HM Revenue
& Customs

Annual Report and Accounts 2020 to 2021

HM Revenue and Customs
Annual Report and Accounts 2020 to 2021

For the period 1 April 2020 to 31 March 2021

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

Ordered by the House of Commons to be printed on 4 November 2021

HC 696

This is part of a series of departmental publications which, along with the Main Supply Estimates 2021 to 2022 and the document Public Expenditure: Statistical Analyses 2021, present the government's outturn for 2020 to 2021 and planned expenditure for 2021 to 2022.

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

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Correction to page 219:

Text currently reads:

- COVID-19 support schemes – paragraphs X to X on pages X to X.
- Personal Tax Credits – paragraphs X to X on pages X to X.
- Corporation Tax research and development reliefs – paragraphs X to X on pages X to X.

Text should read:

- COVID-19 support schemes – paragraphs 3.5 to 3.9 on page R52.
- Personal Tax Credits – paragraphs 4.6 to 4.9 on page R63.
- Corporation Tax research and development reliefs – paragraphs 4.31 to 4.34 on page R71.

Date of correction: 12 November 2021

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Performance Overview

A summary of HMRC's performance in financial year 2020 to 2021, including our vision, objectives, commitments, risks and outcomes

2020 to 2021: our year at a glance

We supported our customers and delivered our core purpose of collecting revenue to fund public services

£608.8bn
total tax revenues

£30.4bn
additional tax generated through tackling avoidance, evasion and other non-compliance

0.59p
cost for every £1 of tax collected

6.3m
Self Assessment customers helped by phone or webchat in the month before 31 January deadline

85.2%
customer satisfaction with our digital services

We continued working to build a trusted, modern tax and customs department

1.5m
1.5m businesses using Making Tax Digital for VAT since launch

7
standards set out in our updated HMRC Charter, showing customers what they can expect when they deal with us

4
further regional centres opened, providing modern, collaborative workspaces

127
legacy IT systems decommissioned to improve resilience and security

Our work was at the centre of the government's response to COVID-19

11.5m
jobs supported through the Coronavirus Job Retention Scheme up to 31 March 2021

2.7m
people supported by the Self-Employment Income Support Scheme up to 31 March 2021

9,000+
HMRC colleagues deployed to support customers using financial support schemes

80+
tax policy changes and clarifications to support customers and the economy during the pandemic

£840m+
protected through preventing or recovering overpayments of COVID-19 support scheme grants up to 31 March 2021

We took action to support the UK's international trade

3,000+
businesses supported to prepare for the end of UK's transition from the EU

80,000+
calls answered on our customs and international trade helpline

359,000+
declarations processed by our free Northern Ireland Trader Support Service

3,000
colleagues trained in process and system changes to support customers for the end of the UK's transition period

Foreword by Jim Harra, Chief Executive and First Permanent Secretary

"The pandemic showed how a trusted, modern tax administration system is crucial to the UK's national resilience and crisis management capability."

When I look back over the year covered by this annual report, I feel immense pride at the way my colleagues responded to the unprecedented circumstances caused by COVID-19.

From the outset, we played a vital role at the heart of the government's economic response to the pandemic. It meant prioritising our resources to ensure that we kept delivering our core purpose of administering the tax system - while also delivering vital COVID-19 support to protect millions of jobs and help businesses get through an extremely challenging time.

The pandemic showed how a trusted, modern tax administration system is crucial to the UK's national resilience and crisis management capability. It also showed HMRC values at their best - more than 60,000 public servants pulling together with confidence and capability to support the economy and look after our customers and each other.

Getting on with business in exceptional times

Throughout this exceptionally challenging year, we kept all our core services running and ensured customers could access the right help when they needed it. To do this, we had to make choices about how we balanced our resources - for example, we took the conscious decision to divert some of our skilled advisers from PAYE and Self Assessment services to provide COVID-19 support because that's what individuals and small businesses needed from us most urgently at a time of acute crisis.

This meant that wait times on some of our helplines were longer than we would have liked. But at the same time, customer satisfaction with our digital services reached an all-time high of 88.5% in August 2020. We introduced a range of new digital services and increased our provision of webchats as a flexible alternative to phone calls, holding 3.1 million webchats with customers during 2020 to 2021.

