6	**11,477.6**	**11,691.9**	**11,691.9**
Tax-Free Childcare		**115.7**	**115.7**	**28.8**	**28.8**
Lifetime ISA		**251.0**	**251.0**	**—**	**—**
Staff and related costs	Page 122				
Wages and salaries		1,836.7	1,861.8	1,870.5	1,896.8
Other pension costs		367.8	369.7	373.6	375.7
Less capitalised costs		(35.7)	(35.7)	(26.7)	(26.7)
Social security costs		185.1	187.9	186.9	189.8
Travel, subsistence and hospitality		67.2	68.0	67.2	67.8
Recruitment and training		22.0	22.0	20.6	20.7
Early severance schemes		8.5	8.5	15.6	15.6
		2,451.6	**2,482.2**	**2,507.7**	**2,539.7**
Service charges					
IT Public Private Partnership contract (PPP) payments[2]		137.9	137.9	153.2	153.2
Accommodation PFI and non-PFI contract payments		89.9	89.9	106.6	106.6
Accommodation interest charges		26.9	26.9	29.5	29.5
Indexation of liability on PFI deals		1.7	1.7	1.7	1.7
IT Public Private Partnership interest charges		0.5	0.5	1.4	1.4
		256.9	**256.9**	**292.4**	**292.4**
Goods and services					
IT services and consumables[2]		479.5	450.9	436.7	398.9
Contracted out services		162.0	162.0	133.2	133.2
Printing, postage, stationery and office supplies		52.4	52.9	54.3	54.6
Legal and investigation		43.8	43.8	38.3	38.3
Telephone expenses		31.8	31.7	41.3	42.0
Enforcement costs		29.9	29.9	25.9	25.9
Other goods and services		24.5	24.5	27.6	27.6
Consultancy		11.1	11.1	3.5	3.6
		835.0	**806.8**	**760.8**	**724.1**

	Note	2018-19 £m Core department and agency	2018-19 £m Departmental group	2017-18 £m Core department and agency	2017-18 £m Departmental group
Payments in lieu of tax relief and rates		**169.1**	**169.1**	**165.8**	**165.8**
Other cash expenditure					
Accommodation expenses		118.3	118.3	107.8	107.8
Other operating leases		53.4	53.4	39.1	39.1
Developer Contribution		*(1.0)*	*(1.0)*	*(0.8)*	*(0.8)*
National Insurance Fund other government department collection service		48.9	48.9	50.2	50.2
Losses (excluding Child Benefit and tax credits) and special payments		4.2	4.2	5.9	5.9
Other		30.6	31.3	31.6	32.3
		254.4	**255.1**	**233.8**	**234.5**
Non-cash items:					
Amortisation, depreciation and impairments					
Amortisation	6	221.5	221.5	239.0	239.0
Depreciation	5	72.7	72.8	80.8	80.8
Loss on impairment of non-current assets	7	10.5	10.5	4.2	4.2
		304.7	**304.8**	**324.0**	**324.0**
Provisions for liabilities and charges	11	**98.8**	**94.9**	**36.3**	**37.0**
Other non-cash					
Transfer of personal tax credits receivables to DWP		306.9	306.9	44.1	44.1
Auditors remuneration and expenses[3]		1.8	1.8	1.8	1.8
Other		12.1	12.1	10.4	10.5
		320.8	**320.8**	**56.3**	**56.4**
Total non-cash items		**724.3**	**720.5**	**416.6**	**417.4**
Total operating expenditure		**44,700.8**	**44,700.1**	**46,163.7**	**46,160.5**

1 Child Benefit expenditure includes amounts paid to higher rate taxpayers earning greater than £50,000 per annum. It is estimated that £354 million (2017-18: £378 million) will be recovered via future income tax charges arising from payments of Child Benefit to those earning over £50,000 in 2018-19. These income tax charges are accounted for in the Trust Statement.

2 The cessation of the ASPIRE contract in June 2017 required us to evaluate replacement IT contracts against the PPP criteria. These new contracts do not meet this criteria and are therefore classified under IT Services and Consumables.

3 The NAO was not paid for any work of a non-audit nature during the period.

3. Statement of operating expenditure by operating segment

This note shows how resource expenditure is apportioned against the main areas of core business activity.

Each segment relates to a core business activity reported to the Chief Executive and the Board using relevant management information covering expenditure and income and which is used by the Board to make decisions.

3.1 Expenditure and income by reportable segment

	2018-19 Gross expenditure £m	2018-19 Income £m	2018-19 Net expenditure £m	2017-18 Gross expenditure £m	2017-18 Income £m	2017-18 Net expenditure £m
Reportable segment						
Customer Compliance	1,127.7	57.0	1,070.7	1,139.2	55.8	1,083.4
Customer Services	800.0	22.3	777.7	865.5	22.9	842.6
Chief Digital and Information Officer Group	602.4	32.6	569.8	557.1	17.5	539.6
Chief Finance Officer Group[1,2]	509.2	15.7	493.5	477.7	8.7	469.0
HMRC Transformation	252.7	29.9	222.8	266.3	30.1	236.2
Customer Strategy and Tax Design	174.8	12.0	162.8	170.6	10.3	160.3
Chief People Officer, CEO and Corporate Communications Group	144.0	4.7	139.3	112.3	1.6	110.7
Solicitors Office and Legal Services	88.4	7.0	81.4	83.5	15.0	68.5
Border Coordination	13.1	0.1	13.0	2.3	—	2.3
Valuation Office Agency	192.7	42.8	149.9	193.8	44.7	149.1
Total	**3,905.0**	**224.1**	**3,680.9**	**3,868.3**	**206.6**	**3,661.7**

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 as it is centrally managed it is reported in a different format than the reportable segments in the management accounts which compares budgeted spend to full year forecast spend at the segment level.

Reconciliation between operating segments and Consolidated Statement of Comprehensive Net Expenditure

	2018-19 £m	2017-18 £m
Total net expenditure reported for operating segments	**3,680.9**	**3,661.7**
Personal tax credits	22,288.3	26,363.0
Corporation tax reliefs	5,876.9	3,702.9
Child Benefit and Child Trust Fund	11,475.3	11,689.6
Tax-Free Childcare[2]	115.7	28.8
Lifetime ISA	251.0	—
Transfer of personal tax credits receivables to DWP	306.9	44.1
Depreciation/Amortisation/Impairment[1,3]	276.8	293.7
Payments in lieu of tax relief	97.4	85.0
Payments of Local Authority Rates	66.8	76.1
Capital grant	(11.2)	(17.2)
Other	56.0	8.3
Net Operating Cost in Statement of Comprehensive Net Expenditure	**44,480.8**	**45,936.0**

1 Impairments have been moved from the operating segments and are now shown as part of depreciation/amortisation/impairment. The 2017-18 figures have been restated.
2 Tax-Free Childcare has been moved from the operating segments to report separately. The 2017-18 figures have been restated.
3 Excludes depreciation and amortisation relating to assets capitalised as finance leases.

4. Tax credits and Child Benefit

4.1 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, being the extent to which 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, this being a payment of entitlement. Personal tax credits are treated as public expenditure on social benefits for the National Accounts.

4.1.1 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

			2018-19 £m			2017-18 £m
	Child Tax Credit	Working Tax Credit	Total tax credits	Child Tax Credit	Working Tax Credit	Total tax credits
Tax credits	18,234.0	4,167.7	22,401.7	21,180.6	5,075.6	26,256.2
Movement in impairment for receivables	(281.1)	(64.3)	(345.4)	39.3	(35.8)	3.5
Remissions/write-offs	161.5	70.5	232.0	74.0	29.3	103.3
Total tax credits	**18,114.4**	**4,173.9**	**22,288.3**	**21,293.9**	**5,069.1**	**26,363.0**

Please see note 1.10 for the estimation techniques used to apportion 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**.

4.1.2 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.

DWP has taken on the debt associated with personal tax credits for customers who have made a claim to Universal Credit (UC). The debt started to transfer in April 2016 and is planned to continue to transfer over the coming years as more customers move to UC. In line with the Government Financial Reporting Manual this transfer has been treated as a capital grant in kind and disclosed as such throughout the Financial Statements. The debt has then been impaired under IFRS 9 (Impairment of Assets) and in line with HMRC and DWP policy, based on historical recoveries and write-offs.

Personal tax credits receivables

	Note	2018-19 £m	2017-18 £m
Receivables as at 1 April		**6,869.0**	**7,320.6**
Adjustment to prior year finalisation estimate		247.1	(297.8)
Estimated overpayment of awards prior to finalisation[1]		660.0	640.0
Overpayments identified from change of circumstances in year		548.4	790.2
Transferred to DWP[2]		(679.9)	(188.0)
Recoveries made		(1,179.7)	(1,292.7)
Remissions/write-offs		(232.0)	(103.3)
Receivables as at 31 March		**6,232.9**	**6,869.0**
Impairment as at 1 April		**4,076.2**	**4,216.6**
IFRS 9 adjustment	18	(307.6)	—
Restated Opening Balance		**3,768.6**	**4,216.6**
– Transferred to DWP[3]		(373.0)	(143.9)
– Movement in impairment		(345.4)	3.5
Impairment at 31 March		**3,050.2**	**4,076.2**
Net receivables at 31 March		**3,182.7**	**2,792.8**
Of which:			
Amounts expected to be recovered within one year	9	1,040.5	1,336.2
Amounts expected to be recovered in more than one year	9	2,142.2	1,456.6
Total		**3,182.7**	**2,792.8**

1 The range of the estimate is £460 million to £860 million (2017-18: £440 million to £840 million).

Summary of Receivables transferred to DWP

2 Gross receivables	679.9	188.0
3 Impairments	(373.0)	(143.9)
Net receivables transferred to DWP	**306.9**	**44.1**

Personal tax credits Expected Credit Loss (ECL)

As simple financial instruments, tax credit overpayment debts have been impaired over the lifetime of the debt as required by the Financial Reporting Manual (FReM) interpretations and adaptations for the public sector context, chapter 6.2 table 6.2 interpretation 6.

Credit risk is not routinely assessed because the debt relates to overpayments made to benefit claimants, not lending by formal arrangement and as such a credit risk assessment is not a feature of the instrument. HMRC routinely assess likely recovery of debt, accepting that the individual credit risk associated with these loans rises as they age.

HMRC have replaced the incurred losses model previously used to calculate impairment with a new model that calculates expected credit losses over the lifetime of the debt. The model uses the average of the last four years of recovery data to determine recovery rates to apply to the current debt stock. There is no forward-looking consideration as historical analysis suggests that there is no significant correlation between movement in cash recoveries and changes in the economic environment.

Finalisation estimates and actuals are built into the Expected Credit Losses forecast of debt recovery. Gross receivables for 2018-19 contain £660 million of estimated debt created upon finalisation, of this £161.5 million has been impaired under the Expected Credit Loss methodology.

	£m ‹1 year	£m 1-5 years	£m 5-10 years	£m ›10 years	£m Total
Gross receivables	1,077.3	3,411.9	1,407.9	335.8	**6,232.9**
Impairment	263.7	1,399.0	1,103.9	283.6	**3,050.2**
Net receivables	813.7	2,012.9	304.0	52.1	**3,182.7**

The above table provides summary information for age bands, although debt is not banded by these ranges in the model calculations, the impairment is calculated in bandings of a year with historic recovery rates for each year applied to the aged debt balance. IFRS 9 transition disclosures are reported at note 18.

Personal tax credit finalisation

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.

The range for the estimate is obtained by assessing the level of overpayment created in current and previous years and then considering the impact of other factors. The estimate produced for 2018-19 excludes debt transferred to DWP under Universal Credit, considers the extent to which policies impact on the estimate and utilises the latest compliance information. Improvements made to the methodology this year include the addition of analysis to understand how the implementation of Universal Credit is reducing the amount of new tax credit overpayment being generated.

Despite these measures, there remains a significant degree of uncertainty around the assumptions that underpin the estimate and therefore in the estimate itself. The sensitivity analysis below provides a view on the potential impact of these uncertainties.

The following table highlights the sensitivities around these assumptions:

Change to key assumption:	Change in Assumption	Variation £m	Change in Assumption	Variation £m
Adjustments made to outturn data for overpayment created post implementation of Universal Credit, to provide comparability with outturn data for pre-Universal Credit years, are accurate.	Increase by 5.5%	40.0	Decrease by 5.5%	(40.0)
Personal tax credit policies will have the expected forecast impacts on the level of overpayment.	Increase by 1.7%	15.0	Decrease by 1.7%	(15.0)
Actual levels of error and fraud will be in line with expected forecasts.	Increase by 6.0%	60.0	Decrease by 6.0%	(60.0)
Debt will be transferred to DWP, in line with the roll out of Universal Credit, at forecasted levels.	Increase by 1.6%	15.0	Decrease by 1.6%	(15.0)
Once outturn data is available and can be compared to estimate, any variances can be explained.	Increase by 7.9%	70.0	Decrease by 7.9%	(70.0)

4.1.3 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 2019, HMRC completed its testing on finalised awards for 2017-18, based on a random sample of 4,000 enquiries.

The increase in overpayment error and fraud is mainly a result of a fall in the level of tax credits compliance activity as a proportion of tax credits expenditure, partly explained by the loss of the error and fraud additional capacity provided under the Concentrix contract which was ended in November 2016.

Value of personal tax credits error and fraud and as a percentage of final award value

			£m 2017-18 awards			£m 2016-17 awards[1]
Overpayments to claimants	1,320 (5.2%)	to	1,590 (6.2%)	1,150 (4.3%)	to	1,380 (5.1%)
Underpayments to claimants	140 (0.5%)	to	190 (0.8%)	160 (0.6%)	to	230 (0.9%)

1 Comparatives have been restated to reflect information received post publication of the 2017-18 annual report and accounts.

4.1.4 Corporation tax reliefs

In certain circumstances, companies are permitted to reduce their tax liability by making a claim for corporation tax reliefs. To claim a relief, a company must be undertaking specific activities and meet the criteria set out for that relief. The corporation tax reliefs reported in these Resource Accounts, are treated as Annually Managed Expenditure. This treatment has been agreed with HM Treasury and relates to reliefs where there is or could be, by their design, a payable element that is in excess of any negative taxation. Other corporation tax reliefs are included in the Trust Statement.

Corporation tax reliefs

		2018-19 £m	2017-18 £m
Research and development tax credits – Small and Medium Enterprises		2,738.4	1,380.8
Research and development tax credits – Large Companies		2,127.1	1,498.5
Creative industries:	Film Tax Relief	534.9	427.8
	High-end Television Tax Relief	228.0	170.0
	Video Games Tax Relief	119.3	84.4
	Theatre Tax Relief	62.9	52.1
	Museums and Galleries Tax Relief	33.8	32.5
	Children's Television Tax Relief	13.7	5.0
	Land Remediation Relief	9.4	26.6
	Orchestra Tax Relief	7.1	10.5
	Animation Tax Relief	4.9	14.6
Enhanced Capital Allowance		0.1	0.1
Vaccine Research Relief[1]		(2.7)	—
Total		**5,876.9**	**3,702.9**

1 Relief ceased in 2016-17. Expenditure reported in 2018-19 reflects adjustments in accordance with note 1.10.

Corporation tax reliefs are estimated by the department's statisticians using the latest available outturn data from prior years, sourced from published statistics. An estimate is required due to the time-lag between the end of companies' accounting periods and the submission of their CT returns. For 2018-19, the latest available year's data relates to the 2016-17 financial year.

The absence of outturn data for the reporting year adds complexity and uncertainty to the estimate, since we will not know how closely the underlying growth in the different relief schemes has matched the growth in the economy (as measured by the relevant OBR determinants). Therefore, due to the inherent nature of forecasts, there will always be a level of uncertainty in the forecast derived from the uncertainties in the source data.

There are uncertainties arising from the 2016-17 outturn estimates which are used as input for the 2018-19 forecast, and also from the assumptions that are used in the forecast model. For both Research and Development (R&D) and creative industry reliefs, the key uncertainty around the 2016-17 outturn estimates is that the accuracy of the 2016-17 outturn estimates may be affected by issues with data quality, completeness or processing.

The key assumptions underpinning the 2018-19 R&D relief estimates are that:

- business fixed investment will grow in line with the relevant OBR determinant
- R&D expenditure, on which tax relief is claimed, will grow in line with the business fixed investment growth rate
- at the cut-off date for producing the 2016-17 outturn estimate, there were some CT returns for 2016-17 that had not yet been received and processed. The estimate has been 'up-rated' to account for this. When calculating the up-rating factor it is assumed that the proportion of 2016-17 R&D tax relief claimed after the cut-off date is the same as it was for 2015-16.

Similar assumptions are made in estimating the expenditure on creative reliefs.

The sensitivity analysis that follows provides a view on the potential impact of these uncertainties on the estimates produced.

Sensitivity analysis

Change to key assumption:	Change in Assumption	Variation £m	Change in Assumption	Variation £m
Accuracy of corporation tax reliefs 2016-17 outturn is between -5% and +5%	Increase by 5%	250	Decrease by 5%	(250)
R&D uprating for 2016-17 varies by up to 3%	Increase by 3%	105	Decrease by 3%	(105)
Creatives uprating for 2016-17 varies by up to 5%	Increase by 5%	50	Decrease by 5%	(50)
Business investment growth in 2018-19 varies by up to 3% from the OBR determinant	Increase by 3%	120	Decrease by 3%	(120)
R&D expenditure growth in 2017-18 & 2018-19 varies by up to 5% from business investment growth rate	Increase by 5%	415	Decrease by 5%	(415)
GDP growth in 2018-19 varies by up to 1% from the OBR determinant	Increase by 1%	10	Decrease by 1%	(10)

During the year, management identified that some data relevant to the calculation of research and development relief expenditure had not been used in previous estimates of expenditure reported in these accounts, dating back to 2014-15. It is not practicable to undertake a restatement for this omission because the data is not available to determine what each initial estimate would have been at the time the accounts were produced and reconstituting this data would require undue cost and effort.

The amounts reported in the following table are the best available approximation of the effect omitting this data on each of the affected years. If a restatement could be undertaken there would be no material effect on the department's net assets because this expenditure is funded by the Trust Statement.

Year	2014-15 £m	2015-16 £m	2016-17 £m	2017-18 £m
Impact[1]	540	805	825	860

1 For 2014-15 and 2015-16, the effect has been estimated using the difference between HMRC's tax relief statistics published in January 2018 and January 2019. The estimate for 2015-16 also includes an amount from late returns.

This new data has been incorporated into the estimate of research and development reliefs for 2018-19, increasing the estimate by £860 million.

Following a review of the estimate methodology, two other improvements have also been made to the estimate methodology for research and development reliefs and are incorporated into expenditure for 2018-19:

- to better reflect the take up of the reliefs, the accruals profile for each relief, where appropriate, has been amended from a two-year to a three-year profile
- the latest years' available outturn data (2016-17) has been 'up-rated' by the departments' statisticians to account for the impact of any CT600 returns not yet received and processed.

4.2 Child Benefit

The Child Benefit Error & Fraud Analytical Programme (EFAP) exercise took a stratified random sample of 2,700 cases which were selected to be representative of the Child Benefit population. Claims will be deemed non-compliant by HMRC compliance officers in the following circumstances:

Group 1. The claimant replies and the information provided proves ineligibility to Child Benefit; or
Group 2. The claimant does not reply to requests for information during the estimation exercise.

Based on the evidence available, 76% of non-respondents (Group 2) are assessed as likely to be eligible, 24% ineligible.

For cases where error and fraud was determined from the reply (Group 1), several themes are apparent. In particular, there are error and fraud risks due to violation of Full Time Non-Advanced Education (FTNAE) status and also risks potentially related to migration. There are a small number of cases that may be due to family or household makeup risks.

Value of Child Benefit error and fraud and as a percentage of estimated Child Benefit expenditure

	£m 2018-19	£m 2017-18
Group 1: Claimant reply proves ineligibility	40 (0.3%)	50 (0.4%)
Group 2: Claimant non-reply, assumed ineligible[1]	35 (0.3%)	55 (0.5%)[2]
Total	75 (0.6%)	105 (0.9%)[2]

1 Error and fraud values exclude claims relating to respondents assessed as likely to be eligible although not all of these claims have yet been reinstated.
2 Restated to align with revised methodology applying from 2018-19.

5. 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 2018	51.0	526.0	173.0	299.1	18.4	57.6	57.2	3.1	1,185.4
Additions	—	—	—	20.2	0.3	2.9	51.9	—	75.3
Donations	—	—	—	—	—	—	—	—	—
Disposals	—	(22.0)	(0.5)	(10.3)	(0.5)	(10.7)	—	(0.7)	(44.7)
Impairments	—	—	—	—	—	—	—	—	—
Reclassifications	—	—	30.3	6.4	—	6.6	(45.8)	2.4	(0.1)
Revaluations[2]	0.9	3.6	—	0.5	—	—	—	—	5.0
At 31 March 2019	**51.9**	**507.6**	**202.8**	**315.9**	**18.2**	**56.4**	**63.3**	**4.8**	**1,220.9**
Depreciation									
At 1 April 2018	—	(291.1)	(130.5)	(225.8)	(13.2)	(26.3)	—	(2.9)	(689.8)
Charged in year	—	(19.8)	(15.1)	(30.9)	(1.8)	(4.4)	—	(0.8)	(72.8)
Disposals	—	21.5	0.4	9.5	0.5	9.4	—	0.7	42.0
Impairments	—	—	—	—	—	—	—	—	—
Reclassifications	—	—	—	—	—	—	—	—	—
Revaluations[2]	—	2.7	—	(0.2)	—	—	—	—	2.5
At 31 March 2019	**—**	**(286.7)**	**(145.2)**	**(247.4)**	**(14.5)**	**(21.3)**	**—**	**(3.0)**	**(718.1)**
Carrying amount at 31 March 2018	51.0	234.9	42.5	73.3	5.2	31.3	57.2	0.2	495.6
Carrying amount at 31 March 2019	**51.9**	**220.9**	**57.6**	**68.5**	**3.7**	**35.1**	**63.3**	**1.8**	**502.8**
The assets are financed as follows:									
Owned	51.9	—	57.6	65.2	3.7	35.1	63.3	1.8	278.6
Finance leased	—	4.2	—	—	—	—	—	—	4.2
PFI contracts	—	216.7	—	3.3	—	—	—	—	220.0
Carrying amount at 31 March 2019	**51.9**	**220.9**	**57.6**	**68.5**	**3.7**	**35.1**	**63.3**	**1.8**	**502.8**
Of the total:									
Core department	51.9	220.7	57.5	64.6	3.7	31.8	61.1	1.8	493.1
Valuation Office Agency	—	0.2	0.1	3.6	—	3.3	2.2	—	9.4
Revenue and Customs Digital Technology Services Limited	—	—	—	0.3	—	—	—	—	0.3
Carrying amount at 31 March 2019	**51.9**	**220.9**	**57.6**	**68.5**	**3.7**	**35.1**	**63.3**	**1.8**	**502.8**

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 2017	52.5	533.8	163.1	322.9	19.9	55.3	53.6	3.5	1,204.6
Additions	—	—	0.7	8.8	0.7	2.9	51.1	—	64.2
Donations	—	—	—	—	—	—	—	—	—
Disposals	—	—	(2.4)	(69.4)	(2.2)	(5.8)	—	(0.4)	(80.2)
Impairments	—	—	—	—	—	—	—	—	—
Reclassifications	—	—	11.6	36.8	—	5.2	(47.5)	—	6.1
Revaluations[2]	(1.5)	(7.8)	—	—	—	—	—	—	(9.3)
At 31 March 2018	**51.0**	**526.0**	**173.0**	**299.1**	**18.4**	**57.6**	**57.2**	**3.1**	**1,185.4**
Depreciation									
At 1 April 2017	—	(276.4)	(117.1)	(238.8)	(13.4)	(27.3)	—	(3.1)	(676.1)
Charged in year	—	(20.3)	(15.4)	(39.3)	(1.7)	(4.0)	—	(0.1)	(80.8)
Disposals	—	—	2.0	52.3	1.9	5.0	—	0.3	61.5
Impairments	—	—	—	—	—	—	—	—	—
Reclassifications	—	—	—	—	—	—	—	—	—
Revaluations[2]	—	5.6	—	—	—	—	—	—	5.6
At 31 March 2018	**—**	**(291.1)**	**(130.5)**	**(225.8)**	**(13.2)**	**(26.3)**	**—**	**(2.9)**	**(689.8)**
Carrying amount at 31 March 2017	52.5	257.4	46.0	84.1	6.5	28.0	53.6	0.4	528.5
Carrying amount at 31 March 2018	**51.0**	**234.9**	**42.5**	**73.3**	**5.2**	**31.3**	**57.2**	**0.2**	**495.6**
The assets are financed as follows:									
Owned	51.0	—	42.5	68.9	5.2	31.3	57.2	0.2	256.3
Finance leased[3]	—	5.6	—	—	—	—	—	—	5.6
PFI contracts[3]	—	229.3	—	4.4	—	—	—	—	233.7
Carrying amount at 31 March 2018	**51.0**	**234.9**	**42.5**	**73.3**	**5.2**	**31.3**	**57.2**	**0.2**	**495.6**
Of the total:									
Core department	51.0	234.6	42.0	69.1	5.2	28.4	55.9	0.2	486.4
Valuation Office Agency	—	0.3	0.5	3.8	—	2.9	1.3	—	8.8
Revenue and Customs Digital Technology Services Limited	—	—	—	0.4	—	—	—	—	0.4
Carrying amount at 31 March 2018	**51.0**	**234.9**	**42.5**	**73.3**	**5.2**	**31.3**	**57.2**	**0.2**	**495.6**

1 See note 1.6.2 for the accounting policy for property assets.
2 See notes 1.2 and 1.6.2 for the accounting policy regarding revaluation of property, plant and equipment.
3 Certain values have been restated to align with the nature of arrangement.

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.

6. Intangible assets

	Licences £m	Software £m	Website development £m	Assets under construction £m	Total £m
Cost or valuation					
At 1 April 2018	51.6	3,349.4	18.8	314.4	3,734.2
Additions	10.0	—	—	304.3	314.3
Disposals	(0.5)	(123.1)	—	—	(123.6)
Impairments	—	(10.5)	—	—	(10.5)
Reclassifications	4.7	188.9	0.2	(193.7)	0.1
Revaluation[1]	—	94.2	—	—	94.2
At 31 March 2019	**65.8**	**3,498.9**	**19.0**	**425.0**	**4,008.7**
Amortisation					
At 1 April 2018	(22.8)	(2,455.3)	(8.5)	—	(2,486.6)
Charged in year	(8.5)	(210.9)	(2.1)	—	(221.5)
Disposals	0.5	111.4	—	—	111.9
Impairments	—	—	—	—	—
Reclassifications	(1.3)	1.3	—	—	—
Revaluation[1]	—	(67.6)	—	—	(67.6)
At 31 March 2019	**(32.1)**	**(2,621.1)**	**(10.6)**	**—**	**(2,663.8)**
Carrying amount at 31 March 2018	28.8	894.1	10.3	314.4	1,247.6
Carrying amount at 31 March 2019	**33.7**	**877.8**	**8.4**	**425.0**	**1,344.9**
The assets are financed as follows:					
Owned	33.7	877.8	8.4	425.0	1.344.9
Finance leased	—	—	—	—	—
PFI contracts	—	—	—	—	—
Carrying amount at 31 March 2019	**33.7**	**877.8**	**8.4**	**425.0**	**1,344.9**
Of the total:					
Core department	33.7	862.6	8.4	419.1	1,323.8
Valuation Office Agency	—	15.2	—	5.9	21.1
Revenue and Customs Digital Technology Services Limited	—	—	—	—	—
Carrying amount at 31 March 2019	**33.7**	**877.8**	**8.4**	**425.0**	**1,344.9**

Continued

	Licences £m	Software £m	Website development £m	Assets under construction £m	Total £m
Cost or valuation					
At 1 April 2017	29.2	3,046.9	15.6	374.1	3,465.8
Additions	6.0	—	—	237.0	243.0
Disposals	(8.8)	(52.0)	—	—	(60.8)
Impairments	—	—	—	(4.2)	(4.2)
Reclassifications	25.2	258.0	3.2	(292.5)	(6.1)
Revaluation[1]	—	96.5	—	—	96.5
At 31 March 2018	**51.6**	**3,349.4**	**18.8**	**314.4**	**3,734.2**
Amortisation					
At 1 April 2017	(25.8)	(2,200.9)	(6.1)	—	(2,232.8)
Charged in year	(5.8)	(230.8)	(2.4)	—	(239.0)
Disposals	8.8	44.9	—	—	53.7
Impairments	—	—	—	—	—
Reclassifications	—	—	—	—	—
Revaluation[1]	—	(68.5)	—	—	(68.5)
At 31 March 2018	**(22.8)**	**(2,455.3)**	**(8.5)**	**—**	**(2,486.6)**
Carrying amount at 31 March 2017	3.4	846.0	9.5	374.1	1,233.0
Carrying amount at 31 March 2018	**28.8**	**894.1**	**10.3**	**314.4**	**1,247.6**
The assets are financed as follows:					
Owned	28.8	894.1	10.3	314.4	1,247.6
Finance leased	—	—	—	—	—
PFI contracts	—	—	—	—	—
Carrying amount at 31 March 2018	**28.8**	**894.1**	**10.3**	**314.4**	**1,247.6**
Of the total:					
Core department	28.8	878.6	10.3	310.0	1,227.7
Valuation Office Agency	—	15.5	—	4.4	19.9
Revenue and Customs Digital Technology Services Limited	—	—	—	—	—
Carrying amount at 31 March 2018	**28.8**	**894.1**	**10.3**	**314.4**	**1,247.6**

1 See notes 1.2 and 1.6.3 for the accounting policy regarding revaluation of intangible assets.

7. Impairments

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

Impairments

		2018-19 £m		2017-18 £m
	Core department and agency	Departmental group	Core department and agency	Departmental group
Charged to Statement of Comprehensive Net Expenditure				
Property, plant and equipment	—	—	—	—
Intangible assets	10.5	10.5	4.2	4.2
Assets held for sale	—	—	—	—
Impairment charged	**10.5**	**10.5**	**4.2**	**4.2**
Transferred from revaluation reserve				
Property, plant and equipment	—	—	0.8	0.8
Intangible assets	0.6	0.6	—	—
Assets held for sale	—	—	—	—

See note 1.6.1 for the accounting policy for impairments.

8. Capital and other commitments

8.1 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 incidental 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.

8.1.1 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.

In accordance with HMRC's Building Our Future Location strategy, the operating lease balance includes the commitment for the Regional Centre (RC) in operation at Croydon together with commitments where Agreements For Leases are held for the other locations, with the exception of Newcastle which is to be converted into a RC. Until then this is accounted for as a PFI in note 8.2.

Regional Centre	Commitment value (£m)
Belfast	62.3
Birmingham	140.8
Bristol	86.3
Cardiff	126.6
Croydon	175.1
Edinburgh	110.4
Glasgow	130.8
Leeds	230.0
Liverpool	120.1
Manchester	63.6
Newcastle	See note 8.2
Nottingham	127.3
Stratford	214.1

Obligations under operating leases

		2018-19 £m		2017-18 £m
	Core department and agency	Departmental group	Core department and agency	Departmental group
Land and buildings				
Due within one year	117.6	117.6	98.2	98.2
Due between one year and five years	379.8	379.8	406.2	406.2
Due later than five years	1,336.9	1,336.9	1,279.0	1,279.0
	1,834.3	**1,834.3**	**1,783.4**	**1,783.4**
Other				
Due within one year	49.0	49.0	15.4	15.4
Due between one year and five years	31.9	31.9	24.3	24.3
Due later than five years	—	—	—	—
	80.9	**80.9**	**39.7**	**39.7**

8.1.2 Finance leases

The following commitments are in respect of assets that have been brought onto the department's Consolidated Statement of Financial Position 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

		2018-19 £m		2017-18 £m
	Core department and agency	Departmental group	Core department and agency	Departmental group
Buildings				
Due within one year	1.3	1.3	2.7	2.7
Due between one year and five years	2.8	2.8	6.1	6.1
Due later than five years	0.2	0.2	0.5	0.5
	4.3	**4.3**	**9.3**	**9.3**

8.2 Commitments under PFI and other service concession arrangements

8.2.1 Off-Statement of Financial Position

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

8.2.2 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 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 and also commitments in relation to IT infrastructure.

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 £229.5 million (2017-18: £261.5 million). 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

		2018-19 £m		2017-18 £m
	Core department and agency	Departmental group	Core department and agency	Departmental group
Minimum lease payments:				
Due within one year	45.0	45.0	47.2	47.2
Due between one year and five years	117.1	117.1	138.2	138.2
Due later than five years	275.8	275.8	295.8	295.8
Total minimum lease payments due in future periods	**437.9**	**437.9**	**481.2**	**481.2**

Details of the obligations for service elements

		2018-19 £m		2017-18 £m
	Core department and agency	Departmental group	Core department and agency	Departmental group
Service elements due in future periods:				
Due within one year	111.9	111.9	214.6	214.6
Due between one year and five years	248.3	248.3	415.3	415.3
Due later than five years	243.7	243.7	283.5	283.5
Total service elements due in future periods	**603.9**	**603.9**	**913.4**	**913.4**
Total Commitments	**1,041.8**	**1,041.8**	**1,394.6**	**1,394.6**

8.3 Capital commitments

The capital commitments reported relate to the future cost of the development work in the estate

Contracted capital commitments at 31 March not otherwise included in these financial statements

		2018-19 £m		2017-18 £m
	Core department and agency	Departmental group	Core department and agency	Departmental group
Property, plant and equipment	12.6	12.6	0.4	0.4
Intangible assets	1.7	1.7	3.4	3.4
	14.3	**14.3**	**3.8**	**3.8**

8.4 Other financial commitments

The department has entered into a non-cancellable contract (which is not a lease, PFI contract or other service concession arrangement) for HMRC's contribution towards cross government border group initiatives.

The payments to which the department are committed are as follows:

		2018-19 £m		2017-18 £m
	Core department and agency	Departmental group	Core department and agency	Departmental group
Due within one year	0.1	0.1	0.1	0.1
Due between one year and five years	—	—	0.1	0.1
Due later than five years	—	—	—	—
	0.1	**0.1**	**0.2**	**0.2**

9. Trade receivables, financial and other assets

	Note	2018-19 £m Core department and agency	2018-19 £m Departmental group	2017-18 £m Core department and agency	2017-18 £m Departmental group
Amounts expected to be received in more than one year:					
Personal tax credits	4.1.2	2,142.2	2,142.2	1,456.6	1,456.6
RCDTS Ltd Funding[1]		14.0	—	9.7	—
Accrued income, other prepayments		0.1	0.1	0.2	0.2
		2,156.3	**2,142.3**	**1,466.5**	**1,456.8**
Amounts expected to be received within one year:					
Personal tax credits	4.1.2	1,040.5	1,040.5	1,336.2	1,336.2
Child Benefit[2]		9.2	9.2	13.1	13.1
Trade receivables		6.0	6.0	5.5	5.6
Other receivables[3,4]		14.2	14.3	14.8	14.9
Deposits and advances[4]		91.3	91.3	39.1	39.1
Value Added Tax		17.0	15.9	15.8	15.5
Prepayments – Child Benefit		—	—	64.2	64.2
Accrued income, other prepayments		98.2	98.4	96.1	97.6
		1,276.4	**1,275.6**	**1,584.8**	**1,586.2**

1 HMRC has funded RCDTS Ltd for general working capital and investment purposes. This has been accounted for as a long-term loan arrangement.
2 This figure is net of provision for impairment amounting to £13.9 million (2017-18: £15.8 million).
3 This figure is net of provision for impairment amounting to departmental group: £21.7 million (2017-18 departmental group: £20.7 million).
4 Amounts paid to National Savings & Investments (NS&I) from which they fund claims are now reported against deposits and advances and not other receivables as this is entirely the money advanced to NS&I for them to pay out to TFC customers and includes no customer receivable: £65.0 million (2017-18: £15.2 million).

10. 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 99.8% (2017-18: 98.9%) 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 95.7% (2017-18: 93.0%) of supplier invoices within five days. The legal requirement remains at 30 days.

In 2018-19 interest paid under the Late Payment of Commercial Debts (Interest) Act 1988 was £2,707.23 (2017-18: £0).

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

Trade payables and other liabilities

		2018-19 £m		2017-18 £m
	Core department and agency	Departmental group	Core department and agency	Departmental group
Amounts expected to be paid within one year:				
Personal tax credits	518.4	518.4	717.9	717.9
Child Benefit	18.0	18.0	10.2	10.2
Trade payables	67.5	67.9	45.7	46.6
Taxation and social security excluding VAT	47.1	48.1	44.0	44.8
IT Public Private Partnership	1.6	1.6	3.8	3.8
Accommodation PFI	19.7	19.7	16.7	16.7
Accommodation non-PFI	1.1	1.1	2.0	2.0
Other payables	5.8	5.8	4.6	4.6
Accruals – corporation tax reliefs	4,754.4	4,754.4	2,582.2	2,582.2
Accruals – Child Benefit	285.9	285.9	259.1	259.1
Deferred income, other accruals	472.8	465.5	404.8	391.3
Amounts issued from the Consolidated Fund for Supply but not spent at year end	41.5	41.5	69.3	69.3
Consolidated Fund Extra Receipts due to be paid to the Consolidated Fund				
received	0.1	0.1	0.1	0.1
receivable	—	—	—	—
	6,233.9	**6,228.0**	**4,160.4**	**4,148.6**
Amounts expected to be paid in more than one year:				
Accruals – corporation tax reliefs	997.6	997.6	—	—
IT Public Private Partnership	2.0	2.0	1.4	1.4
Accommodation PFI	226.9	226.9	245.3	245.3
Accommodation non-PFI	2.5	2.5	5.6	5.6
	1,229.0	**1,229.0**	**252.3**	**252.3**

10.1 Reconciliation of liabilities arising from financing activities

	Balance at 1 April 2018	Cash Flows	Non-Cash Changes					Balance at 31 March 2019
			Acquisition	Forex Movements	Fair Value changes	Expenditure	Disposal	
	£m	£m	£m	£m	£m	£m	£m	£m
Supply - current year	69.3	15,601.7	—	—	—	(15,629.5)	—	41.5
Supply - prior year	—	—	—	—	—	—	—	—
From the Trust Statement	—	25,584.0	—	—	—	(25,584.0)	—	—
From the National Insurance Fund	(21.1)	297.9	—	—	—	(275.3)	—	1.5
Lease Liabilities	274.7	(22.4)	2.4	—	1.8	—	(2.8)	253.7
Total liabilities from financing activities	**322.9**	**41,461.2**	**2.4**	**—**	**1.8**	**(41,488.8)**	**(2.8)**	**296.7**

	Balance at 1 April 2017	Cash Flows	Non-Cash Changes					Balance at 31 March 2018
			Acquisition	Forex Movements	Fair Value changes	Expenditure	Disposal	
	£m	£m	£m	£m	£m	£m	£m	£m
Supply - current year	41.1	15,534.2	—	—	—	(15,506.0)	—	69.3
Supply - prior year	—	—	—	—	—	—	—	—
From the Trust Statement	—	29,484.3	—	—	—	(29,484.3)	—	—
From the National Insurance Fund	(6.3)	318.0	—	—	—	(332.8)	—	(21.1)
Lease Liabilities	315.0	(24.3)	1.0	—	1.8	—	(18.8)	274.7
Total liabilities from financing activities	**349.8**	**45,312.2**	**1.0**	**—**	**1.8**	**(45,323.1)**	**(18.8)**	**322.9**

11. 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

	2018-19 £m Core department and agency	2018-19 £m Departmental group	2017-18 £m Core department and agency	2017-18 £m Departmental group
Balance at 1 April	**160.0**	**163.9**	**154.9**	**158.5**
Provided in the year	116.1	116.1	60.2	61.2
Provisions not required written back	(17.3)	(21.2)	(24.0)	(24.3)
Borrowing costs (unwinding of discounts)	—	—	0.1	0.1
Net expenditure	98.8	94.9	36.3	37.0
Provisions utilised in the year	(42.9)	(42.9)	(31.2)	(31.6)
Balance at 31 March	**215.9**	**215.9**	**160.0**	**163.9**

11.1 Analysis of expected timing of discounted flows

	2018-19 £m Core department and agency	2018-19 £m Departmental group	2017-18 £m Core department and agency	2017-18 £m Departmental group
Not later than one year	11.3	11.3	88.0	91.9
Later than one year and not later than five years	191.0	191.0	60.5	60.5
Later than five years	13.6	13.6	11.5	11.5
Balance at 31 March	**215.9**	**215.9**	**160.0**	**163.9**

	Early departure costs £m	Child Trust Fund £m	Legal claims £m	Accommodation costs £m	Other £m	Total £m
Not later than one year	7.6	0.1	1.6	1.5	0.5	11.3
Later than one year and not later than five years	—	0.3	73.9	9.4	107.4	191.0
Later than five years	—	—	12.2	1.4	—	13.6
Balance at 31 March	**7.6**	**0.4**	**87.7**	**12.3**	**107.9**	**215.9**

11.2 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 0.29%, and updated annually to reflect the unwinding of the discount.

11.3 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.

11.4 Legal claims

A provision of £87.7 million (2017-18: £67.1 million) has been made for costs relating to various legal claims against the department. The provision reflects all known claims, where legal advice indicates that it is probable that the claim will be successful.

11.5 Accommodation costs

A provision of £12.3 million has been made (2017-18: £11.1 million) for buildings related claims giving rise to probable liabilities under tenancy agreements.

11.6 Other

Provisions relating to various other claims against the department amount to £107.9 million (2017-18: £75.0 million). The most significant provision within the "other" category relates to potential costs of £57.2 million arising from voluntary and compulsory exits of staff as part of HMRC's Building our Future locations strategy.

12. Pension asset/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 195).

Further information can be found within the Valuation Office Agency accounts (HC 2409) that can be viewed **www.gov.uk/government/organisations/valuation-office-agency**.

13. 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:

Legal claims – a contingent liability of £84.2 million (2017-18: £85.3 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 £0.7 million, 89 cases (2017-18: £0.5 million, 80 cases).

Other – the department has a further number of contingent liabilities amounting to £91.0 million (2017-18: £56.0 million). The most significant contingent liability within the "other" category relates to potential costs of £85.0 million arising from voluntary and compulsory exits of staff as part of HMRC's Building our Future locations strategy.

The department has not entered into any unquantifiable contingent liabilities.

14. 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 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.

In line with the introduction of IFRS 9: Financial Instruments, for accounting periods after 1 January 2018, HMRC have re-assessed the business model for managing personal tax credits receivables and the contractual cash flow characteristics of this financial asset. HMRC have determined that our business model is to collect contractual cash flows, being solely the principal debt. Consequently, we continue to measure the financial asset at amortised cost.

HMRC have created a new Expected Credit Losses (ECL) model in line with the requirements of IFRS 9 that now accounts for all possible default events over the expected life of the financial instrument.

This credit loss is the difference between the cash flows that are due to HMRC in accordance with our contractual relationship with our customers and the cash flows that we expect to receive.

Further information in relation to receivables and payables can be seen in notes 9 and 10. 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.

15. 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-party 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 Ministry for Housing, 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. Details of compensation for key management personnel can be found in the remuneration report within the accountability section.

16. Entities within the departmental boundary

The Valuation Office Agency is a supply-financed agency, its Annual Report and Accounts are published at **www.voa.gov.uk**

Revenue and Customs Digital Technology Services Limited is an Arms Length Body, its Annual Report and Accounts are published at **www.gov.uk/government/organisations/companies-house**

17. Investments in other public sector bodies

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

18. Adoption of International Financial Reporting Standard (IFRS) 9

Under IFRS 9, HMRC have developed a new accounting policy for tax credit overpayment debt (see note 1.4.1). HMRC's business model for managing the financial asset relating to personal tax credits overpayments is to collect the contractual cash flows only, there is no intention to sell the financial asset. The contractual cash flows are solely principal and therefore pass the test of "solely payments of principal and interest" to be measured at amortised cost. Tax credits debt was previously measured at amortised cost, so beyond the impact of the revised impairment approach there has been no change in the valuation of these assets.

As required by the Financial Reporting Manual (FReM) interpretations and adaptations for the public sector context, chapter 6.2, table 6.2, interpretation 5 HMRC have presented a limited restatement of the opening balances to reflect the change in asset classification and the impairment methodology. As simple financial instruments, tax credit receivables are impaired over the lifetime of the debt. The prior year impairment has been recalculated to impair 2017-18 debt using the new ECL model. This has led to a decrease of £307.6 million in the prior year impairment, and an increase in net assets at 1 April 2018.

This decrease in prior year impairment is due to the move away from the previous impairment method which used 2009 debt only as a baseline to calculate recovery rates, to the new ECL model which calculates recovery rates over all award years that tax credits has been active, and averages these over the most recent four years data to produce a more accurate estimate of future recovery rates.

Adoption of IFRS 9

	Balance at 31 March 2018 £m	Reclassification £m	Impact of ECL model £m	Balance at 1 April 2018 £m
Assets				
Loans and receivables:				
Personal tax credits	2,792.8	(2,792.8)	—	—
Trade and other receivables	250.2	(250.2)	—	—
Cash and cash equivalents	69.4	(69.4)	—	—
Financial assets at amortised cost:				
Personal tax credits	—	2,792.8	307.6	3,100.4
Trade and other receivables	—	250.2	—	250.2
Cash and cash equivalents	—	69.4	—	69.4

There has been no further material impact of IFRS 9 as HMRC does not have any hedging activity and all other financial assets are simple loans and receivables held for collection or cash balances.

19. Events after the reporting period date

In relation to preparation for EU exit, the department recognises the extension to the Article 50 negotiation period, confirmed 11 April 2019, to be a non-adjusting event after the reporting period. Our assessment under IAS 10 being that, whilst this event will be of interest to the readers of the accounts, there is no material impact on the financial statements.

An unquantifiable remote contingent liability relating to EU exit has been reflected in the parliamentary, public and stakeholder accountability section (page 161).

These accounts have been authorised for issue by the Accounting Officer on the same date as the Comptroller and Auditor General's Audit Certificate.

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 taxpayer 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 method of spreading the cost of a non-current intangible asset over its useful life.

Annually Managed Expenditure (AME) – departments are allocated a separate annually managed spending limit called AME which has a shorter term view than the DEL limit. AME is more volatile than DEL expenditure and therefore is more difficult to explain or control as it is spent on programmes which are demand-led – such as tax credits and Child Benefit.

CFER – Consolidated Fund Extra Receipts. This is income which the department is not entitled to retain and it is passed over to HM Treasury.

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 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 the department and departmental group's net assets between the start and end of a financial year.

Consolidated Statement of Comprehensive Net Expenditure (CSoCNE) – this is the performance statement, the equivalent of the 'Profit and Loss' Account and Statement of Total Recognised Gains and Losses. It reports a summary of the departmental group's expenditure and income for the financial year, along with its gains and losses.

Consolidated Statement of Financial Position (CSoFP) – previously known as the Balance Sheet, it provides a snapshot of the assets and liabilities of the group as at the end of the reporting period.

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.

Current assets – a current asset is cash and any other entity asset that will be turning to cash within one year from the department's reporting date.

Current liabilities – a current liability is an obligation that is due within one year of the department's reporting date.

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

Departmental Expenditure Limit (DEL) – this is the spending budget that is allocated to and spent by Government departments. This amount, and how it is split between Government departments, is set at Spending Reviews on a three yearly basis. It is normally categorised as Capital DEL and Resource DEL. Departmental expenditure includes the running of the services and the everyday cost of resources such as staff. The DEL limit is tightly controlled by HM Treasury. A department's expenditure is deemed to be DEL unless HM Treasury has specified otherwise.

Depreciation – this is the method of spreading the cost of a non-current tangible asset over its useful life.

Excess Vote – if a department breached either the total resource-based estimates or the cash limits this will result in an Excess Vote.

Finalisation (personal tax credits) – this is the process, occurring after the financial year end, by which 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.

Financial Reporting Manual (FReM) – this is the HM Treasury technical accounting guide to the preparation of the financial statements for government.

IAS – International Accounting Standards.

IASB – International Accounting Standards Board.

IFRIC – the IFRS Interpretations Committee (IFRIC) develop guidance on appropriate accounting treatment of particular issues. They are approved by the International Accounting Standards Board (IASB).

IFRS – International Financial Reporting Standards. 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).

Impairment of accrued revenue receivables – the process of reducing accrued revenue receivables to a fair value that is likely to be collected.

Impairment of receivables – (formerly known as 'Provision for Doubtful Debt' [PDD]) – the process of reducing receivables to a fair value that is likely to be collected.

Indemnities – 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 assets, for example, developed computer software and website development costs.

Losses – losses are made up of remissions and write-offs. Remission is the process used to identify and separate receivables which the department has decided not to pursue, for example 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 tax – this occurs where the amount of the tax credit is less than or equal to the recipient's tax liability.

Net Cash Requirement – the amount of funding that the department is entitled to draw down from the Consolidated Fund.

Non-current assets – an asset that is not likely to turn to cash or cash equivalent within one year of the department's reporting date.

Non-current liabilities – a liability not due to be paid within one year of the department's reporting date.

Non-Voted expenditure – expenditure which is not subject to annual Parliamentary approval and mainly relates to tax credits and costs in respect of the National Insurance Fund.

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

Payments of entitlement – this is the element of a relief which is in excess of the recipient's tax liability.

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

Programme costs – these relate to the costs incurred in the delivery of front line services such as the parts of the department which interact directly with our external customers. In addition it includes the payments made for tax credits, Child Benefit and other disbursements by the department. 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 has been reliably estimated.

Receivables – these represent all amounts recognised as owing to the department at the end of the reporting period but 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. It reports the total outturn (how much has been spent) for the departmental group compared with the amounts approved by Parliament in the Estimate, in the various categories of expenditure.

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 debt – a suspended debt 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 statement which reports 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 – monies voted to the department by Parliament to cover our expenditure, following the submission of our Estimates. Parliament votes annually on each government department's future expenditure.

Annex 1: Our key statistics

Collecting revenues due and bear down on avoidance and evasion	2017-18	2018-19
Cash expected from compliance	£10.3bn	£13.1bn
Future revenue benefit	£6.1bn	£7.6bn
Revenue loss prevented	£9.7bn	£9.3bn
Product and process yield	£3.4bn	£3.7bn
Accelerated payments	£0.8bn	£0.3bn
Total compliance yield	**£30.3bn**	**£34.1bn**

	2016-17	2017-18
Tax credits error and fraud – the proportion of error and fraud in the tax credits system	4.7%* (£1.27bn)	5.7% (£1.46bn)
Tax gap – the difference between all the tax theoretically due and tax actually collected	5.5% (£33bn)	5.6% (£35bn)

Transforming tax and payments for our customers	2017-18	2018-19
% Overall customer satisfaction – digital services	79.8%	80.4%
% iForms turnaround in seven days	94.6%	94.1%
Average speed of answer	04:28	05:14
% of customers waiting more than 10 minutes to speak to an adviser	14.6%	19.7%
% of post turnaround within 15 working days where customer requires a reply	80.7%	76.6%
% of post turnaround within 40 working days where customer requires a reply	97.1%	96.4%
Average turnaround (days) of new tax credits and Child Benefit claims and changes of circumstances for UK customers	13.8	12
Average turnaround (days) of new tax credits and Child Benefit claims and changes of circumstances for international customers	55.6	61.5

Designing and delivering a professional, efficient and engaged organisation	2017-18	2018-19
Unit costs (pence per £ collected/paid out)		
Collecting income tax (Self Assessment and Pay As You Earn)	0.79	0.72
Collecting Corporation Tax	0.61	0.60
Collecting National Insurance Contributions	0.20	0.18
Collecting VAT	0.57	0.58
Administering tax credits	1.43	1.33
Administering Child Benefit	0.53	0.52
Sustainable cost savings	£229m	£166m

* In line with usual practice, updated estimates for 2016-17 were published on 11 April following more complete data becoming available.

Annex 2: Statistical tables

This table provides further detail by category on HMRC spending.

Table 1: Total departmental spending (£000)

	2014-15 Outturn	2015-16 Outturn	2016-17 Outturn	2017-18 Outturn	2018-19 Outturn	2019-20 Plans
Resource DEL[1]						
HMRC Administration	3,106,554	3,219,241	3,505,243	3,450,380	3,483,718	3,705,467
VOA Administration	-2,420	-1,425	-2,743	143,476	142,738	164,189
Utilised provisions	31,057	29,793	17,500	31,631	42,918	30,000
National Insurance Fund	328,902	328,579	315,500	320,306	282,548	283,300
Total resource DEL	**3,464,093**	**3,576,188**	**3,835,500**	**3,945,793**	**3,951,922**	**4,182,956**
Of which:						
Staff costs	2,171,463	2,250,106	2,406,240	2,401,849	2,360,289	2,241,970
Purchase of goods and services	1,089,582	1,156,655	1,269,919	1,145,766	1,199,928	1,436,850
Income from sales of goods and services	-342,428	-423,119	-426,857	-202,750	-201,710	-180,700
Current grants to persons and non-profit bodies (net)	4,214	20,463	2,841	2,327	1,714	13,797
Current grants abroad (net)	424	1,301	1,286	1,054	1,418	2,930
Subsidies to private sector companies	—	—	—	—	387	—
Rentals	184,626	201,221	203,739	195,611	208,542	204,152
Depreciation[2]	247,555	271,151	278,038	296,974	288,680	379,428
Change in pension scheme liabilities	2,975	291	1,828	1,847	1,324	—
Other resource	105,682	98,119	98,466	103,115	91,350	84,529
	3,464,093	**3,576,188**	**3,835,500**	**3,945,793**	**3,951,922**	**4,182,956**

1 Outturn values are consistent with those reported in SoPS 1.1 on page 149.
2 Includes impairments.

Table 1: Public Spending (£000)

	2014-15 Outturn	2015-16 Outturn	2016-17 Outturn	2017-18 Outturn	2018-19 Outturn	2019-20 Plans
Resources AME[1]						
Child Benefit	11,601,947	11,700,897	11,651,914	11,689,654	11,475,319	11,699,567
Tax-Free Childcare	—	—	6	28,783	115,730	286,053
Providing payments in lieu of tax relief to certain bodies	99,703	75,399	70,068	85,027	97,388	101,069
Lifetime ISA	—	—	—	—	251,019	345,420
HMRC administration	70,610	28,547	32,000	37,975	93,672	30,000
Payments to add capacity	2,732	—	—	—	—	—
VOA – Payments of rates to local authorities on behalf of certain bodies	65,939	66,995	63,836	76,085	66,785	81,460
VOA Administration	963	2,902	3,100	5,690	7,094	2,000
Utilised provisions	-31,068	-29,798	-17,412	-31,633	-42,920	-30,010
Personal tax credits	29,123,165	28,450,152	27,143,623	26,362,989	22,288,296	25,068,230
Other reliefs and allowances	1,997,314	2,898,728	3,381,936	3,705,182	5,879,196	5,116,534
Total resource AME	**42,931,305**	**43,193,822**	**42,329,071**	**41,959,753**	**40,231,579**	**42,700,323**
Of which:						
Purchase of goods and services	85,715	81,710	94,963	91,916	71,679	85,910
Income from sales of goods and service	-4,064	-3,774	-3,764	-4,725	-4,894	-4,450
Current grants to persons and non-profit bodies (net)	42,037,716	41,977,679	40,706,128	39,665,624	34,231,898	37,502,893
Subsidies to private sector companies	764,666	1,126,492	1,531,740	2,204,456	5,876,916	5,113,980
Depreciation[2]	2,072	131	-2,144	1,854	477	—
Take up of provisions	69,501	30,771	26,137	41,811	100,289	30,000
Release of provision	-31,068	-29,798	-18,912	-31,633	-42,920	-30,010
Change in pension scheme liabilities	—	—	—	—	—	2,000
Other resources	6,767	10,611	-5,077	-9,550	-1,866	—
Total Resource Budget	**42,931,305**	**43,193,822**	**42,329,071**	**41,959,753**	**40,231,579**	**42,700,323**
Resource budget[1]						
Total resource DEL	3,464,093	3,576,188	3,835,500	3,945,793	3,951,922	4,182,956
Total resource AME	42,931,305	43,193,822	42,329,071	41,959,753	40,231,579	42,700,323
Total resource budget	**46,395,398**	**46,770,010**	**46,164,571**	**45,905,546**	**44,183,501**	**46,883,279**
Of which:						
Depreciation[2]	249,627	271,282	275,894	298,828	289,157	379,428

1 Outturn values are consistent with those reported in SoPS 1.1 on page 149.
2 Includes impairments.

Table 1: Public Spending (£000)

	2014-15 Outturn	2015-16 Outturn	2016-17 Outturn	2017-18 Outturn	2018-19 Outturn	2019-20 Plans
Capital DEL[1]						
HMRC Administration	223,985	220,162	314,622	273,268	353,476	298,660
VOA Administration	7,694	7,569	11,778	7,517	8,742	8,000
Total capital DEL	**231,679**	**227,731**	**326,400**	**280,785**	**362,218**	**306,660**
Of which:						
Purchase of assets	237,864	228,970	327,774	308,339	387,376	404,660
Income from sales of assets	-6,185	-1,239	-1,374	-27,554	-25,158	-98,000
	231,679	**227,731**	**326,400**	**280,785**	**362,218**	**306,660**
Capital AME						
Child Benefit	11	5	4	2	2	10
Total capital AME	**11**	**5**	**4**	**2**	2	10
Of which:						
Capital grants to persons and non-profit bodies (net)	11	5	4	2	2	10
	11	**5**	**4**	**2**	2	**10**
Capital budget[1]						
Total capital DEL	231,679	227,731	326,400	280,785	362,218	306,660
Total capital AME	11	5	4	2	2	10
Total capital budget	**231,690**	**227,736**	**326,404**	**280,787**	**362,220**	**306,670**

1 Outturn values are consistent with those reported in SoPS 1.2 on page 150.

This table shows HMRC administration expenditure, utilised provisions and the administration element of the National Insurance Fund. This table does not include programme expenditure.

Table 2: Administration budget (£000)

	2014-15 Outturn	2015-16 Outturn	2016-17 Outturn	2017-18 Outturn	2018-19 Outturn	2019-20 Plans
Resource DEL						
HMRC Administration	706,563	717,025	788,643	754,343	773,467	903,473
Utilised Provisions	18,831	13,642	8,596	8,596	7,057	14,000
National Insurance Fund	71,647	61,223	74,100	78,597	59,264	51,474
Total administration budget	**797,041**	**791,890**	**871,339**	**841,536**	**839,788**	**968,947**
Of which:						
Staff costs	311,376	328,875	359,968	329,804	335,364	300,381
Purchase of goods and services	354,374	417,815	474,151	350,347	341,999	488,886
Income from sales of goods and service	-95,341	-126,465	-134,700	-40,483	-35,670	-71,310
Current grants to persons and non-profit bodies (net)	3,027	1,920	1,988	1,687	1,671	2,683
Rentals	116,203	90,869	95,355	103,038	94,795	126,978
Depreciations	96,617	68,609	68,359	88,050	76,452	107,808
Other resource	10,785	10,267	6,218	9,093	25,177	13,521
	797,041	**791,890**	**871,339**	**841,536**	**839,788**	**968,947**

Annex 3: Publication plan for HMRC national and official statistics

HMRC publishes a large number of national and official statistics throughout the year. The exact dates of these publications are announced no later than four weeks in advance on the release calendar. As part of the Code of Practice for Official Statistics, any changes to the schedule will be stated and detailed in the announcements page.

Read more about our published statistics at **www.gov.uk/government/statistics/schedule-of-updates-for-hmrcs-statistics**

Tax receipts and tax payers

HMRC Receipts (including tax credits and Child Benefit net payments) National statistics: Monthly

HMRC Receipts split by England, Scotland, Wales and Northern Ireland Official statistics: Annual (Oct)

PAYE and Corporate Tax Receipts from the Banking Sector Official statistics: Annual (Aug)

Numbers of taxpayers and registered traders Official statistics: Bi-annual (Apr, Dec)

Direct effects of illustrative tax changes Official statistics: Bi-annual (Apr/May, Dec/Jan)

Tax Relief Statistics Official statistics: Annual (Jan)

Personal taxes

Capital Gains Tax National statistics: Annual (Dec)

Charitable donations and tax reliefs National statistics: Annual (Jun)

Inheritance Tax National statistics: Annual (Jul)

Trusts National statistics: Annual (Jan/Feb)

Personal Wealth Statistics National statistics: Every three years (Jan)

Employment Allowance take-up statistics Official statistics: Annual (Apr/May)

Income tax and personal incomes

Income tax receipts statistics National statistics: Annual (Jul)

Income tax liabilities statistics National statistics: Annual (May/Jun)

Income tax deducted from pay statistics National statistics: Annual (May)

Personal Incomes Statistics (distributional analysis) National statistics: Annual (Feb)

Personal Incomes Statistics (regional analysis) National statistics: Annual (Mar)

Taxable benefits in kind and expense payments National statistics: Annual (Jun)

Pensions and tax free savings

Employee Share Schemes National statistics: Annual (Jun)

Individual Savings Accounts Main Tables (9.4, 9.6) National statistics: Annual (Aug)

Individual Savings Accounts Detailed Tables (9.7 to 9.12) National statistics: Annual (Apr)

Personal & Stakeholder pensions National statistics: Annual (Feb)

Annual pension contributions by contribution type National statistics: Annual (Sep)

Flexible Payments from Pensions Official statistics: Quarterly (Jan, Apr, Jul, Oct)

Qualifying Registered Overseas Pension Schemes (QROPS) Official statistics: Annual (Jul)

Business taxes

Corporation tax receipts, liabilities and Bank Levy National statistics: Bi-annual (Jun, Sep)

Research and Development tax credits National statistics: Annual (Sep)

Government revenue from UK oil and gas production (including Petroleum Revenue Tax) National statistics: Bi-annual (Jun, Jan)

Creative Industries Statistics Official statistics: Annual (Jul)

Patent Box Reliefs Statistics Official statistics: Annual (Sep)

Property and stamp duties
Quarterly SDLT Statistics National statistics: Quarterly (Jan, Apr, Jul, Nov)
Monthly UK Property Transaction Statistics National statistics: Monthly
Annual UK Stamp Tax Statistics National statistics: Annual (Sep)
ATED (Annual Tax on Enveloped Dwellings) Return statistics Official statistics: Annual (Jan)

Indirect taxes
VAT National statistics: Quarterly (Jan, Apr, Jul, Oct)
Tobacco National statistics: Quarterly (Feb, May, Aug, Nov)
Alcohol National statistics: Quarterly (Feb, May, Aug, Nov)
Hydrocarbon Oils National statistics: Quarterly (Mar, Jun, Sep, Dec)
Landfill Tax National statistics: Bi-annual (May, Nov)
Betting and Gaming National statistics: Bi-annual (Apr, Oct)
Aggregates Levy National statistics: Bi-annual (Jun, Dec)
Air Passenger Duty National statistics: Bi-annual (Apr, Oct)
Climate Change Levy and Carbon Price Floor National statistics: Bi-annual (Jun, Dec)
Insurance Premium Tax National statistics: Bi-annual (Jan, Jul)
VAT Factsheet Official statistics: Annual or less
Soft Drinks Industry Levy Official statistics: Annual or less

Investments
Enterprise Investment Scheme and Seed Enterprise Investment Scheme National statistics: Bi-annual (Apr/May, Oct/Nov)
Venture Capital Trusts (number of trusts) Official statistics: Annual (Dec)
Venture Capital Trusts (distribution of numbers) National statistics: Annual (Dec)

Tax credits and Child Benefit
Child and Working Tax Credits Statistics (provisional) National statistics: Bi-annual (Jan, May/Jun)
Child and Working Tax Credits Statistics (finalised award) National statistics: Annual (Jun)
Child and Working Tax Credits Statistics (Supplement on Payments) National statistics: Annual (Jun)
Child and Working Tax Credits Statistics (geographical analysis) National statistics: Annual (Jun)
Child and Working Tax Credits Statistics (small area data) National statistics: Annual (Jul)
Income Tax, NICs, tax credits and Child Benefit Statistics for EEA Nationals Experimental statistics: Annual (Aug/Sep)
Child and Working Tax Credits Error and Fraud Statistics Official statistics: Annual (Jun)
Children in Low-Income Families Local Measure Official statistics: Annual (Oct/Nov)
Child Benefit, Child Tax Credits and Working Tax Credits take-up rates National statistics: Annual (Dec)
Child Benefit statistics geographical analysis National statistics: Annual (Feb/Mar)
Child Benefit statistics (small area data) National statistics: Annual (Feb/Mar)

Tax gaps
Measuring Tax Gaps Official statistics: Annual (Jun)
VAT Gap Estimates Official statistics: At Fiscal Events

Gender pay gap statistics
Gender Pay Gap Report Official statistics: Annual (tbc)

Trade statistics
Overseas Trade Statistics (OTS) National statistics: Monthly
Regional Trade Statistics (RTS) National statistics: Quarterly (Mar, Jun, Sep, Dec)

Annex 4: Progress against our commitments

We are committed to delivering further improvements to how we maximise revenues, improve customer service, make sustainable cost efficiencies and include and involve our people in how we meet these key objectives.

Over the years, HMRC has been presented with a number of opportunities and challenges. These range from preparing for EU exit, to taking on additional work for the government, such as rebuilding/enhancing the Government Gateway to a tight timescale. These challenges have meant we have had to reprioritise some of our transformational work, which has had an impact on our ability to deliver sustainable cost savings.

This year, we delivered, or partially delivered, 22 of the 31 main external commitments made in our 2018-19 single departmental plan, covering key areas of our work such as generating payments, and tackling fraud and error. We didn't deliver on two and these are explained in the relevant sections below.

Commitment on track or complete	Some risk to delivery	Commitment not on track

Collecting revenues due and bearing down on avoidance and evasion

We will build on our success in collecting £605.8 billion in total revenues over 2017 to 2018 and the overall downward trend in the tax gap over the past decade.

We will deliver compliance revenues of £30 billion in 2018 to 2019 through our compliance activity.

We will continue to identify and prevent losses in the tax credits system so that error and fraud is no more than 5% as we support the transition to Universal Credit.

HMRC works closely with DWP on opportunities to smooth the transition to Universal Credit and to manage error and fraud ahead of migration, as well as devoting significant effort to addressing error and fraud through compliance checks and by helping customers claim what they are entitled to. In 2018-19, the need to divert our staff to support EU exit activity led to continued pressures on tax credits error and fraud compliance resourcing, so we are forecasting that we won't meet our target this year.

We will help customers to claim their full tax credit entitlement so that underpayments through error are no more than 0.7%.

We will raise an additional £5 billion a year on 2015 to 2016 by 2019 to 2020 by tackling tax avoidance and aggressive tax planning, evasion and non-compliance, and by addressing imbalances in the tax system.

We will strengthen our work around identifying those who seek to operate in the hidden economy.

Collecting revenues due and bearing down on avoidance and evasion

We will increase our ability to prevent alcohol and tobacco smuggling.

We will invest £800 million in additional work to tackle evasion and non-compliance in the tax system, with a further £155 million of investment announced at Autumn Budget 2017 for future years up to 2019 to 2020.

In 18-19 we have continued to invest in our work to tackle evasion and non-compliance. Although we invested what we expected to this year, due to resourcing issues our delivery has not been in line with forecast. We are working on recruitment in 19-20 to address this.

We will continue to tackle tax avoidance, close schemes and collect yield of more than £450 million in 2018 to 2019 through the Accelerated Payments regime and collect yield of £1 billion in tax settlements.

We will increase the number of criminal investigations that we undertake into serious and complex tax crime, focusing particularly on wealthy individuals and corporates, with the aim of increasing prosecutions in this area to 100 a year by the end of the Parliament.

We continue to make progress towards our commitment of 100 prosecutions from criminal investigations per year by the end of this Parliament. The Fraud Investigation Service has delivered 42 prosecutions against a plan of 30 for 2018-19 - however, there is a risk of not delivering up to 100 by the end of Parliament.

We will resolve disputes by agreement or through litigation, whichever best secures the tax that is legally due.

We will ensure global companies pay their fair share in tax by supporting the government's leading role in the reform of international tax rules.

We have received Royal Assent on our Finance Bill. This means we have enacted changes to Controlled Foreign Companies, Hybrid mismatch rules and the Offshore Receipts rules. We are currently working through responses with HM Treasury to inform Ministers of next steps, which has delayed completion of this target.

We will further strengthen our ability to police the National Minimum Wage, with new teams to undertake proactive reviews of those employers considered most at risk of non-compliance.

We will ensure developing countries have full access to global automatic tax information exchange systems and continue to build the capacity of tax authorities in developing countries (contributes to SDG 17).

We will review the country-by-country tax reporting rules and consider the case for making this information publicly available on a multilateral basis.

Transform tax and payments for our customers

We will ensure a smooth and orderly EU exit.

We have been building and maintaining specialist capability to deliver EU exit requirements. We have engaged extensively with stakeholders, including business representative organisations, trade associations and intermediaries, so that they have sufficient time to prepare for exiting the EU effectively. Good progress has been made on GOV.UK are on track to 'go live'. However, there still remains a large amount of uncertainty around EU exit, which may make a significant difference to what we need to implement and when.

We will continue to work with HM Treasury and the Department for Work and Pensions (DWP) on the transition to Universal Credit, making this as smooth as possible for staff and claimants, in line with the migration plan led by DWP.

We have been working to support the Department for Work and Pensions' plans to migrate tax credit customers to Universal Credit. The Managed Migration legislation is to be debated in Parliament. The debate has been delayed due to more urgent Parliamentary matters, which in turn has caused a slight delay to the programme.

We will support the government's pensions and savings reforms by continuing to design and deliver the new Lifetime ISA and support the delivery of the new 'Help to Save' initiative.

We will continue to monitor Annually Managed Expenditure (AME) risks and work with HM Treasury officials to develop operational and policy ideas to minimise fraud, error and debt.

We will invest £1.3 billion to transform HMRC into one of the most digitally advanced tax administrations in the world, finishing the delivery of our multi-channel digital services so we become a 'digital-by-default' organisation.

We continue to prioritise our transformation portfolio to support additional projects generated by EU exit. In our assessment, the portfolio remains ambitious but deliverable. We will keep our priorities and capacity under review.

We will accelerate channel shift and continue to encourage customers to use digital services while optimising the effectiveness of customers using all HMRC services.

We will continue to add functionality to Digital Tax Accounts across this Parliament and to proactively encourage customers to utilise these.

We will pre-populate customer forms, Application Programming Interfaces (API's) and online accounts with real-time information, saving customers time and reducing the need for them to contact us.

We will produce advice for Ministers on the outcome of consultations launched at Spring Statement (with HM Treasury).

Design and deliver a professional, efficient and engaged organisation

We will continue to make consistent positive progress towards achieving the Civil Service Employee Engagement Index benchmark (61% in 2017).

In 2018-19 we had a full programme of work to understand the needs and capability of our people to improve our employee engagement. We installed engagement reps across HMRC and produced a full suite of materials including videos, campaigns and intranet resources. Despite this, our employee engagement dropped by 1% in the Annual People survey 2018. The data suggested that the result is influenced by poorer perceptions of change management and 'my work'. We are designing support plans for 2019-20 to address this.

We will increase the percentage of colleagues each year who feel they have the skills required to do their job effectively, working towards the Civil Service benchmark (88% in 2017).

We have been working to increase the capability of our people, so that they feel they have the skills to do their job effectively. Upward enablers include improvements in the learning offer, modernisation of technologies and a change in culture to provide access to the skills needed to do our jobs. In the 2018-19 People Survey the percentage of colleagues who felt they had the required skills remained the same as the year before, at 79%. A number of improvements in the survey have been identified to be taken forward into 2019-20 along with long term capability plans.

We will continue to transform our estate into modern, adaptable workspaces, creating 13 new regional centres over the next five years, serving every nation and region in the UK.

We will ensure these regional centres bring staff into more cost-effective buildings, while making it easier for HMRC teams to collaborate and modernise the way we work.

We will secure £186 million of sustainable efficiencies in 2018 to 2019, bringing the cumulative total 2018 to 2019 sustainable efficiencies to £566 million, and to work towards £717 million of annual, sustainable efficiencies by 2019 to 2020. We will achieve £1.9 billion of cumulative savings over the Spending Review.

We will continue to support the Greening Government Commitments to reduce our impact on the environment, working towards the 2019 to 2020 targets.

We will contribute to the Global Goals for Sustainable Development, reducing inequality through recruitment of a diverse workforce (contributes to SDG 10).

National Audit Office

HM Revenue & Customs 2018-19 Accounts

Report by the Comptroller and Auditor General

This Report is published alongside the 2018-19 Accounts of HM Revenue & Customs

Issued under Section 2 of the Exchequer and Audit Departments Act 1921

Gareth Davies
Comptroller and Auditor General
National Audit Office

16 July 2019

This report provides the findings and overall conclusion of work conducted under section 2 of the Exchequer and Audit Departments Act 1921, by which the Comptroller and Auditor General must consider the adequacy of the systems to assess, collect and allocate tax revenues.

Design and Production by NAO External Relations
DP Ref: 006216-001

Contents

Coverage of this report

HMRC corporate document	Coverage of this report
Trust Statement	HM Revenue & Customs (HMRC) reported £627.9 billion of tax revenue for 2018-19. We cover this in Part One. Under the Exchequer and Audit Departments Act 1921, the Comptroller and Auditor General (C&AG) must certify whether the Trust Statement is true and fair, and whether HMRC has used the income and expenditure for the purposes Parliament intended. The C&AG has concluded that: • the figures in the Trust Statement are true and fair; and • HMRC has used income and expenditure for the purposes Parliament intended. The 1921 Act also requires the C&AG to consider whether HMRC's revenue systems to collect taxes are adequate. We found that HMRC's revenue systems are adequate, subject to the observations in this report and our other reports to Parliament (paragraphs 20 and 21).
Resource Accounts	The cost of running HMRC in 2018-19 was £3.6 billion. HMRC paid £33.8 billion in benefits and credits, including £22.3 billion of Personal Tax Credits payments and £11.5 billion of Child Benefit. Under the Government Resources and Accounts Act 2000, the C&AG must certify whether HMRC's Resource Accounts are true and fair, and whether HMRC has used the income and expenditure for the purposes Parliament intended. The C&AG concluded that: • the Resource Accounts are true and fair; but • there remains a material level of error and fraud in Personal Tax Credits expenditure (Part Three).
Annual Report	We reviewed HMRC's performance against its objective of collecting tax revenues and considered the main components of the £627.9 billion raised during 2018-19. We also review whether HMRC is getting value for money. We report our findings to Parliament under section 6 and section 9 of the National Audit Act 1983.

Summary

HM Revenue & Customs performance, 2018-19

1 This report is our commentary on HM Revenue & Customs' (HMRC's) performance during 2018-19. It draws on the findings from all of our statutory audit work in respect of HMRC during the period, including: the audits of HMRC's financial statements; the adequacy of its systems for collecting revenue; and the value for money it achieved from its spending. Each audit comes under different legislation (see 'Coverage of this report', page R4).

2 HMRC's objectives are to:

- collect revenues due and bear down on avoidance and evasion;
- transform tax and payments for its customers; and
- design and deliver a professional, efficient and engaged organisation.

3 Each year, we choose parts of HMRC's business to report on in more detail. Last year's report considered HMRC's transformation plans.

4 This year's report has three parts:

- Part One outlines HMRC's performance against its objective of collecting revenues and looks at the main components of the £627.9 billion raised during 2018-19;
- Part Two considers how the income tax system has evolved, the risks and challenges to the effective administration of the system, and HMRC's plans to transform the system in future years, including through digitisation; and
- Part Three examines HMRC's approach to managing fraud, error and debt in Personal Tax Credits (tax credits) and Child Benefit, and explains the basis of the C&AG's qualification of his opinion on the regularity of HMRC's Resource Accounts.

Summary findings

Tax revenues

5 **HMRC reported total tax revenue of £627.9 billion in 2018-19, an increase of £22.1 billion on 2017-18.** The revenue figures reported by HMRC relate to the tax liabilities incurred by taxpayers during 2018-19. Due to the timing of the annual tax cycle, which allows certain taxpayers a set amount of time after the end of the tax year to assess and pay their liabilities, HMRC is required to estimate the amount of tax it will receive in respect of these taxpayers. Of the reported total tax revenue of £627.9 billion, HMRC has included £145.7 billion in relation to tax liabilities which have not been paid by 31 March 2019, although the majority of this amount was not overdue for payment at that date. This amount includes £28.8 billion of tax which had been assessed and was due for payment by 31 March 2019, and a further £116.9 billion in respect of estimated liabilities which were not due for payment by 31 March 2019. The three largest components of revenue were income tax, National Insurance Contributions, and Value Added Tax (paragraphs 1.3 and 1.6 and Figure 1).

6 **HMRC estimates that the yield from its tax compliance activities in 2018-19 was £34.1 billion, against a target of £30.0 billion.** While the vast majority of tax revenue is paid to HMRC without the need for further intervention, some of the tax revenue is only received as a result of specific compliance actions undertaken. Compliance yield measures the effectiveness of these compliance and enforcement activities. It is one of HMRC's main internal performance measures and is used to agree targets with HM Treasury for spending on compliance work. It comprises cash receipts expected, revenue losses prevented and estimates of assessed tax for future accounting periods as a result of compliance activities completed in the year (paragraphs 1.23 to 1.26).

Transformation and EU exit

7 **HMRC has reprioritised its transformation plans, in part due to the demands placed on it in preparing for the UK's exit from the European Union (EU).** HMRC is responsible for delivering key customs and border-related programmes alongside other government departments. Delivering its EU exit responsibilities has required significant recruitment and redeployment of staff from other business areas during the period. This has resulted in planned improvements to some of its compliance systems, and digital services being either deferred or stopped (paragraphs 1.27 to 1.33).

Income tax

8 **Income tax is the largest single source of government revenue for funding public services.** HMRC collected income tax of £194 billion, together with £135 billion of National Insurance Contributions, in 2018-19. Together, these represent 52% of the total £627.9 billion of taxes and duties collected in the UK. Most income tax is paid on earnings (2018-19: estimated 92.2%); which includes income from paid employment and pensions, profits from self-employment or property income. Interest and dividends are also subject to income tax (paragraph 2.1).

9 **The number of Self Assessment tax returns received by HMRC has been steadily increasing since 2010-11.** Self Assessment tax returns received by HMRC have increased from 9.8 million for the tax year 2010-11 to 11.5 million for the tax year 2017-18. HMRC considers that this increase is due to a number of factors which could move individuals in to Self Assessment. This includes the growing population of self-employed individuals, a higher number of individuals with property income, an increase in the number of individuals with incomes over £100,000 and certain changes to tax policy, such as the introduction of the Higher Income Child Benefit Charge. These changes have required a new cohort of taxpayers to complete Self Assessment returns for the first time (paragraphs 2.14 to 2.15 and Figure 9).

10 **HMRC estimates that, on average, the cost of collecting £1 of income tax through Self Assessment is more than four times higher than through the Pay as You Earn (PAYE) system.** This is due to the greater need for manual intervention by HMRC and, often, the relative complexity of the tax affairs of those in the Self Assessment system (paragraph 2.16).

11 **The way in which HMRC administers the income tax system has changed significantly over the past 10 years.** In light of developments in technology, rising taxpayer expectations and changes in the nature of employment, HMRC has enhanced its processes for assessing and collecting income tax. For example, it significantly reduced the use of paper returns and is making better use of the data it holds and data from third parties such as banks and building societies (paragraphs 2.36 to 2.38, 2.43 to 2.46 and Figure 17).

12 **HMRC has further plans to simplify the income tax process for taxpayers and improve the accuracy and timeliness of tax collected.** HMRC's Making Tax Digital programme aims to modernise tax administration for taxpayers, making it easier and quicker to get their tax right. To achieve this, HMRC's plan is to migrate individuals to a single income tax platform that operates, and is accessible, in real time from April 2021 (paragraphs 2.51 and 2.52).

Benefits and credits

13 The C&AG has qualified his opinion on the regularity of HMRC's 2018-19 Resource Accounts due to the material level of error and fraud in tax credits expenditure. The most recent available estimates for 2017-18 indicate that overpayments have increased to 5.7% of expenditure on tax credits (£1.46 billion), exceeding the ministerial target of 5%, while underpayments amounted to 0.6% of expenditure (£170 million), below HMRC's target of 0.7%. HMRC expects error and fraud in tax credits to rise further when estimated for 2018-19 (paragraphs 3.3 to 3.8, 3.15 and Figure 19).

14 HMRC is not pursuing some changes to tax credits and compliance activity that could have reduced error and fraud given its other priorities and the short remaining lifespan of tax credits. The rollout of Universal Credit means that there are now very few new claims for tax credits, which has reduced the level of error and fraud entering the system. HMRC has said that, while it continues to work on error and fraud in the existing caseload, this is not as much of a priority as other areas of its business, such as its preparations for the UK's exit from the EU (paragraphs 3.11 to 3.14).

15 HMRC and the Department for Work & Pensions (DWP) are still developing plans to transfer existing tax credits claimants and £6.8 billion of tax credits debt to Universal Credit. By the end of March 2019, some 501,000 former tax credits claimants had made new claims for Universal Credit, with £1 billion of related debt transferred to the DWP. The current assumption is that all existing tax credits claimants and related debt will be moved to Universal Credit by the end of December 2023, but the rate at which they transfer will partly depend on lessons learned from piloting work expected to start in July 2019. HMRC and the DWP are still to agree future arrangements for the handling of debt relating to past tax credits claims where individuals have not moved to Universal Credit (paragraphs 3.16 to 3.19 and Figures 20 and 21).

16 HMRC improved its method for estimating error and fraud in Child Benefit in 2018-19. Applying this methodology, HMRC estimates that error and fraud led to overpayments of 0.6% of Child Benefit expenditure in 2018-19, amounting to £75 million. Of this estimate, 0.3% (£35 million) relates to claimants who fail to respond to HMRC to confirm their eligibility and who, based on its further analysis, HMRC believes are not entitled to the benefit. HMRC will keep the methodology under review. The results from the error and fraud analysis programme will inform the development of controls over Child Benefit as HMRC upgrades related IT systems (paragraphs 3.20 to 3.22 and Figure 22).

Our value-for-money and wider work

HMRC's transformation programme

17 We examined HMRC's transformation plans in detail as part of our equivalent report last year. Delivery of HMRC's original plans was not considered to be realistic due to over-ambitious assumptions and the additional demands of EU exit, which increased pressure on capacity. We noted that HMRC recognised this, and undertook a structured prioritisation exercise to release capacity, reduce risks to delivery and reduce the costs of transformation. We also noted that this may make the delivery timeline more realistic but will have an impact on planned benefits. We recommended that HMRC should continue to review its portfolio regularly, so it can respond to external and other changes and adapt its plans accordingly.

The UK border and EU exit

18 We published two other related reports between July 2018 and June 2019: *The UK border: preparedness for EU exit* in October 2018; and *The UK border: preparedness for EU exit update* in February 2019.[1] These reports assessed how prepared government departments are for the changes required at the border after EU exit. We concluded that effective management of the border is critical for the UK after it leaves the EU and that leaving the EU will trigger some important changes to how the border is managed, particularly if the UK leaves without a deal. The reports set out the progress the government has made with putting in place the necessary systems, people and infrastructure to manage the border and addressing wider risks to the operation of the border after EU exit.

Other reports

19 In December 2018, we published a *HM Revenue & Customs Departmental Overview*.[2] This overview summarises the work of HMRC, including what it does, how much it spends, recent and planned changes and other key features of its main business areas and services.

1 Comptroller and Auditor General, *The UK border: preparedness for EU exit*, Session 2017–2019, HC 1619, National Audit Office, October 2018; Memorandum to the House of Commons Committee of Public Accounts, *The UK border: preparedness for EU exit update*, National Audit Office, February 2019.

2 National Audit Office, *HM Revenue & Customs Departmental Overview*, December 2018.

Conclusion

20 In fulfilling our statutory duties under the Exchequer and Audit Departments Act 1921, while recognising that no tax collection system can ensure that everyone meets their tax obligations, we conclude that, in 2018-19, HMRC framed adequate regulations and procedures to secure an effective check on the assessment, collection and proper allocation of revenue, and that they are being duly carried out. This assurance is subject to the observations on specific aspects of the administration of taxes in this report and our other reports to Parliament.

21 In addition to our statutory duties under the Exchequer and Audit Departments Act 1921, the C&AG has again qualified his regularity opinion on the Resource Accounts due to material levels of error and fraud in Personal Tax Credits. HMRC should continue its work to understand the causes of error and fraud, including the impact of its interventions, to ensure it is targeting its finite resources to best effect. As migration of tax credits claimants to Universal Credit continues, HMRC and the DWP will need to ensure plans for closure of tax credits include consideration of what the DWP will need to do to effectively collect the £6.8 billion of debt that will transfer. The re-platforming of Child Benefit systems provides an opportunity to embed error and fraud prevention and detection, and reduce and stabilise levels of error and fraud in this relatively simple benefit.

22 HMRC has made progress over the past 10 years in modernising the way it engages with taxpayers and administers the system. It has improved the integration between the underlying PAYE and Self Assessment systems, but the increasing number of taxpayers entering the Self Assessment regime places more administrative and cost burdens on both individuals and HMRC. HMRC will need to continue to develop its understanding of the impact this has in taking forward its plans to simplify and digitise the system, and manage the related costs.

23 HMRC will need to continue to monitor and improve customer service performance and deliver the planned improvements to the effective administration of the tax system. This is set against the backdrop of a challenging programme of wider business transformation and the ongoing impact of EU exit.

Part One

Performance in 2018-19

1.1 This part considers HM Revenue & Customs' (HMRC's) performance against its strategic objective to collect revenues due and bear down on avoidance and evasion. This is measured by the revenues reported in HMRC's Trust Statement, and compliance yield, which is disclosed in its Annual Report.

1.2 This part also considers reported customer service performance and progress with HMRC's transformation programme.

Tax revenue

Tax revenues in 2018-19

1.3 The total revenue HMRC reported in its Trust Statement in 2018-19 was £627.9 billion (£605.8 billion in 2017-18) (**Figure 1** overleaf). HMRC records revenue in the Trust Statement on an accruals basis, other than for those taxes disclosed in Note 1.2 of the Trust Statement. Accounting for tax on an accruals basis means that the revenue figures reported relate to tax due on earned income or activities during the financial year, regardless of when the cash is received.

Repayments

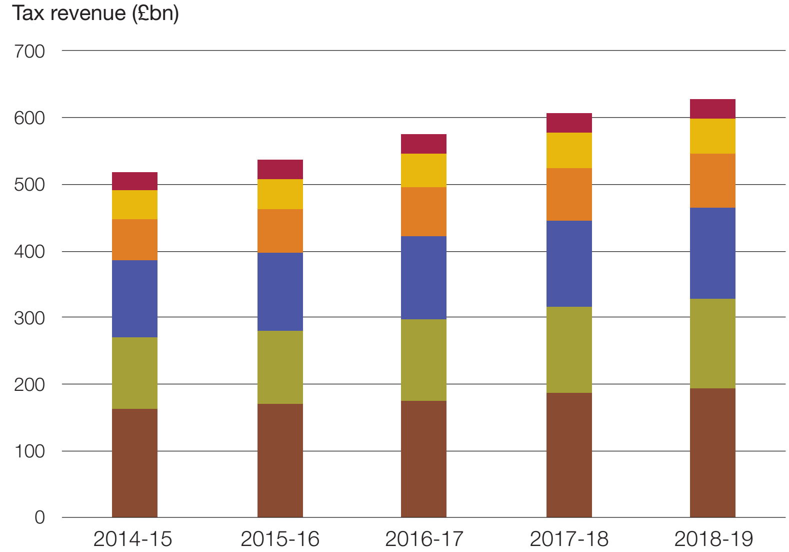
1.4 The total revenue figure of £627.9 billion is net of £116.2 billion of repayments to taxpayers (£110.1 billion in 2017-18) (**Figure 2** on page R13). Repayments are a necessary part of tax administration and can arise for a variety of reasons. For instance, HMRC may demand payments on account from taxpayers before their full liability is assessed, which can lead to repayments.

1.5 The majority of repayments relate to Value Added Tax (VAT) (£91.7 billion in 2018-19). VAT-registered taxpayers can claim back VAT on certain purchases they have made where they relate to the sale of goods and services. This is repaid to taxpayers net of the VAT due to HMRC on the sale of those goods and services.

Figure 1

Tax revenues, 2014-15 to 2018-19

Tax revenues have increased in each of the past five years



	2014-15	2015-16	2016-17	2017-18	2018-19
Hydrocarbon oils	27.2	27.7	28.0	27.9	28.0
Corporation Tax	41.4	45.5	51.1	53.3	53.5
Other	64.1	66.2	75.1	79.5	81.8
Value Added Tax	113.9	116.0	124.4	128.6	135.6
National Insurance Contributions	108.0	112.0	122.5	130.5	135.0
Income tax	163.1	169.4	173.8	186.0	194.0
Total revenue	**517.7**	**536.8**	**574.9**	**605.8**	**627.9**

Source: HM Revenue & Customs, Annual Report and Accounts 2014-15 to 2018-19

Receivables, impairment and revenue losses

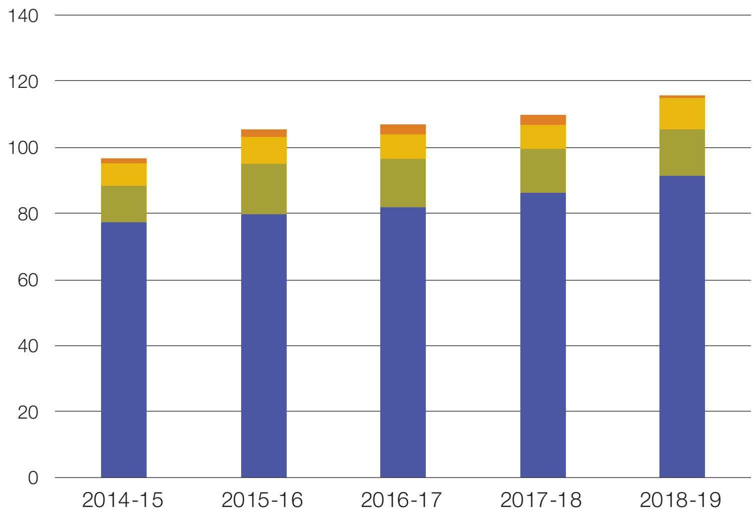
1.6 As at 31 March 2019, HMRC expected to receive £145.7 billion – 23.2% of revenue (2017-18: £141.9 billion, 23.4%). This balance consisted of:

- an estimated £116.9 billion (2017-18: £111.6 billion) of taxes not yet due from taxpayers but relating to 2018-19 revenues where a tax return has not been received from the taxpayer by the end of the reporting period (accrued revenue receivable); and
- £28.8 billion (2017-18: £30.3 billion) due from taxpayers but not yet received (receivables).

Figure 2

Repayments by tax type, 2014-15 to 2018-19

Repayments have increased in each of the past five years



	2014-15	2015-16	2016-17	2017-18	2018-19
Other	1.4	2.4	3.0	3.1	1.3
Corporation Tax	6.6	7.7	7.2	7.3	9.4
Income tax/National Insurance Contributions	11.5	15.5	14.6	13.3	13.8
Value Added Tax	77.4	79.9	82.4	86.4	91.7
Total repayments	**96.9**	**105.5**	**107.2**	**110.1**	**116.2**

Source: HM Revenue & Customs Trust Statements 2014-15 to 2018-19

1.7 Of the £116.9 billion accrued revenue receivable balance, 93% comprises taxpayer liabilities for income tax and National Insurance Contributions (£52.2 billion); VAT (£33.9 billion); and Corporation Tax (£22.6 billion). For income tax (Self Assessment) and Corporation Tax in particular, the accrued revenue receivable amounts calculated by HMRC are subject to an inherent degree of estimation, as explained in Note 6 of the Trust Statement. They are calculated using models that are based on different assumptions about how much tax revenue will ultimately be due once the relevant tax returns have been received and the tax liabilities assessed.

1.8 We review those models and assumptions as part of our financial audit of HMRC and are satisfied that the estimates are reasonable based on the data available to HMRC at the time.

1.9 The receivables balance of £28.8 billion is money that taxpayers have not yet paid but have a liability to pay at the end of the financial year. There is a risk that some of the receivables balance will not be collected or may prove not to be due. HMRC estimates the amounts that may not be recovered from taxpayers, for instance where the taxpayer is experiencing financial difficulty, and processes a reduction to the receivables balance in the accounts to reflect this. HMRC has estimated that it may not be able to collect £7.9 billion (2017-18: £6.9 billion) of these receivables. When adjusted to reflect this, the overall receivables balance due from taxpayers is £20.9 billion (2017-18: £23.4 billion).

1.10 In certain cases, HMRC stops debt collection activity where it is considered more costly to pursue than the value of the tax outstanding, or where there is no practical means to do so, for instance where a company or individual becomes insolvent. In these instances, a 'revenue loss' occurs. There are two forms of revenue losses: write-offs of £3.7 billion during 2018-19 (£3.4 billion in 2017-18) and remissions of £0.8 billion in 2018-19 (£0.4 billion in 2017-18). Write-offs are where debts are irrecoverable because there is no practical means of pursuing the liability. Remissions are where HMRC decides not to pursue the liability on value-for-money or hardship grounds. Losses reduce the amount of revenue that is received by HMRC.

Provisions and contingent liabilities

1.11 HMRC recognises a provision in the Trust Statement where it considers that it is probable that it will need to repay taxes already received in the current and previous financial years, in accordance with accounting standards. HMRC has identified two categories of such probable repayments:

- **Legal claims,** where taxpayers have disputed the interpretation of legislation through the courts and want the tax payable to be reassessed. The outcome depends on the court ruling. In 2018-19, HMRC repaid £0.2 billion to taxpayers in respect of legal provisions (2017-18: £39 million). As at 31 March 2019, HMRC expects it will have to repay £4.7 billion (2017-18: £5.9 billion). The main reason for the reduction since 2017-18 is that HMRC's current legal advice indicates that its exposure to ongoing legal cases has reduced.

  HMRC also separately discloses contingent liabilities for legal claims, where it considers that it is possible that it will be required to repay tax. Contingent liabilities were £2.3 billion as at 31 March 2019 (2017-18: £6.0 billion).

- **Oil and gas field decommissioning costs,** where companies decommissioning oil and gas infrastructure in the North Sea are entitled to recover tax previously paid in relation to profits from those oil and gas fields. As at 31 March 2019, HMRC estimates that it will have to repay £8.3 billion of tax in relation to oil and gas field decommissioning (2017-18: £12.9 billion). This is the estimated amount that HMRC will repay to oil and gas companies and is based on an estimate of the decommissioning costs that they will incur in future periods. In 2018-19, companies recovered £0.5 billion of Petroleum Revenue Tax (PRT) from HMRC in relation to decommissioning losses. In addition to repayments of PRT, HMRC estimates that it will forgo a further £11.1 billion of future tax income because of decommissioning expenditure reducing taxable profits.[3]

3 Comptroller and Auditor General, *Oil and gas in the UK – offshore decommissioning*, Session 2017–2019, HC 1870, January 2019, page 27.

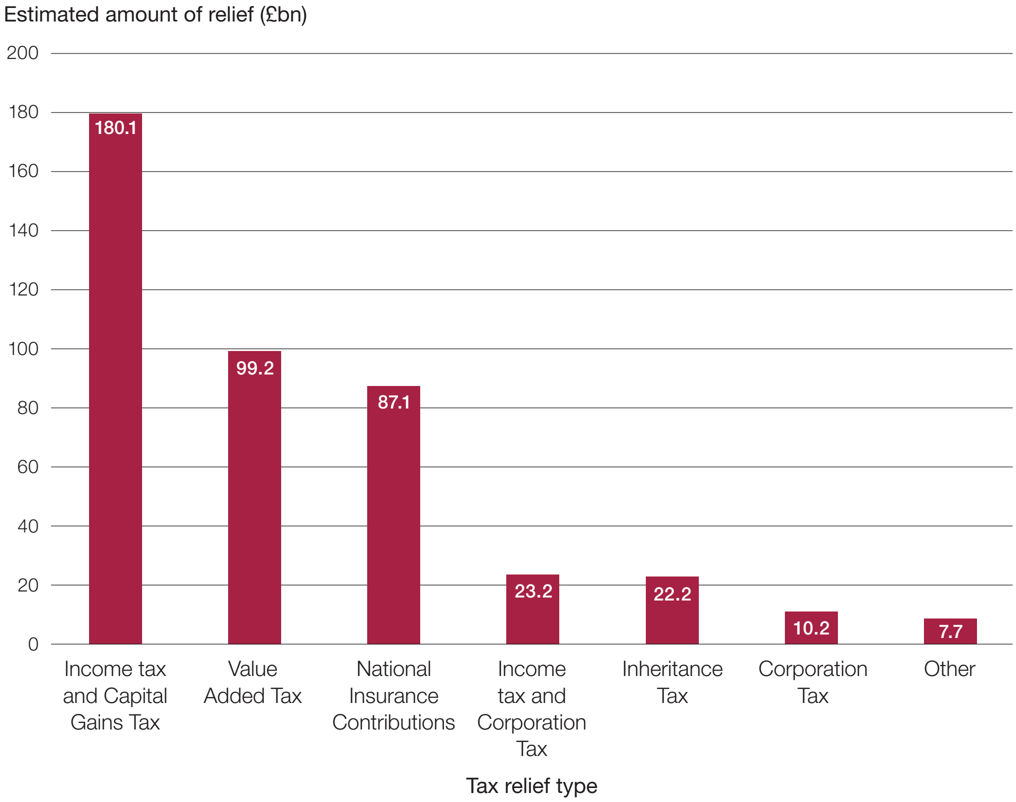
Tax reliefs

1.12 HMRC publishes information on the estimated cost of principal and minor tax reliefs.[4] As at May 2019, HMRC's forecast of the estimated cost of principal tax reliefs for 2018-19 is £429.7 billion (2017-18: £415.2 billion) (**Figure 3**). HMRC's forecast of the estimated cost of minor tax reliefs for 2018-19 is £690 million (2017-18: £675 million). HMRC notes that these estimates are based on previous years' actual data and do not represent the amount gained if the reliefs were to be removed, as they do not take account of taxpayers changing their activity in response to tax changes. HMRC notes that the estimates are subject to a high degree of uncertainty and are subject to a wide margin of error. The 2018-19 estimates reflect the cost of 149 reliefs. A further 46 are noted as having either a nil or negligible cost, and there are 235 reliefs for which HMRC has no available estimate of cost.

Figure 3

Forecast cost of principal tax reliefs by tax type for 2018-19

HM Revenue & Customs (HMRC) forecasts that the total cost of principal tax reliefs for 2018-19 is £429.7 billion



Note

1 Tax reliefs are presented in categories used by HMRC.

Source: HM Revenue & Customs, *Estimated costs of principal tax reliefs*, May 2019

4 Principal tax reliefs are allowances and reliefs that cost £50 million per annum or more. Minor tax reliefs are allowances and reliefs that cost under £50 million per annum.

1.13 As noted on page 63 of the Annual Report, HMRC publishes its statistics on the costs of tax reliefs on the 'Tax Relief Statistic' landing page of the GOV.UK website.[5]

Tax gap

1.14 The tax gap is the difference between the amount of tax that should, in theory, be paid to HMRC, and what is actually paid. The accounting framework under which the Trust Statement is produced requires HMRC to exclude the tax gap from the financial statements.

1.15 The 2017-18 tax gap is reported in HMRC's document *Measuring Tax Gaps 2019 edition*. HMRC has estimated that the tax gap for 2017-18 was £35 billion (2016-17: £33 billion) (**Figure 4**). This represents 5.6% of the total theoretical tax liabilities and remains consistent with the 5.5% estimated by HMRC for 2016-17.

Tax compliance

Approach to tax disputes

1.16 HMRC's Annual Report includes the Tax Assurance Commissioner's (TAC) Report. The report details HMRC's approach to dealing with tax disputes. The largest and most sensitive disputes, which cannot be resolved by HMRC's case workers, can be referred to dispute resolution boards and ultimately to HMRC's commissioners.

1.17 Further detail is included in the TAC Report, including details of the number of cases referred to these governance boards; the tax being considered in the cases referred to commissioners; and the outcomes of these cases.

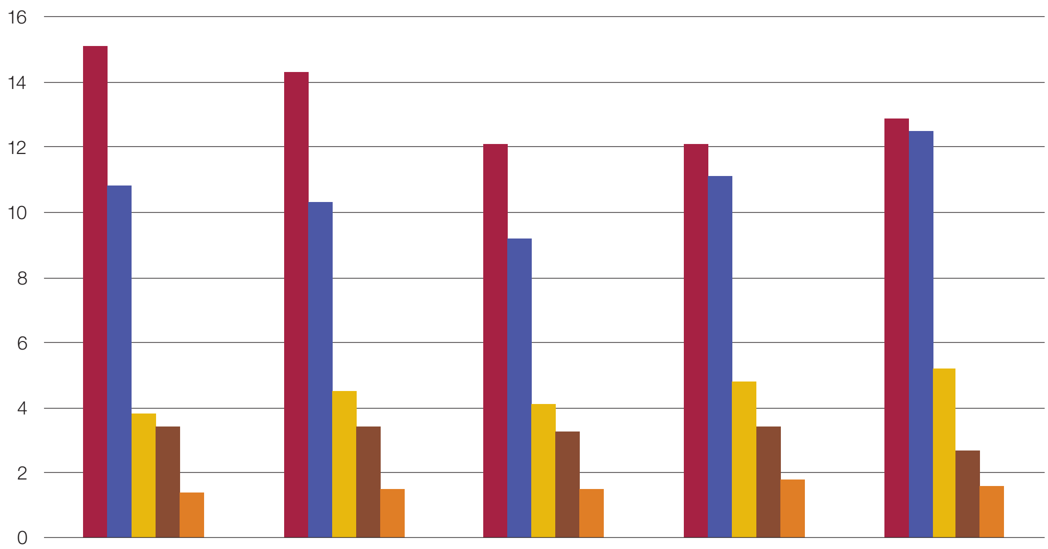
1.18 The TAC Report notes that the commissioners met 13 times to review 53 cases during 2018-19 (two cases were reviewed via correspondence). Commissioners are given detailed papers prepared by case teams, who also attend those meetings, when considering cases. Standard templates are used to collate the key information about the background of cases, the tax being considered, proposals put forward by the taxpayer and legal opinion where this is appropriate.

1.19 The TAC Report also refers to HMRC's use of alternative dispute resolution. This involves using mediation to resolve disputes between taxpayers and caseworkers, avoiding the need to settle the dispute through the court process. We recognise that, in certain circumstances, it can help both the taxpayer and HMRC to avoid resolving disputes through litigation, which can be a prolonged and costly exercise for both parties.

5 *HMRC Tax Relief Statistics*, available at: www.gov.uk/government/collections/tax-relief-statistics

Figure 4
Tax gap, 2013-14 to 2017-18

HM Revenue & Customs' (HMRC's) estimate of the tax gap for 2017-18 is £35 billion



	2013-14	2014-15	2015-16	2016-17	2017-18
Personal income taxes	15.1	14.3	12.1	12.1	12.9
Value Added Tax	10.8	10.3	9.2	11.1	12.5
Corporation Tax	3.8	4.5	4.1	4.8	5.2
Excise duties	3.4	3.4	3.3	3.4	2.7
Other taxes	1.4	1.5	1.5	1.8	1.6
Total tax gap (£bn)	**34**	**34**	**30**	**33**	**35**
Total tax gap (%)	**6.5**	**6.2**	**5.3**	**5.5**	**5.6**

Notes

1 The tax gap is the difference between the amount of tax that should, in theory, be paid to HMRC, and what is actually paid.

2 Components of the tax gap do not add up to the total tax gap due to rounding.

3 Figures for previous years have been revised by HMRC.

Source: HM Revenue & Customs, *Measuring tax gaps* tables

Compliance activities

1.20 Compliance activities can take many different forms, such as disrupting organised criminal gangs or tackling the use of tax avoidance schemes. They fall within three groups:

- **Promote:** where HMRC makes complying with tax law easier for the majority of its customers who are willing and able to comply with their tax obligations, for example by designing compliance into its systems and processes.
- **Prevent:** where HMRC stops non-compliance from entering the system.
- **Respond:** where there is non-compliance, HMRC detects and corrects it.

1.21 During 2018-19, HMRC continued to develop its compliance work with the refresh of its customer segment strategies. HMRC's aim is to group similar customers together and offer targeted support to those customer groups. HMRC has designed this approach to tailor its services to the requirements of the different customer segments and allocate resources to prioritise and manage risk more easily and cost-effectively.

1.22 HMRC's ambitions include exploiting its existing data and risk assessment processes (including the Strategic Picture of Risk and tax gap data) to direct resources to where they will have the greatest impact.[6]

Compliance yield

1.23 HMRC measures the effectiveness of its enforcement and compliance activities through compliance yield: its estimate of the additional revenues that HMRC considers it has generated, and the revenue losses it has prevented. It is one of HMRC's main performance measures and is used to agree targets with HM Treasury for spending on compliance work.

1.24 In 2018-19, HMRC achieved £34.1 billion (2017-18: £30.3 billion) of compliance yield against a target of £30 billion.

1.25 HMRC reports the compliance yield it has recorded under five categories:

- **Cash expected** – £13.1 billion (39%): an estimate of the additional revenue due when HMRC identifies past non-compliance.
- **Revenue losses prevented** – £9.3 billion (27%): the tax revenue HMRC has prevented from being lost to the Exchequer (for example, by stopping fraudulent repayment claims and disrupting criminal activity).

6 HMRC's Strategic Picture of Risk combines all risks to tax collection exceeding £250 million, risks to the integrity of the tax system or HMRC's reputation in running it.

- **Future revenue benefit** – £7.6 billion (22%): an estimate of the effect of HMRC's compliance work on taxpayers' future behaviour.
- **Product and process yield** – £3.7 billion (11%): the annual impact on net tax receipts of legislative changes to close tax loopholes; and changes to HMRC's processes that reduce opportunities to avoid or evade tax.
- **Accelerated payments** – £0.3 billion (1%):[7] the amount that users of avoidance schemes have paid to HMRC upfront while their dispute is being resolved, as well as an estimate of the behavioural change that this policy has generated.

1.26 HMRC publishes information on compliance yield each quarter. It agrees a target for compliance yield with HM Treasury each year and HMRC's compliance activities also contribute towards its objective, as set out in the Single Departmental Plan, of raising an additional £5 billion a year by 2019-20.

Impact of EU exit

1.27 HMRC has a significant role in seeking to ensure that the UK achieves a smooth and orderly exit from the EU. It is responsible for delivering key customs and border-related programmes and has to work with many other government departments to make preparations and manage risks at the border, in the event of the UK leaving the EU. The increasing demands of work to support the preparations for EU exit has put pressure on capacity, with a resultant impact on the wider business. As HMRC recognises in its Annual Report, this includes a drop in performance against certain customer service targets.

1.28 HMRC has reviewed and prioritised its transformation plans and other ongoing work, and redeployed staff to higher-priority EU exit work where possible. In our recent Border report, published in February 2019, we reported that HMRC had 4,198 full-time equivalent staff working on EU exit.[8] HMRC's 2018-19 Annual Report indicates that around 5,400 full-time equivalent employees have been working on EU exit during 2018-19. HMRC spent £261.7 million on EU exit preparations, slightly more than the allocation of £261 million it received from HM Treasury. The overspend was recovered through underspends against other parts of HMRC's budget.

7 Components of compliance yield do not sum to 100% due to rounding.
8 Memorandum to the House of Commons Committee of Public Accounts, *The UK border: preparedness for EU exit update*, National Audit Office, February 2019, page 33.

HMRC's transformation programme

1.29 HMRC has set the ambition of transforming itself to become one of the most digitally advanced tax administrations in the world. HMRC aims to move to a fully digital tax system where all individuals and businesses can see their tax affairs in one place and carry out transactions digitally. To support this, HMRC plans to simplify and automate its processes, make better use of data on taxpayers and modernise its working environment.

1.30 As part of the 2015 Spending Review, HMRC committed to spending £1.8 billion on transformation between 2016-17 and 2019-20. In our 2018 report on HMRC's transformation plans, we noted that HMRC had undertaken a structured prioritisation exercise to release capacity, reduce risks to delivery and reduce the costs of transformation. We concluded that HMRC's transformation plans remain ambitious, but that the delivery timetable is now more realistic. We made recommendations that HMRC should be clearer about the way it tracks the costs and benefits of transformation, review whether its current model of managing the transformation portfolio allows it to gain the benefits of effective portfolio management and review the transformation portfolio formally at least once a year.

Transformation developments during 2018-19

1.31 During 2018-19, HMRC has sought to decentralise management of its transformation programme by transferring responsibility to the relevant business area. HMRC considers that this will strengthen accountability, help to realise the planned benefits from the programme and improve customer service outcomes. HMRC's Transformation Portfolio Management team have retained responsibility for overall programme monitoring and for reporting progress to HMRC's Executive Committee.

1.32 HMRC has decided to delay the rollout of the income tax and Corporation Tax elements of the Making Tax Digital for Business programme. HMRC also made the decision to close its Compliance for the Future programme in 2018-19. This work was focused on the internal systems and processes used by HMRC's compliance, and Solicitor's Office and Legal Services, teams. HMRC consider that these decisions allowed resources to be re-deployed to support EU exit-related programmes.

1.33 As planned, Making Tax Digital for VAT – the introduction of mandatory digital record-keeping for VAT for businesses with taxable turnover over the VAT threshold of £85,000 – came into force on 1 April 2019.

Part Two

Income tax

2.1 Income tax is the largest single source of government revenue for funding public services. In 2018-19, HM Revenue & Customs (HMRC) collected income tax of £194 billion, and £135 billion of National Insurance Contributions. Together, these represent 52% of the total £627.9 billion of taxes and duties collected in the UK. Most income tax is paid on earnings (2018-19: estimated 92.2%). Earnings includes income from paid employment and pensions, and profits from self-employment or property income. Interest and dividends are also subject to income tax.

2.2 As part of our annual assurance of HMRC's administration of taxes and duties, we examine the systems and procedures for the assessment and collection of income tax through Pay As You Earn (PAYE) and Self Assessment. This part of the report presents the findings of those examinations, including:

- a summary of how the income tax system works;
- analysis of the key indicators of how well the income tax system is performing;
- the challenges facing HMRC in its administration of income tax; and
- the recent developments and measures HMRC has implemented to make it easier to collect the right tax at the right time.

2.3 This report focuses on the collection of income tax through the PAYE and Self Assessment systems. Income tax compliance may be the subject of future National Audit Office (NAO) reviews and is, therefore, not included within the scope of this report.

How income tax works

2.4 Depending on the type of income that an individual receives, income tax is assessed and collected by: employers' deductions from earnings through PAYE; the taxpayer submitting a Self Assessment return; or a combination of both. Different types of income are assessed in different ways, with reliefs, allowances or other special circumstances also determining how income tax is processed within the system (**Figure 5**).

Figure 5

How different types of income are assessed within the tax system

Some people are in Pay As You Earn (PAYE), while others are in Self Assessment, or use both systems

PAYE

36.3 million taxpayers are part of the PAYE system only

People with income from:

- employers; or
- workplace and private pensions.

PAYE and Self Assessment

6.8 million taxpayers with other income besides their earnings have to submit tax returns

People with income from wages or pensions, plus:

- Higher Income Child Benefit Charge;
- tips or commissions;
- tax reliefs;
- property rental income;
- income from savings, investments or dividends; or
- foreign income.

Self Assessment

3.6 million, mostly self-employed, people are part of the Self Assessment system only

People who:

- are sole traders or in business partnerships;
- have income from trusts;
- have an annual income greater than £100,000;
- have income from capital gains;
- have property income or expenses greater than £2,500; or
- have other untaxed income.

Simple Assessment

- People who have underpaid through PAYE and the underpayment cannot be collected by adjusting the tax code.
- People who only receive State Pension, from 2016-17, with an income above the Personal Allowance.

Notes

1 Income tax regime only, excludes other forms of taxation. Data relate to the 2016-17 tax year.

2 Simple Assessment charges are issued for each tax year individually; 500,000 were issued in 2016-17 and 360,000 in 2017-18.

3 Figures are estimated based on sample data from HM Revenue & Customs' tax systems and represent the populations within each category regardless of whether they have a tax liability.

Source: National Audit Office analysis of HM Revenue & Customs processes

Overview of the income tax system

2.5 There are several stages to the assessment and collection of income tax (**Figure 6**). Generally, taxpayers whose only income is from employment or pensions are taxed through PAYE, in which taxes from income are withheld at the point of payment. The amount of tax withheld is determined by tax codes that HMRC calculates and issues to taxpayers.

Figure 6
The income tax system

There are several stages in Pay As You Earn (PAYE) and Self Assessment for the assessment and collection of income tax

	PAYE	Self Assessment
Initial assessment and tax status	HM Revenue & Customs (HMRC) issues tax codes to employers which are calculated based on estimated income using information held on the taxpayer record	Individuals register for Self Assessment HMRC determines payments on account
Collection	Employers withhold tax from the earnings paid to their employees based on the tax code	Individuals make payments on account to HMRC
Matching of information	Employers submit information about earnings and tax deductions directly to HMRC on a monthly basis HMRC reconciles with taxpayer records	Taxpayer submits annual tax return providing details of their income, allowances and any tax already paid HMRC reconciles with taxpayer records
Reconciliation and assessment	At the end of the tax year HMRC calculates the total income tax liability to determine whether the correct amount of tax has been collected and calculates any over/underpayments	HMRC calculates total income tax liability and any over/underpayments For some taxpayers, PAYE information is combined with the Self Assessment return to calculate the total tax liability
Over and underpayments	HMRC collects unpaid tax (directly or via tax code) and returns overpaid tax	HMRC collects unpaid tax (directly or via tax code) and returns overpaid tax

Note

1 The PAYE and Self Assessment processes do not occur simultaneously. PAYE is processed during the tax year and reconciled after the end of the tax year. Self Assessment returns are submitted by 31 October (for paper returns) or by 31 January (for online returns) after the end of the tax year.

Source: National Audit Office analysis of HM Revenue & Customs processes

2.6 Employers and pension providers are responsible for providing information directly to HMRC when or before payments are made to employees. These submissions contain information about individuals' earnings, benefits through payroll and income tax deductions.[9] PAYE taxpayers only need to contact HMRC by exception. However, individuals are legally required to ensure that they pay the right amount of tax. They must inform HMRC if they identify errors or have additional allowances or taxable benefits that are not known to HMRC.

2.7 Individuals who are self-employed, in a business partnership or have other sources of income subject to Self Assessment are required to complete an annual tax return containing details of all the income they have received during the tax year, and pay the appropriate taxes directly to HMRC.

2.8 In contrast to PAYE, in Self Assessment it is the responsibility of the individual taxpayer, or their appointed agent, to provide all necessary information to HMRC. Individuals must register and provide information to set up their HMRC account and keep HMRC informed of any changes to personal details or other circumstances affecting their income tax.

Taxpayers in both PAYE and Self Assessment

2.9 Individuals who have income from employment or pensions and other sources may also be required to complete a Self Assessment return. Circumstances where a Self Assessment return will usually be required include: pension withdrawals; income from savings; investments or property rentals; Higher Income Child Benefit Charge; individuals with income greater than £100,000; and claiming some types of tax reliefs or allowances.

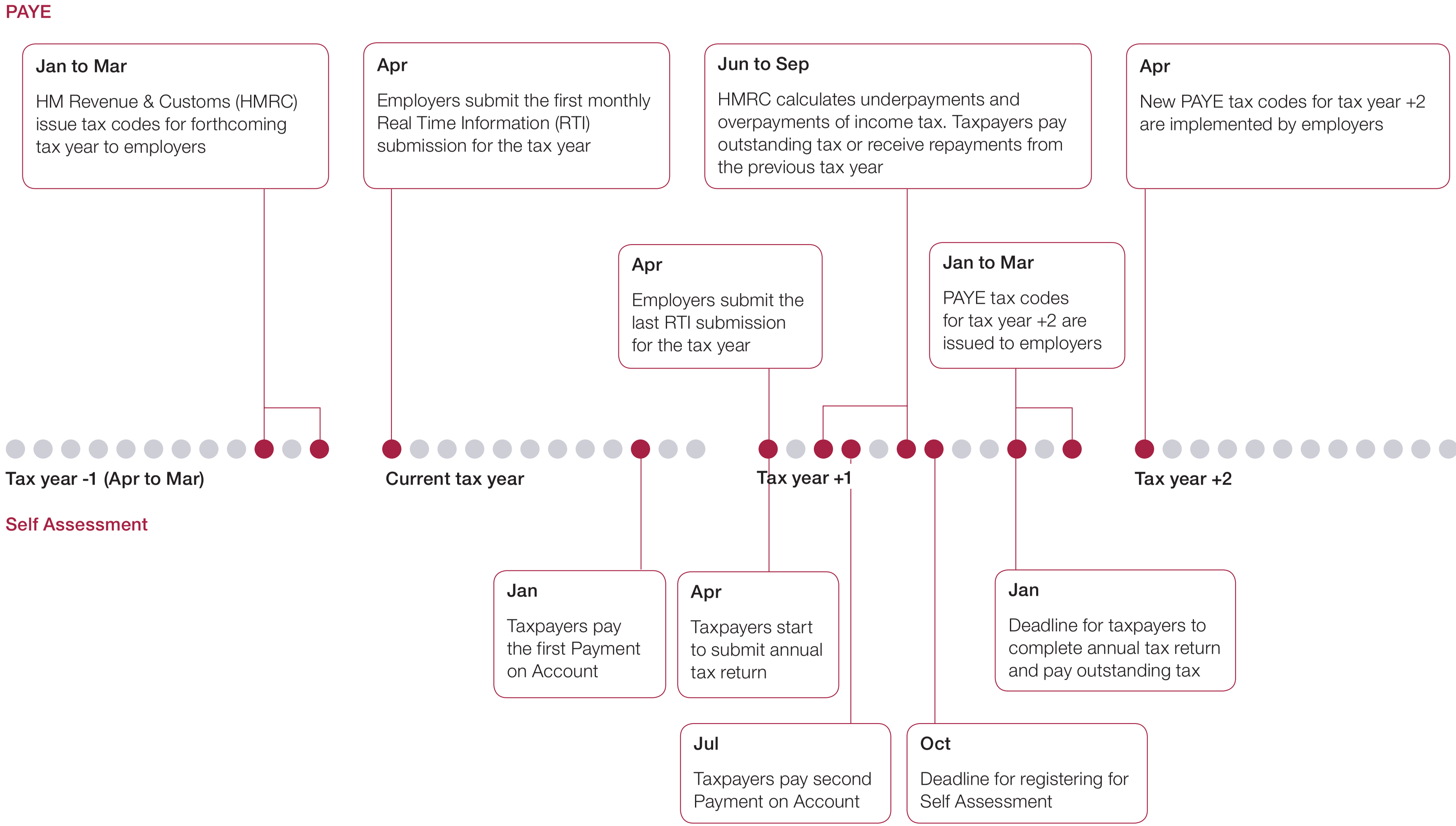
2.10 The way that the tax cycle works means that individuals in both the PAYE and Self Assessment systems are taxed in two stages (**Figure 7**). Self Assessment income tax is collected up to 10 months from the end of the tax year. This means there is a lengthy delay between an individual receiving income and tax being due upon it. Some Self Assessment taxpayers pay tax in two instalments, which are calculated based on their earnings in the previous year. Meanwhile, PAYE tax on income and pensions may have been deducted at source through the tax code.

9 Other taxable benefits and expenses are reported by employers to HMRC in an end-of-year return.

Figure 7

The tax year for Pay As You Earn (PAYE) and Self Assessment

The timing of processes differs between PAYE and Self Assessment and for any one year the tax cycle spans multiple years with key events occurring in both the preceding year and after the end of the tax year



Source: National Audit Office analysis of HM Revenue & Customs processes

Performance of the income tax system

2.11 We review a range of measures relating to the administration and effectiveness of assessing and collecting tax (**Figure 8**). These include administrative measures, such as the timeliness and accuracy of administration, as well as outcomes such as underpaid tax.

2.12 The effectiveness of the income tax system reflects both administrative performance as well as wider factors in the economy. Below we describe some of the key indicators of the performance of the income tax system. In the next section we discuss the evolution of the income tax system, emerging challenges and recent developments (paragraphs 2.32 to 2.52).

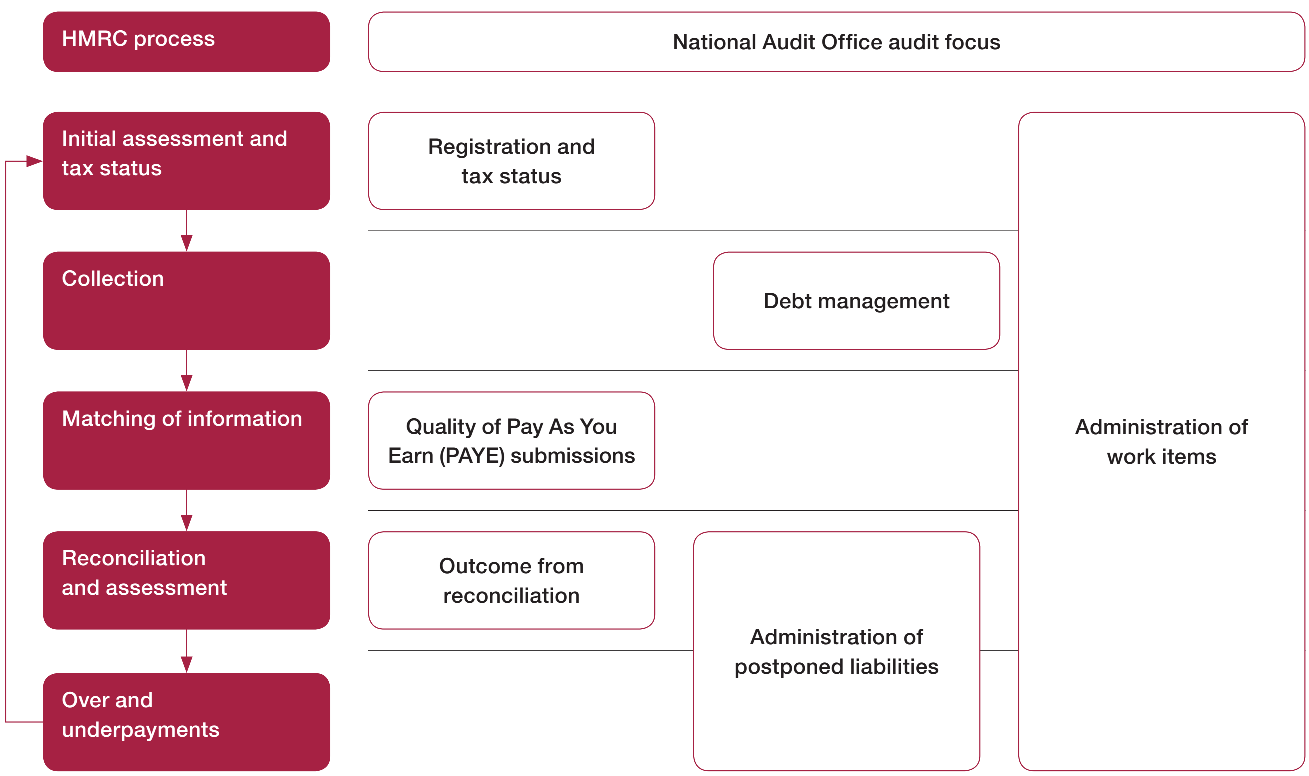
Tax status

2.13 One measure of the performance of the tax system is its ability to apply simple processes, thereby minimising administrative cost and complexity, and supporting the timely and accurate collection of tax.

Figure 8

Performance of income tax processes

The figure indicates the areas of performance most relevant to our assurance of the tax system



Note

1 This figure indicates the areas of performance that our audit of the tax system routinely includes. It is not indicative of all HM Revenue & Customs' processes.

Source: National Audit Office analysis of HM Revenue & Customs data

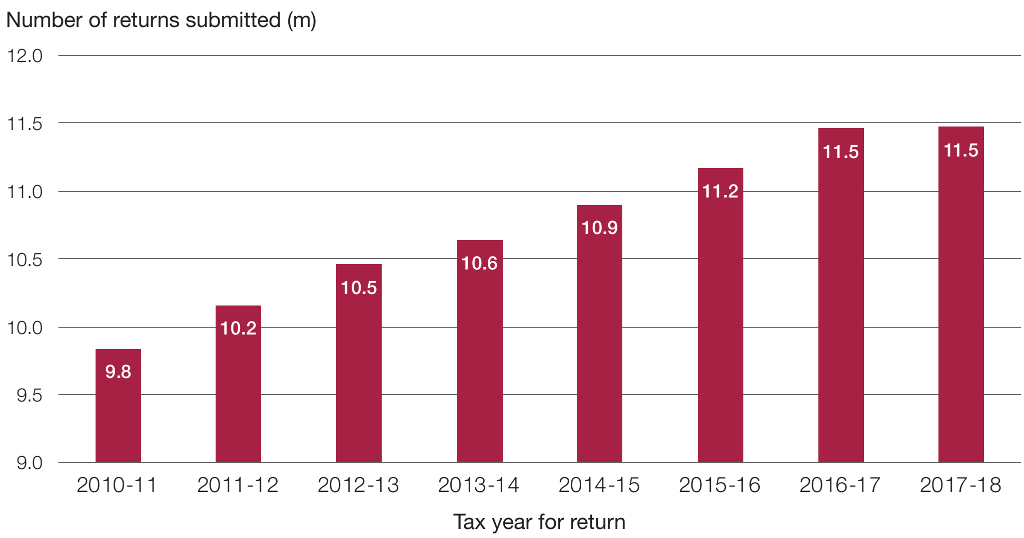
2.14 A proxy measure for performance is the proportion of taxpayers using Self Assessment rather than relying solely on PAYE. Greater reliance on Self Assessment can reflect difficulties for the tax system in accommodating changing policies or taxpayer circumstances, implies higher administrative costs, and can delay the accurate assessment and collection of tax.

2.15 The number of Self Assessment taxpayers is increasing. HMRC considers that this increase is due to a number of factors which could move individuals in to Self Assessment. This includes the growing population of self-employed individuals, a higher number of individuals with property income, an increase in the number of individuals with incomes over £100,000 and certain changes to tax policy, such as the introduction of the Higher Income Child Benefit Charge. This was introduced in January 2013 and requires some taxpayers who are not already in Self Assessment to complete a Self Assessment return where they have not opted out of receiving Child Benefit.

2.16 The number of returns filed annually has been steadily increasing since 2010-11 (**Figure 9**). As a result of the manual processing required and often greater complexity, the resources required to operate Self Assessment are substantially greater than the resources required for PAYE. HMRC estimates that, on average, the cost of collecting £1 of income tax in Self Assessment is more than four times higher than PAYE.[10]

Figure 9
Self Assessment returns per tax year

Self Assessment tax returns received by HMRC have increased from 9.8 million for the tax year 2010-11 to 11.5 million for the tax year 2017-18



Notes
1 Income tax only.
2 Due to the timing of the Self Assessment cycle, 2017-18 is the latest tax year for which returns have been submitted for example, returns for 2017-18 tax year were submitted in 2018-19.

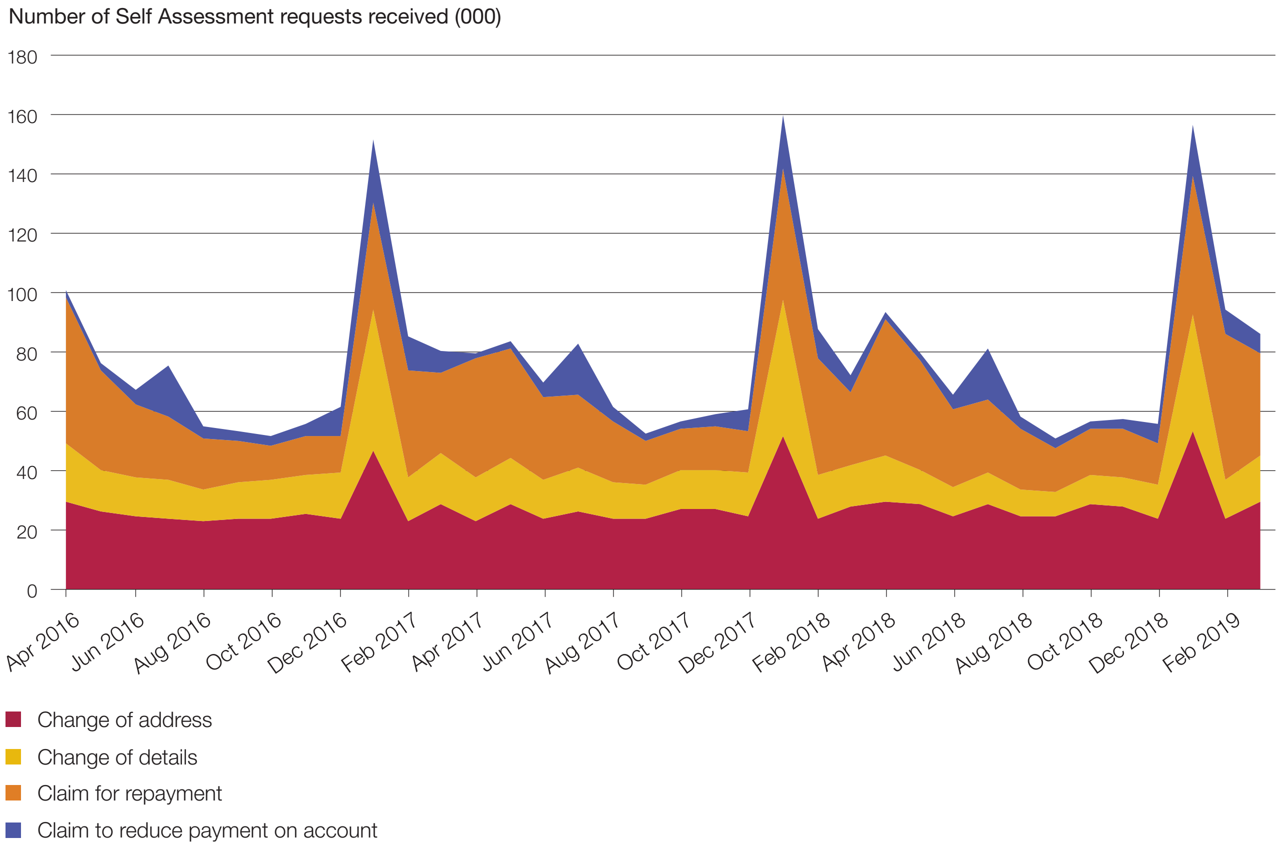
Source: National Audit Office analysis of HM Revenue & Customs data

10 In absolute terms, administration costs for PAYE are greater than Self Assessment, however, total tax receipts from PAYE are significantly greater.

2.17 Self Assessment results in greater peaks in demand for HMRC services. Almost half of all returns are completed in January each year, shortly before the deadline, and most are now submitted online. HMRC processes requests from taxpayers which peak in line with the deadlines in the Self Assessment cycle (**Figure 10**). HMRC has to plan its resources to match the peaks in demand from taxpayer requests. These are typically to request a change to the details held on tax records, process overpayments, or change the amount of payments on account due.[11]

Figure 10
Volume of Self Assessment requests received

There are peaks in demand within the annual Self Assessment cycle



Note
1 Income tax only.

Source: National Audit Office analysis of HM Revenue & Customs data

11 Some Self Assessment taxpayers are required to make advance payments for their tax bill twice a year. These are referred to as payments on account and are deducted from the final tax settlement.

Accuracy of information from employers

2.18 Within the PAYE system, the accuracy of tax collected during the year (and HMRC's ability to reconcile employer information to individual tax records) depends heavily on employers submitting accurate information. Late, missing or incorrect submission of information reduces HMRC's ability to assess and collect tax accurately and on a timely basis.

2.19 Employers registered for PAYE have a duty to report accurate data to HMRC when or before paying their employees. The submissions provide details of employees' income and benefits in the period and income tax deductions that have been withheld at the point of payment. It is important that this information is received on a timely basis to maintain the accuracy of PAYE records and reduce errors in tax calculations. HMRC monitors the number of late submissions from employers and pension providers through regular analysis of Real Time Information data (**Figure 11**).

2.20 HMRC checks tax codes annually and issues updated tax codes to employers to help them make the appropriate deductions from earnings (**Figure 12** overleaf). Tax codes may be updated during the tax year where HMRC receives more up-to-date information on an individual's circumstances. Errors in tax codes, the failure of the employer to operate them correctly or failure by individuals or employers to inform HMRC of changes in circumstances can result in individuals paying too much or too little tax.

Figure 11

Proportion of late Pay As You Earn (PAYE) submissions

The proportion of PAYE submissions made late has fallen over time

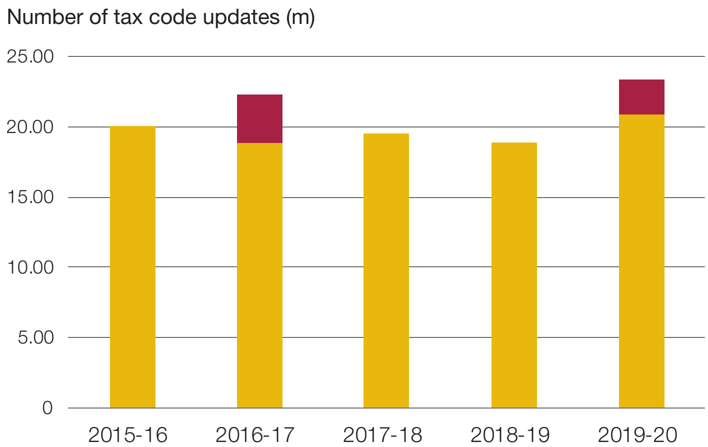
Tax year	Including occupational pension schemes (%)	Excluding occupational pension schemes (%)
2016-17	4.7	5.8
2017-18	4.5	5.6
2018-19	4.3	5.2

Source: National Audit Office analysis of HM Revenue & Customs data

Figure 12

Number of tax code updates issued by HM Revenue & Customs (HMRC) to employers

The number of tax code updates issued by HMRC to employers has increased for the 2019-20 tax year



	2015-16	2016-17	2017-18	2018-19	2019-20
Devolved income tax initial coding notices (P9)		3.40			2.40
Employer coding notices (P9)	20.00	18.90	19.50	18.90	20.90

Note

1 Income tax powers were devolved to Scotland in 2016-17 and Wales in 2019-20. The data reflect the number of notices issued which may be issued for multiple employments and, therefore, does not represent the number of taxpayers.

Source: National Audit Office analysis of HM Revenue & Customs data

2.21 In 2017-18, HMRC performed an exercise to identify cases where employers in Scotland were not operating the tax code that HMRC had calculated for their employees.[12] HMRC is developing a system-wide scan to identify similar issues where employers are not operating the correct tax code for their employees.

Administering changes

2.22 Given the inevitable changes in circumstances of taxpayers, a key measure of the performance of the tax system is its ability to administer changes accurately and quickly. In HMRC, 'work items' are exceptions in the tax system where clerical review may be needed to resolve or progress an issue. The volume of items 'on hand' (that is, awaiting clerical work) is an indicator of how well HMRC is working through potential changes and updating tax records.

12 Comptroller and Auditor General, *The Administration of Scottish Income Tax 2017-18*, Session 2017–2019, HC 1676, National Audit Office, November 2018.

2.23 The number of work items on hand fluctuates continuously as items are reviewed and cleared and new items are generated automatically by triggers throughout the system or as a result of taxpayer contact.

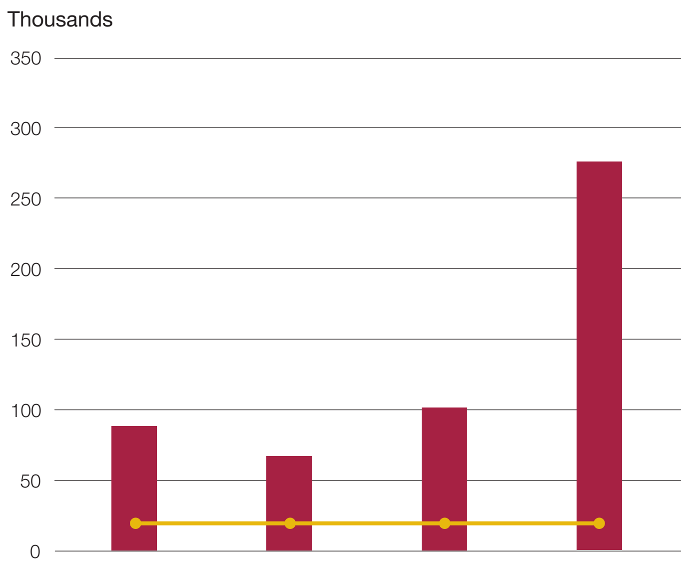
2.24 Some types of work items could have a tax impact – that is, they may result in an adjustment to the tax calculation, resulting in an underpayment or overpayment of tax. HMRC considers these to be higher priority in order to keep PAYE up to date and ensure the correct outcome for the taxpayer. HMRC has a target to reduce the on-hand volume of PAYE priority items to 20,000 which has not been achieved. Work items on hand increased in 2017-18 and 2018-19 (**Figure 13**).

2.25 A notable trend in recent years has been the shift in the source of work items. PAYE work items generated have decreased since 2015-16, while Self Assessment work items have increased (**Figure 14** overleaf).

Figure 13

Volumes of priority work items HM Revenue & Customs (HMRC) has on hand

The volume of Pay As You Earn (PAYE) priority work items on hand increased in 2017-18 and 2018-19



	2015-16	2016-17	2017-18	2018-19
PAYE priority items on hand	88,345	66,964	102,487	276,246
PAYE on hand target	20,000	20,000	20,000	20,000

Notes

1 In HMRC, 'work items' are exceptions in the tax system where clerical review may be needed to resolve or progress an issue. 'On hand' means that work items are waiting to be processed. There are many types of work items, created based on specific circumstances; common examples are the identification of duplicate records or expected information is missing such as taxable benefits.

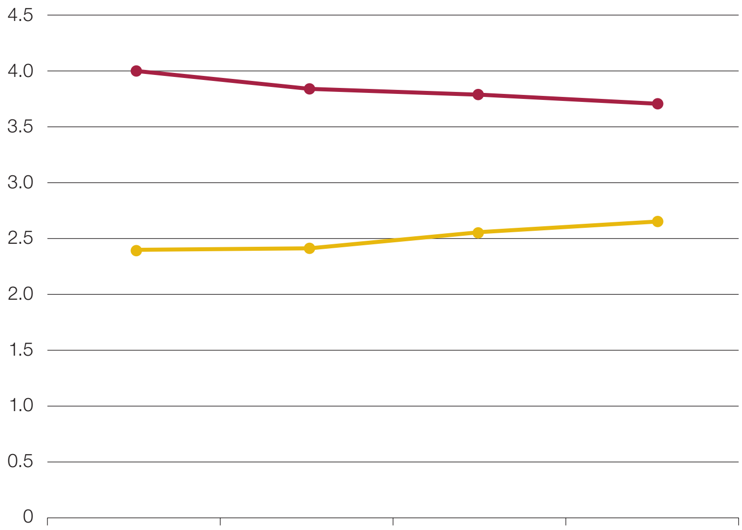
2 Priority work items are defined as those that could result in a tax impact once they are resolved.

Source: National Audit Office analysis of HM Revenue & Customs data

Figure 14

Volume of HM Revenue & Customs (HMRC) work items generated across the Pay As You Earn (PAYE) and Self Assessment systems

The number of Self Assessment work items has increased in recent years



	2015-16	2016-17	2017-18	2018-19
PAYE items generated	4,005,770	3,839,409	3,787,144	3,709,481
Self Assessment items generated	2,400,087	2,410,533	2,554,849	2,650,891

Notes

1 In HMRC, 'work items' are exceptions in the tax system where clerical review may be needed to resolve or progress an issue.

2 PAYE value for 2018-19 excludes 1,032,936 items related to Student Loans, which were not included in 2015-16, 2016-17 and 2017-18.

Source: National Audit Office analysis of HM Revenue & Customs data

2.26 HMRC resolves work items through a system of prioritisation to target manual processing effort where it will be most effective. HMRC has also developed automatic fixes and system scans to resolve large batches of items without the need for manual clerical work. HMRC is also utilising developments in the PAYE systems to implement process improvements and suppress redundant work items from being generated in the first place.

PAYE reconciliation

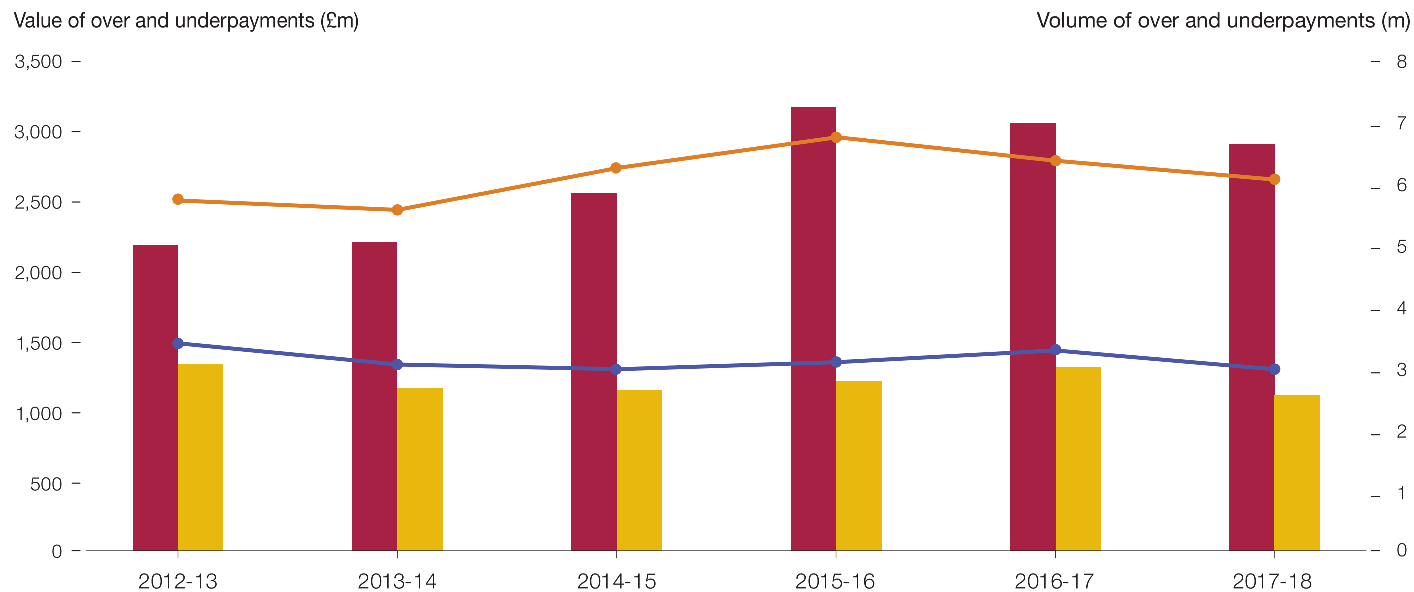
2.27 A key measure of the performance of the tax system is its ability to assess and collect the right amount of tax in-year. The PAYE reconciliation process determines whether the correct amount of tax has been collected.[13] **Figure 15** shows the results of the annual reconciliation from 2012-13 to 2017-18.

13 The PAYE reconciliation process consolidates all the available data to produce a total income figure for each individual and then calculates the income tax liability using the relevant business rules. The liability is compared to the tax that has already been deducted through PAYE to calculate any residual amount to be collected or repaid.

Figure 15

Value and volume of Pay As You Earn (PAYE) underpayments and overpayments by tax year

The value of tax overpaid by PAYE taxpayers has fluctuated since 2012-13, while underpaid tax has remained stable



	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Overpayment – value	2,359,352	2,331,806	2,675,730	3,294,278	3,093,142	2,886,970
Underpayment – value	1,440,917	1,227,356	1,197,690	1,268,527	1,342,534	1,109,289
Overpayment – volume	5,705,891	5,541,534	6,224,413	6,723,300	6,330,030	6,018,223
Underpayment – volume	3,360,977	3,051,310	2,966,624	3,091,012	3,246,912	2,946,066

Notes

1 Figure shows value of overpayments and underpayments in real terms (2017-18 prices).

2 Data from 2016-17 onwards includes Simple Assessments issued for underpayments.

Source: National Audit Office analysis of HM Revenue & Customs data

2.28 The total value of underpaid or overpaid tax and the volume of taxpayers affected reflects inaccuracies in the information about taxpayers' income held by HMRC and information that is incomplete until updates are submitted after the end of the tax year.[14] Most overpayments and underpayments arise due to changes in circumstances, not reported during the tax year and, although these can often be corrected, this leads to administrative costs and uncertainty for taxpayers.

Debt management

2.29 The effective management of debt is vital to ensuring the appropriate income taxes are collected on a timely basis. Throughout 2018-19, HMRC recorded new debt of £2.05 billion on average each month and the average income tax debt balance was £6.57 billion. Managing the income tax debt balance is a routine part of the tax collection process and HMRC monitors the ageing of debt balances to ensure appropriate recovery action is taken.

2.30 The collection of tax liabilities can be postponed where taxpayers appeal against assessments, penalties, surcharges or amendments. HMRC can issue a protective action using its statutory powers under PAYE and Self Assessment legislation, which allows HMRC to resolve the dispute using its two-tier tribunal system.[15] The disputed tax is not recognised as a tax liability or as outstanding debt until the investigation is concluded. There is a large volume of ongoing cases dating back several years, which are in varying stages of investigation. These include cases still going through the courts (**Figure 16**).

2.31 Investigations can take several years to conclude, due to their nature and complexity, resulting in cases remaining open for a significant period of time. HMRC continues to actively address these open cases and seek early resolution where possible. Once all action has been taken and the case has been resolved, any amount that is due is paid and the case is then closed.

Income tax system evolution and challenges

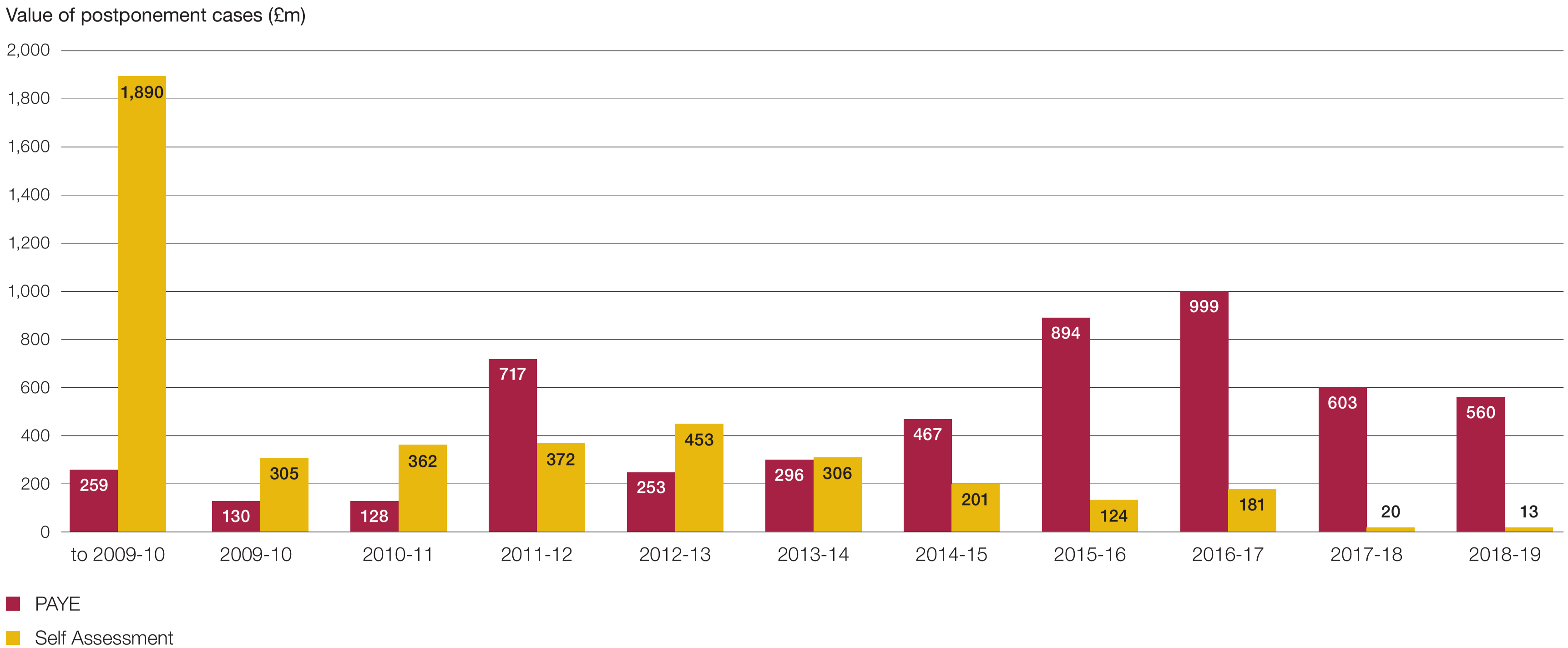
2.32 The performance of the income tax system reflects the changing nature of the labour market and tax policy, as well as developments in the way that income tax has been administered over time. In reviewing the performance of the system, we consider how the tax system has changed, current challenges and new developments intended to improve the effective assessment and collection of tax.

14 As an example, employers are required to submit a return to HMRC at the end of the tax year, which includes the taxable benefits that their employees have received throughout the year.

15 For example, see HMRC *Appeals, reviews and tribunals guidance.* Available at: www.gov.uk/hmrc-internal-manuals/appeals-reviews-and-tribunals-guidance/artg8040

Figure 16
Value of active postponement cases for Pay As You Earn (PAYE) and Self Assessment

A large proportion of Self Assessment postponement cases (by value) are more than nine years old



Notes

1 Active postponement is where the collection of tax liabilities is on hold while taxpayers appeal against HM Revenue & Customs' assessments, penalties, surcharges or amendments.

2 Shows estimated tax at risk by the tax year to which it relates. Values are shown in nominal terms.

Source: National Audit Office analysis of HM Revenue & Customs data

Evolution of the tax system

2.33 The evolution of the tax system reflects successive efforts to adapt to changing taxpayer circumstances and improve the tax system.

2.34 PAYE was introduced 75 years ago, and is the process whereby an individual's estimated tax liability is withheld from earnings as part of the payroll. PAYE was implemented at a time when individuals often had a single employment and often for a long period of time. Since then the income tax environment has changed significantly: working patterns are now far less static; people are less likely to stay in the same job for life; and part-time, flexible working and multiple or infrequent employments are commonplace in many sectors of the economy.

2.35 Self Assessment was introduced in 1996 for income tax and capital gains. The scheme involved a shift of administrative responsibility, with tax liabilities being assessed by the taxpayer or their agent rather than by HMRC and the consolidation of assessments for all forms of income and capital gains to be taxed on a current year basis.[16] Several important changes were introduced in 2008, including a redesign of the paper and online tax returns and a new deadline of 31 October for filing paper returns.

2.36 Over the past 10 years, the systems which support the processing and collection of income tax have changed significantly in response to the changes in the labour market and improved technology (**Figure 17**). PAYE switched from a system where records were structured around employers' PAYE schemes to a single system structured around individuals to better allow for multiple sources of employment. The National Insurance and PAYE Service (NPS), implemented in 2009, enabled information about taxpayers to be consolidated into a single record. This supported the automation of data-processing and the annual reconciliation of taxpayers' accounts with less manual intervention required by HMRC.

2.37 The Real Time Information (RTI) system, launched in 2013, requires employers to provide information to HMRC on employees' tax and national insurance deductions each time they run the payroll. The system enabled the integration of employer payroll processes with reporting PAYE information. This made it easier for employers to transmit individuals' tax and earnings information to HMRC digitally, enabling HMRC to reconcile more quickly the individuals' earnings and the PAYE taxes withheld by employers.

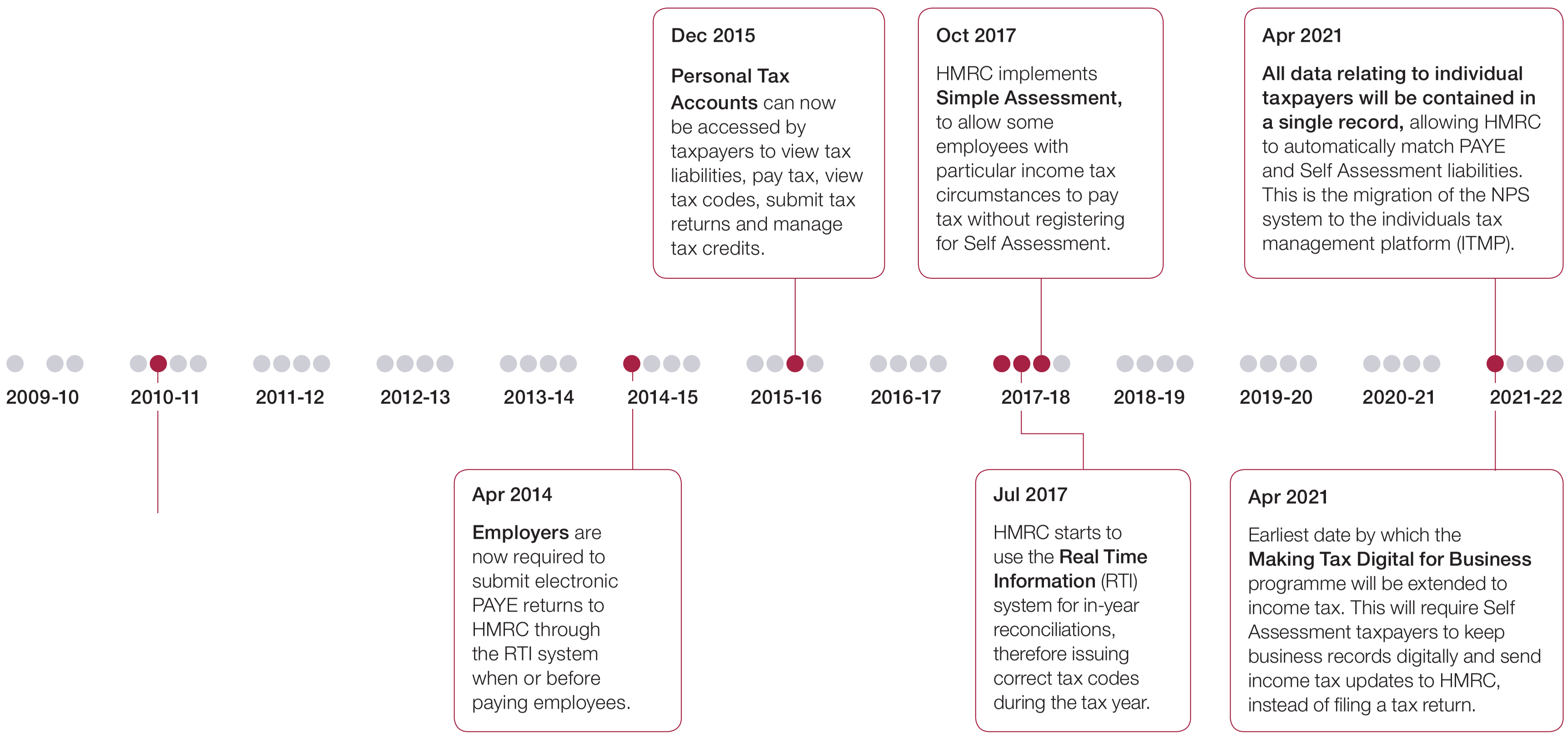
2.38 HMRC introduced the Personal Tax Account (PTA) from December 2015.[17] The PTA makes more of the data that HMRC holds visible to taxpayers. Additional functionality has been gradually introduced that enables taxpayers to interact with HMRC digitally to update their details or raise queries about their tax affairs. The modernisation of the core tax processing systems has enabled incremental process developments such as dynamic tax coding and Simple Assessment. Both are aimed at collecting the right income tax on a more timely basis.

16 Comptroller and Auditor General, *Inland Revenue: Income Tax Self Assessment*, Session 2001-02, HC 56, National Audit Office, July 2001.

17 A Personal Tax Account is an online system that allows taxpayers to manage their tax affairs. See HMRC information at: www.gov.uk/personal-tax-account

Figure 17
Timeline of changes to income tax

New processes and technologies have changed how HM Revenue & Customs (HMRC) is running and intends to run the income tax system



Source: National Audit Office analysis of HM Revenue & Customs processes

Current challenges for the administration of income tax

2.39 The income tax system is not administered by HMRC alone; there are more than two million PAYE employer schemes that process and report more than 100 million transactions each month.[18] This requires the engagement and cooperation of employers and payroll providers in fulfilling their obligations for real-time reporting and payment of tax deductions to HMRC.

2.40 HMRC's ability to collect the correct amount of tax depends on obtaining complete and accurate information from employers and individuals about their earnings. External factors in the income tax environment can reduce the quality and timeliness of data that HMRC receives (**Figure 18**).

2.41 HMRC recognises that the nature of work and employment has changed significantly in recent years and will continue to do so. Developments in technology and the economic environment have transformed the way people engage in work and generate an income. The growth of employment intermediaries and online platforms have made the definition of 'employment' more fluid. Determining whether an individual is employed or self-employed requires greater consideration of the specific work they perform, the terms and conditions, and an understanding of both employment law and tax law.

Figure 18

Risk of incorrect or incomplete taxpayer data

There are risks to the administration of the tax system from incomplete or poor-quality data:

- Pay As You Earn (PAYE) relies on employers reporting information to HM Revenue & Customs (HMRC); employer errors when calculating the amount of tax to be deducted, inaccuracies or late reporting of data to HMRC may cause errors in income tax.
- For individuals with multiple or irregular periods of employment, income tax can be more prone to error, especially if changes to circumstances are not communicated to HMRC on a timely basis; additionally, some individuals do not declare secondary income.
- An inappropriate employment status (whether an individual is self-employed or employed) can result in the individual becoming registered incorrectly between Self Assessment or PAYE, which determines the responsibilities for providing information to HMRC and how and when tax is collected.
- Individuals whose income is unknown to HMRC, due to error or deliberate non-compliance, is not taxed until identified through compliance activity because they are not included in any PAYE scheme and not registered in Self Assessment.

Source: National Audit Office analysis of HM Revenue & Customs processes

18 HMRC, *Real Time Information Programme: Post Implementation Review Report*, December 2017. Available at: www.gov.uk/government/publications/real-time-information-programme-post-implementation-review

2.42 Since the devolution of income tax powers to Scotland from 2016-17 and Wales from 2019-20, the administration of the income tax system has become more complex. For Scottish and Welsh taxpayers, tax due on non-savings, non-dividend income is calculated using the applicable Scottish or Welsh rates and bands. Income from savings or dividends is still subject to the whole-of-UK tax rules. We report annually on HMRC's administration of the devolved income tax in Scotland and Wales.[19]

Current measures to improve the income tax system

2.43 HMRC's ongoing transformation programme, Making Tax Digital, aims to modernise tax administration for individuals and businesses to make income tax more effective and efficient and to make it easier for taxpayers to get their tax right and keep on top of their affairs.[20] This means developing the ways it engages with taxpayers, making more data visible to customers through PTAs, enabling digital record-keeping by businesses and individuals and leveraging data from third parties such as banks and building societies.

Improving the quality of data collection

2.44 Since being launched in 2016, PTAs have been accessed by around 19.4 million taxpayers. Taxpayers can view their personal tax, state pension, and tax credit data through their PTA and perform tasks such as submitting tax returns, paying tax and changing personal details. HMRC's plans to introduce further functionality to the PTA were paused in May 2018, to release project capacity to deal with EU exit work.

2.45 HMRC has also implemented powers to obtain data from third parties such as banks and building societies, who are required to report their customers' savings and investment income to HMRC.[21] The information is used to prepopulate PAYE records. This was first introduced for the 2016-17 tax year with limited success due to difficulties with matching the data. For the 2017-18 tax year, following data cleansing and automation of the process, at least one bank or building society account record was matched to 34 million taxpayers' records, giving a success rate of 81%.

19 Comptroller and Auditor General, *HMRC: Administration of Scottish Income Tax 2017-18*, Session 2017–2019, HC 1676, National Audit Office, November 2018 and Comptroller and Auditor General, *HMRC: Administration of Welsh Income Tax 2017-18*, Session 2017–2019, HC 1869, National Audit Office, January 2019.

20 HMRC, *Overview of making tax digital* available at: www.gov.uk/government/publications/making-tax-digital/overview-of-making-tax-digital

21 HMRC uses powers under Schedule 23 of the Finance Act 2011 to require information about interest earned or credited to accounts of UK residents by financial institutions in the UK. See HMRC guidance at: www.gov.uk/government/publications/type-17-and-18-bank-building-society-interest-and-other-interest-returns-of-interest-and-eusd/bank-and-building-society-bbsi-european-union-savings-directive-eusd-and-other-oi-returns-of-interest

2.46 Similarly, employment intermediaries, such as contracting agencies, who do not operate PAYE, are required to report the details of all the individuals they place with their clients.[22] HMRC aims to expand its data collection powers; it recently carried out a consultation to explore how online platforms could work with HMRC and taxpayers to help people who make money through the platforms understand and meet their tax obligations.[23]

Simplifying obligations for taxpayers

2.47 HMRC has implemented processes that make better use of the data it holds, with the aim of reducing the administrative burden for taxpayers and improving the accuracy of tax assessment. For PAYE taxpayers who also complete a Self Assessment return, information held in PAYE records is used to automatically populate the online Self Assessment tax returns. This means that taxpayers do not have to provide the information again in their return.

2.48 Simple Assessment was introduced for the 2016-17 tax year; by using the data HMRC routinely receives, tax liabilities can be calculated for some taxpayers without the need for a Self Assessment return. The initial groups of taxpayers in scope are state pensioners with income that is greater than the personal tax allowance, and PAYE customers who have underpaid tax that cannot be collected through their tax code and have not paid the tax following a voluntary payment request. In the first two years, 500,000 (2016-17) and 360,000 (2017-18) Simple Assessments were issued to taxpayers, eliminating the need for them to complete a Self Assessment return.

2.49 Tax codes are recalculated annually to ensure taxpayers are on the correct tax code from the start of the year, considering all income, benefits, allowances and deductions. HMRC issues approximately 11.9 million updated tax codes to individuals each year for a variety of reasons.[24] For example, for an individual who has employment income that is taxed at source through PAYE and income from savings or dividends, the tax code may be adjusted to collect the tax that will be due on the additional income, which is generally received gross, that is, untaxed at the point of receipt.

2.50 Since July 2017, HMRC has operated dynamic tax coding to enable the right amount of tax to be collected in-year and reduce the occurrence of underpayments and overpayments. HMRC will adjust tax codes within the tax year to reflect changes to an individual's circumstances when it becomes aware of them. Where a change to a taxpayer record triggers an automated calculation, the tax code is recalculated based on the new information.

22 An employment intermediary is a person or business who makes arrangements for someone to work for a third person. They are also often known as an 'agency' or 'employment business'. See HMRC guidance at: www.gov.uk/guidance/employment-status-employment-intermediaries

23 Online platforms are businesses that facilitate the sharing economy, facilitate the gig economy and connect buyers with individuals offering services or goods for sale. See HMRC guidance at: www.gov.uk/government/consultations/online-platforms-role-in-ensuring-tax-compliance-by-their-users

24 An average of 11.9 million P2 tax code notices were issued annually between 2015-16 and 2019-20.

How the income tax systems are due to change in the future

2.51 HMRC is currently piloting a Making Tax Digital service for income tax to enable Self Assessment obligations to be fulfilled through using compatible software. Self-employed individuals with sole trader income or rental income can use software to keep their business records digitally and send income tax updates to HMRC throughout the tax year instead of filing a Self Assessment tax return.

2.52 HMRC has an ambition to migrate individuals away from multiple income tax processes into a single income tax process that operates in real time on new tax platforms and interacts with a taxpayer's digital tax account. HMRC's ambition is to start to migrate individual tax processing from April 2021 to the new tax platforms (Figure 17).

Part Three

Benefits and credits

3.1 HM Revenue & Customs (HMRC) administers Personal Tax Credits (tax credits) and Child Benefit to provide support to families with children and to help ensure that work pays more than welfare. In 2018-19 HMRC spent £33.8 billion on these benefits and credits, 76% of total expenditure of £44.5 billion recorded in HMRC's 2018-19 Resource Accounts. Of this, £22.3 billion was spent on tax credits and £11.5 billion was spent on Child Benefit. Tax credits supported around 3.3 million families and around six million children; Child Benefit supported around 12.7 million children.

3.2 This part of our report covers:

- the qualification of the Comptroller and Auditor General's (C&AG's) opinion on the Resource Accounts due to material irregular tax credits expenditure;
- the estimated level of error and fraud in tax credits;
- developments in tackling error and fraud in tax credits;
- the transfer of tax credits to Universal Credit; and
- the estimated level of error and fraud in Child Benefit.

Qualification of the C&AG's audit opinion on the regularity of tax credits expenditure

3.3 Under the Government Resources and Accounts Act 2000, the C&AG must obtain enough evidence to give reasonable assurance that:

- the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament; and
- the financial transactions recorded in the financial statements conform to the authorities that govern them (the C&AG's regularity opinion).

3.4 The Tax Credits Act 2002 specifies the eligibility criteria for tax credits and the way HMRC calculates the amounts to be paid. Where error and fraud results in overpayment or underpayment of tax credits to an individual who is either not entitled to tax credits or is paid at a different rate from that specified in the legislation, the transaction does not conform with Parliament's intention and is irregular. In respect of HMRC's 2018-19 financial statements, the C&AG has qualified his opinion on regularity due to the material level of estimated error and fraud in tax credits expenditure.

Tax credits

3.5 Tax credits were introduced in 2003 and are designed to support families with children; tackle child poverty; and help to make sure that work pays more than welfare. Tax credits awards are based on initial estimates and finalised at the end of the tax year. The process for finalising awards relies on claimants providing complete and accurate data and HMRC calculating awards accurately. Error and fraud in tax credits has been a significant challenge for HMRC, which has led to a qualified opinion on regularity every year since they were introduced. Tax credits are gradually being replaced by Universal Credit, administered by the Department for Work & Pensions (DWP).

Estimated level of error and fraud in tax credits

3.6 HMRC's latest estimate of the level of error and fraud in tax credits relates to 2017-18. This is because, in accordance with the normal tax credits annual cycle, awards for 2017-18 were finalised between April and July 2018 following the end of the tax year or in January 2019 for claimants required to submit a Self Assessment for income tax. It is only after all claims are finalised that testing can be completed to estimate error and fraud.

3.7 HMRC estimates that in 2017-18 error and fraud resulted in overpayments[25] of tax credits of 5.7%[26] of expenditure, compared with 4.7% in 2016-17.[27] Errors in tax credits resulting in underpayments amounted to 0.6% of expenditure, compared with 0.7% in 2016-17. This equates to overpayments of £1.46 billion from an estimated 870,000 claims and underpayments of £170 million from an estimated 520,000 claims. Overpayments are at their highest rate since 2011-12 (**Figure 19** overleaf).

25 HMRC's published statistics refer to error and fraud resulting in overpayments – where claimants have received more than their entitlement – as 'error and fraud favouring the claimant', and error resulting in underpayments – where claimants have received less than their entitlement – as 'error and fraud favouring HMRC'. We use the terms overpayments and underpayments in Part Three of this report. This is not the same as overpayments reported by HMRC during the year or that arise when tax credits awards are finalised. These overpayments arise because tax credits are calculated annually, and so relate to the natural cycle of tax credits and are not included in the error and fraud statistics discussed here.

26 Error and fraud figures quoted within the main body of this Part are central estimates within a 95% confidence interval. This range reflects the uncertainty within the estimates. Detail on the estimate ranges is provided in the table in Appendix Two.

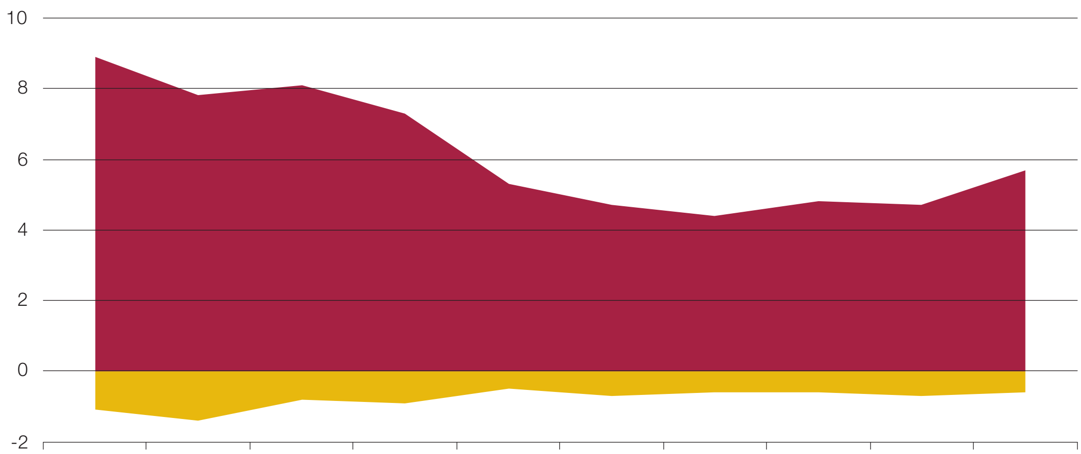
27 The initial estimate for 2016-17 (4.9%) has been revised by HMRC because it was based on incomplete data; for example, some cases used in the estimation were still being investigated and some HMRC decision-making was still subject to appeal by households at the time of the initial estimate. See: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/794326/Tax_Credits_EFAP_2016-17_republication_190411.pdf

Figure 19

HM Revenue & Customs' (HMRC's) tax credits overpayment and underpayment estimates, 2008-09 to 2017-18

The error and fraud overpayments rate has increased to 5.7%, the highest since 2011-12

Overpayments and underpayments as a percentage of total tax credits expenditure (%)



	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Overpayments (%)	8.9	7.8	8.1	7.3	5.3	4.7	4.4	4.8	4.7	5.7
Underpayments (%)	-1.1	-1.4	-0.8	-0.9	-0.5	-0.7	-0.6	-0.6	-0.7	-0.6

Notes

1 Figures for 2016-17 have been revised by HMRC: see *Child and Working tax credits error and fraud statistics 2016-17*, June 2018 as updated 11 April 2019.

2 Finalised estimate for error and fraud overpayments for 2016-17 is 4.7% of finalised tax credit entitlement, down from 4.9% reported in June 2018.

3 Finalised estimate for error and fraud underpayments for 2016-17 is 0.7% of entitlement, down from 0.8% reported in June 2018.

4 Figures for 2017-18 were published by HMRC in June 2019 and are initial estimates.

Source: National Audit Office analysis of HM Revenue & Customs data

3.8 In forming his opinion on the regularity of tax credits expenditure, the C&AG has considered whether the error and fraud rates for 2017-18 provide sufficient and appropriate evidence that error and fraud remains a material issue in 2018-19. Based on current forecasts, HMRC expects that the level of error and fraud will increase when measured for 2018-19. The actual level of error and fraud will not be measured until June 2020, and so the estimate of error and fraud in 2017-18 remains the best estimate of the level of error and fraud in tax credits expenditure for the 2018-19 financial year.

Developments in tackling error and fraud

3.9 HMRC's analysis shows that the main causes of error and fraud in tax credits are the incorrect reporting of work and working hours (£430 million in overpayments in 2017-18), claimants not declaring that they live with a partner (£405 million in overpayments in 2017-18) and misreporting of income (£285 million in overpayments in 2017-18).[28]

3.10 HMRC has undertaken further analysis to understand tax credits error and fraud due to misreported income, which is also the main cause of error and fraud in benefits administered by the DWP and contributes around 30% of error and fraud in Universal Credit, which is replacing tax credits. HMRC's analysis shows that nearly £145 million of error and fraud due to misreported income was because claimants had understated their income, with the remainder due to failure to declare income, including nearly £60 million in overpayments where claimants had not declared other social security benefits paid to them.[29]

3.11 HMRC has said that, while its work on error and fraud continues, it has decided not to deliver some projects that would have modernised parts of the tax credits system and could have reduced levels of error and fraud by helping claimants to submit correct and complete information at the outset, for example:

- 'digital new claims' – a project that, while it was still possible to make new claims, would have allowed those claims to be submitted online; and
- 'paperless renewals' – a project that would have replaced paper tax credits renewals notices with digital versions.

3.12 HMRC has, to varying degrees, also considered and decided against other changes to the tax credits system which, if implemented, could have helped to reduce error and fraud. It has taken these decisions as part of an ongoing reprioritisation of its portfolio intended to free up staff and resources to manage its transformation programme and the additional demands of European Union (EU) exit, while also recognising the limited remaining lifespan of tax credits. HMRC's Accounting Officer confirmed in recent evidence to the Committee of Public Accounts that additional investment in tax credits was not as much of a priority as other areas of HMRC's business.[30]

28 HMRC, *Personal Tax Credits Statistics: Child and Working Tax Credits Error and Fraud Statistics 2017-18,* First Release, June 2019, page 3, available at: www.gov.uk/government/statistics/announcements/child-and-working-tax-credits-error-and-fraud-statistics-2017-to-2018?cachebust=1558003958

29 HMRC's statistical first release also lists other smaller reasons for error and fraud that make up the £285 million total income risk.

30 HC Committee of Public Accounts, *Oral Hearing on HMRC's performance in 2017-18*, Session 2017–2019, 5 September 2018, available at: http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/public-accounts-committee/hmrc-standard-report-and-accounts/oral/88907.html

3.13 The underperformance of HMRC's Concentrix contract, intended to provide additional compliance checking of claims, and HMRC not securing funding to replace this capacity on termination in 2016 have further reduced its ability to check tax credits claims. HMRC's analysis indicates that the rate of error and fraud is an estimated 1.9 percentage points higher than it would have been, had this strand of compliance activity performed in line with contractual expectations in 2016-17 and if the contract had been extended into 2017-18 and delivered performance consistent with 2015-16, which was prior to the issues.

3.14 The introduction of Universal Credit has meant that, since 1 February 2019, there are very few new claims for tax credits, and only in limited circumstances. This means that the amount of error and fraud entering the system from new claims will significantly reduce. Any remaining error and fraud will be contained within the existing caseload and further reductions in the error and fraud rate will therefore depend on HMRC's measures to encourage prompt reporting of changes in the circumstances of existing claimants and measures taken at the point claims are renewed.

3.15 Despite the reduction in new error and fraud entering the system, HMRC expects the rate of error and fraud to increase to around 6.8% in 2018-19, remaining above the 5% ministerial target.[31] This is partly because HMRC reduced its capacity to work on error and fraud by moving 270 full-time equivalent staff from benefits and credits activity to EU exit workstreams in 2018-19, although it expects most of these roles to be backfilled through recruitment. The forecast increase also reflects adjustments to HMRC's model in response to evidence that the value of award changes subsequently overturned through appeals was higher in 2017-18 than in 2016-17. HMRC keeps this aspect of its forecast under review.

Transfer of tax credits to Universal Credit

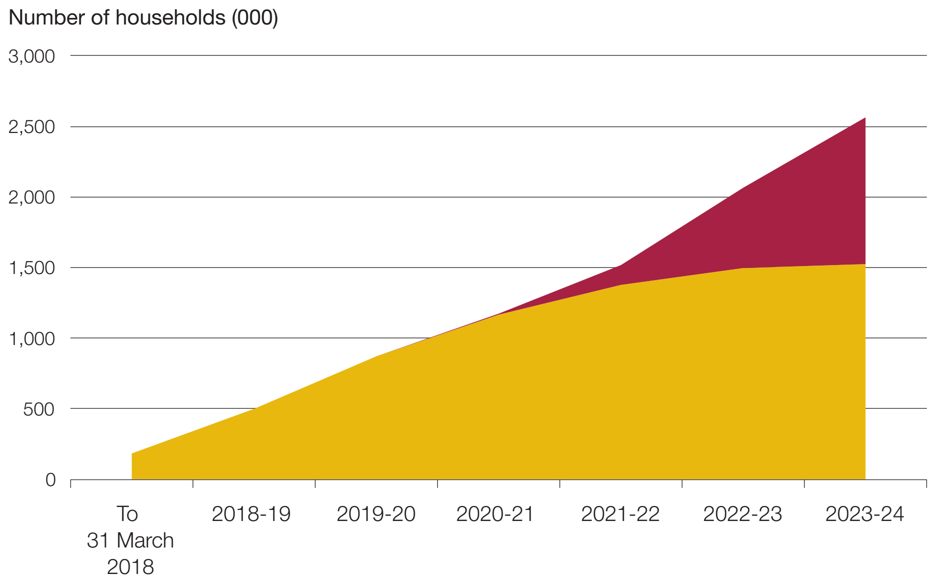
3.16 Under current plans, Universal Credit will fully replace tax credits by the end of 2023 (**Figure 20**). However, HMRC will remain responsible for administering tax credits until all claimants, and any debt associated with their claims, have either moved to Universal Credit or left the tax credits regime.

31 This is a central estimate. HMRC forecasts a range of between 6.5% and 7%.

Figure 20

Transfer of tax credits claimants to Universal Credit

Transfer of current tax credits claimants will accelerate from 2020-21 based on latest plans



	To 31 March 2018	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Managed move to UC (cumulative)	0	0	2	11	141	568	1,042
Natural move to UC (cumulative)	184	501	871	1,165	1,378	1,497	1,522

Notes

1 Households moving from tax credits to Universal Credit (UC) for which there may be single or joint claims. UK data.

2 Data to end March 2019 are actual transfers. Data from March 2019 are forecast values. Values exclude 'nil awards' which will not be transferred and will be removed from the HM Revenue & Customs caseload.

3 Natural movement to Universal Credit can occur when someone has a change of circumstances that means they would have to make a new claim for a benefit or credit (for example, working hours fall below 16 hours a week). However, as people can, in general, no longer make a new claim for tax credits or other legacy benefits, they must make a claim for Universal Credit. Managed movement is the transfer of existing claimants of tax credits (and other legacy benefits) to Universal Credit.

Source: National Audit Office analysis of HM Revenue & Customs, Department for Work & Pensions and Northern Ireland Department for Communities information

3.17 HMRC and the DWP are continuing to refine plans for transferring tax credits claimants to Universal Credit. The rate at which claimants are transferred will partly depend on lessons learned from the 'move to UC' pilot currently planned to begin in July 2019. The transfer of existing tax credit claimants will require significant and ongoing management across both departments to ensure the accurate and complete movement of claimants and debt. HMRC will also need to balance these challenges with its continuing responsibilities for administering tax credits in the short term. Meanwhile, some of the transfer uncertainties which we reported on last year remain, including:

- the potential impact that the nature and timing of the transfers could have on the complexity of the tax credits caseload as it winds down. HMRC reports that transfers to date have not had a noticeable effect on caseload complexity or the rate of error and fraud; and
- the arrangements that will be made for the residual tax credits debt relating to claimants no longer receiving tax credits or Universal Credit, which are still to be agreed.

3.18 HMRC held more than £6.2 billion of tax credits debt at the end of March 2019 (**Figure 21**).[32] Most of this debt is being pursued directly with claimants rather than being recovered from deductions from ongoing tax credits awards. Debts relating to past overpayments of tax credits will transfer to the DWP when a claimant moves from tax credits to Universal Credit. Up to the end of March 2019, some £1.0 billion of tax credits debt has transferred to the DWP for the 501,000 households that have already moved to Universal Credit.

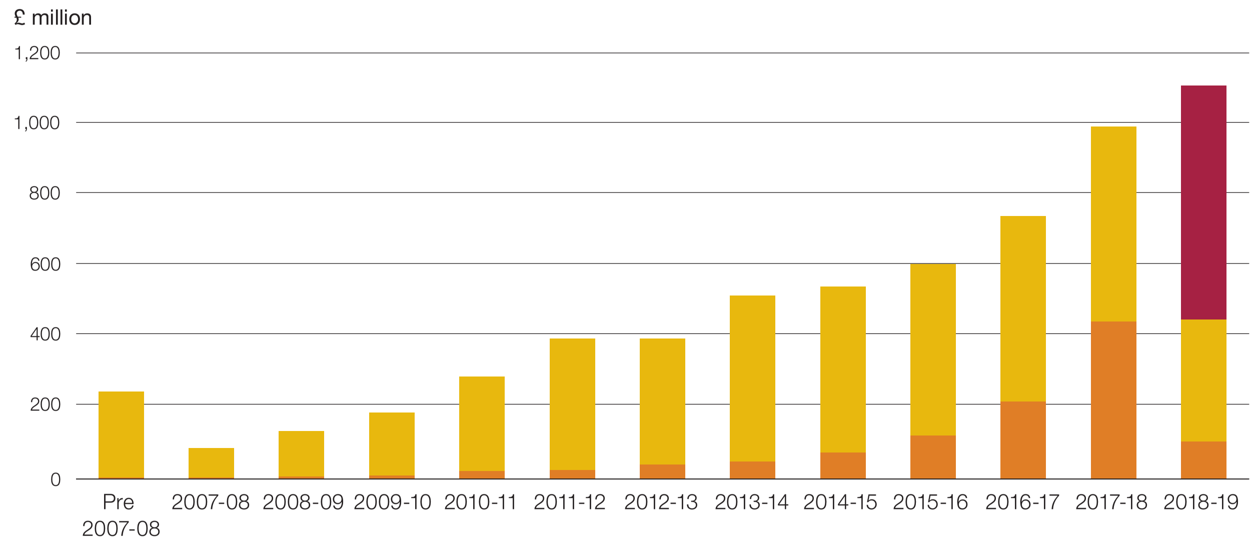
3.19 HMRC is developing proposals with the DWP on what remaining debt from past claims should or should not transfer to the DWP and these will need to consider practical issues such as the mechanisms for retaining and transferring information relating to those debts so that they can be collected. It has currently estimated that a total of £6.8 billion of debt will transfer from HMRC to the DWP by 2023.

32 Some of this debt is still to be finalised during 2019-20.

Figure 21

Tax credits debt held by HM Revenue & Customs (HMRC), March 2019

HMRC currently holds more than £6.2 billion of tax credits debt, spanning the life of tax credits. Most debt relates to individuals who no longer have an active tax credits claim



	Pre 2007-08	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	Total (£m)
Expected debt from finalisation of 2018-19 claims (£m)													660	**660**
Debt owed by individuals with no active tax credit claim (£m)	243	85	128	177	268	370	357	468	470	482	523	552	348	**4,472**
Debt owed by individuals with an active tax credit claim (£m)	5	3	7	11	22	27	40	51	75	125	219	447	105	**1,137**
Total debt														**6,269**

Notes

1 All debt is reported gross, before impairment.

2 Individual bars show outstanding debt analysed by the award year to which the debt relates.

3 £6.3 billion total debt at March 2019 includes £660 million of estimated debt relating to 2018-19 which will be finalised in 2019-20.

4 HMRC has so far transferred £1.0 billion of gross debt to the Department for Work & Pensions as part of the move to Universal Credit. This total is not included here.

5 Totals may not sum or reconcile to the Statement of Financial Position due to rounding.

Source: National Audit Office analysis of HM Revenue & Customs information

Error and fraud in Child Benefit

3.20 Child Benefit has been administered by HMRC since 2003-04. In 2018-19, HMRC's expenditure on Child Benefit was £11.5 billion (£11.7 billion in 2017-18). As with tax credits, HMRC carries out work to estimate the level of error and fraud within Child Benefit. It estimates that the overall level of error and fraud resulting in overpayments of Child Benefit amounted to 0.6% of total expenditure in 2018-19 (**Figure 22**), or £75 million, comprising two distinct categories:

- 0.3% (£40 million) where claimants respond to enquiries and are found to be ineligible for Child Benefit (0.4% or £50 million for 2017-18);[33] and
- 0.3% (£35 million) relating to claimants who fail to respond to HMRC's request for evidence to support their eligibility for Child Benefit during sampling exercises and who, based on HMRC's further analysis, are believed not to be entitled to the benefit (0.5% or £55 million for 2017-18).

3.21 HMRC has been developing its methodology for estimating the proportion of non-responding cases that do not have an eligible claim. In past years, claimants failing to respond to HMRC's request for evidence were automatically scored as error or fraud. HMRC believes that this blanket approach does not accurately reflect the underlying level of error and fraud. In 2017-18, it developed a 'decision-tree' model drawing on other data to estimate the extent of eligible claims among claimants who do not respond to its request for information.

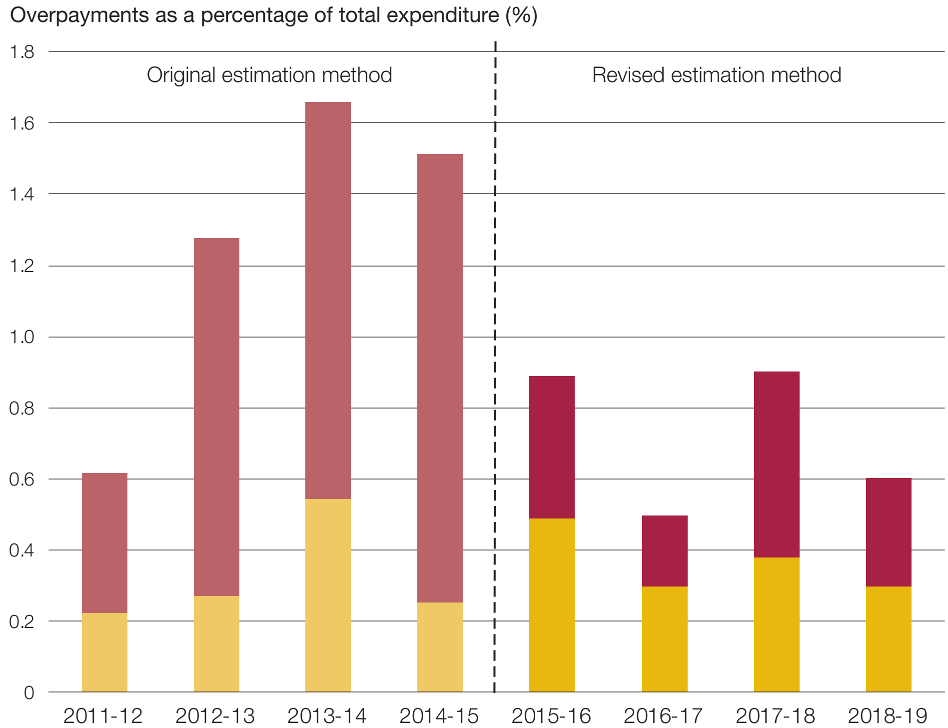
3.22 In 2018-19, HMRC refined its decision-tree model following comparison of the model's performance with the known outcomes from 425 claims. Its revised approach – which draws in additional data on British citizenship status found to be important for some claimant groups – improves the accuracy of error and fraud estimates and has confirmed that previously reported estimates for 2017-18 remain valid. HMRC has now concluded this work on developing its analytical approach to estimating levels of error and fraud among non-respondents and has used the results in its reporting of 2018-19 levels of Child Benefit error and fraud. It will keep the decision-tree model under review and the results from the error and fraud analysis programme will inform the development of controls around Child Benefit as HMRC upgrades related IT systems.

33 The main causes of error and fraud in Child Benefit for responding claimants are where children are no longer in full-time education after their 16th birthday, and where claimants do not meet residency requirements.

Figure 22

HM Revenue & Customs' (HMRC's) Child Benefit overpayment estimates, 2011-12 to 2018-19

Estimated overpayments in Child Benefit are 0.6% of total Child Benefit expenditure for 2018-19



	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Non-response cases calculated to be error and fraud	0.4	1.0	1.1	1.3	0.4	0.2	0.5	0.3
Estimated error and fraud excluding non-response cases	0.2	0.3	0.5	0.3	0.5	0.3	0.4	0.3

Notes

1 HMRC has not set a target for reducing error and fraud within Child Benefit.

2 This graph presents the central estimate for error and fraud and its attributable elements. These estimates are based on a small number of cases. As a result, there is a large amount of uncertainty in the results, which is reflected in the wide confidence intervals around the central estimate (for 2018-19, HMRC estimates that the actual rate is within the range 0.4% to 0.8% with a central estimate of 0.6% of total expenditure).

3 Estimated overpayments are made up of two components: estimates for claimants who reply to HMRC's inquiries and provide information that proves ineligibility for Child Benefit and estimates for claimants who do not reply to requests for information during the exercise.

4 In 2015-16, HMRC changed its approach to estimating error and fraud for claimants who do not reply to letters inviting the claimant to provide evidence of their entitlement to the benefit. This method was further refined in 2018-19 and data for 2016-17, 2017-18 and 2018-19 are obtained using this refined approach. Changes in methodology mean that more recent estimates are not directly comparable with results before 2015-16.

Source: National Audit Office analysis of HM Revenue & Customs' Child Benefit Error and Fraud Analysis Programme statistics

Appendix One

Our evidence base

1 We reached our conclusions on HM Revenue & Customs' (HMRC's) performance using evidence collected between September 2018 and June 2019.

2 For Part One, and as part of our financial audit, we reviewed the supporting information for HMRC's Trust Statement and Resource Accounts. We analysed and discussed with officials the supporting data prepared by a variety of business units within HMRC. Our analytical review examined the numbers published in the financial statements plus supporting information provided during the course of the financial audit.

3 For Part Two, we have drawn directly from our statutory audit work on the controls operating within HMRC over the proper assessment, collection and allocation of income tax under Section 2 of the Exchequer and Audit Departments Act 1921. All of these audit procedures have been planned, performed and reviewed in accordance with our internal quality control procedures for financial audit.

4 For Part Three, in addition to our financial audit work on Personal Tax Credits (tax credits) and Child Benefit, we reviewed HMRC's error and fraud statistical analysis and information on the performance of initiatives to reduce error and fraud in tax credits and Child Benefit payments. We interviewed key staff and reviewed documents on HMRC's plans and strategies for tax credit debt.

5 We also reviewed:

- HMRC's internal audit reports to understand the management of risks and challenges; and
- HMRC's corporate publications on measuring the tax gap.

Appendix Two

Historical fraud and error rates in Personal Tax Credits

Figure 23

Historical fraud and error rates in Personal Tax Credits (%)

	Year of Error and Fraud Analysis Programme	Error and Fraud as a percentage of finalised entitlement		
		Lower bound	Central estimate	Upper bound
Overpayments	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
Underpayments	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

Source: National Audit Office analysis of HM Revenue & Customs statistical releases

CCS0319879500
978-1-5286-1147-3