Inevitably, the scale of the economic impact caused by COVID-19 had some effect on tax revenue and we saw customer debt levels rise significantly during the year. If individuals and businesses are generating less taxable income, there is less revenue to collect - but we also enabled many customers impacted by the pandemic to defer payments of VAT and Income Tax to help them survive financially.

We took a sympathetic approach to those struggling to pay their tax or file their returns on time, while continuing to collect revenue from those customers who were in a position to pay and to take action against avoidance and evasion in all its forms. You can read more about this work on pages 48 to 53, Tackling non-compliance.

At the same time, we delivered on other urgent priorities - including changes to Customs to support the UK's transition from the European Union. We implemented major process and system changes, opened new Customs facilities at the border and inland, and helped thousands of traders to understand and prepare for the new trading rules.

Building a trusted, modern tax and customs department

The impact of the pandemic has reinforced the importance of a flexible, resilient and responsive tax and customs system. Thanks to skilled HMRC colleagues, many working from their kitchen tables and spare bedrooms, we were able to launch major financial support like the Coronavirus Job Retention Scheme and the Self-Employment Income Support Scheme within a few short weeks of the start of lockdown. We took steps in the design of the financial support schemes to protect them from error and fraud as far as possible while balancing with speed of delivery. We set up a new Taxpayer Protection Taskforce to recover amounts claimed incorrectly. We also implemented more than 80 other temporary policy changes or clarifications.

In July 2020, the importance of this work to the UK economy was recognised in the government's ten-year tax administration strategy, published jointly by HMRC and HM Treasury. It sets out the government's proposals for building a trusted, modern tax administration system - one that keeps pace with the rapid changes in society, the economy and technology and helps the UK build back better from the pandemic. The Chancellor invested £180 million into projects to support this at the March 2021 Budget.

Our strategy commits us to establishing a fully digital tax system that helps people to get their tax right first time, makes it harder to bend or break the rules and maintains taxpayer trust and consent by operating in a fair and even-handed way. It will also help us to provide more targeted support in the face of future national crises.

We recognise there are challenges to overcome - for example, in upgrading many of our IT and data security systems - but our work in these areas has accelerated during 2020 to 2021 and will continue in 2021 to 2022 and beyond.

Making Tax Digital is at the heart of our plans to build a trusted, modern tax system. It is helping to drive the development of new software products that support good tax compliance and deliver wider benefits for businesses beyond managing their tax affairs.

To maintain public trust and consent in the way we administer the tax system, we've launched a revised HMRC Charter that sets out what our customers can expect from us. We are also taking major steps to modernise the way we work. We agreed landmark reforms to our employee contracts and pay this year, allowing us to work more flexibly and respond better to changing customer needs.

By the end of 2020 to 2021 we had opened 7 of our 13 new state of the art regional centres - and now 85% of our people are based outside London, including 50% of our senior roles. We have also committed to making HMRC a more inclusive workplace and achieving carbon Net Zero by 2040.

Underpinning all this, we have 5 new strategic objectives that will provide the framework for our planning over the next Spending Review period - see page 16.

As the UK rebuilds from a period of crisis, HMRC's role in securing the revenue to help fund our public services and supporting our customers and the economy will be more important than ever. I believe that our achievements during the pandemic have shown we have the competence, capability and resilience to keep delivering for our customers and build the trusted, modern tax system the UK needs for the future.

Jim Harra
Chief Executive and First Permanent Secretary

+ Read more about our strategy at:
www.gov.uk/government/publications/tax-administration-strategy/building-a-trusted-modern-tax-administration-system

Awards for our COVID-19 response

Outstanding Achievement in Tax: Tolley's Taxation Awards

Best IT Team: REAL IT Awards

Programme of the year: APM Project Management Awards

Public Service Award: Civil Service Award

Gold: Customer Contact Association Awards

Silver: Public Service Communications Awards

Special Award: Chartered Institute of Payroll Professionals Awards

DevOps Team of the Year: DevOps Industry Awards

Best Public Sector IT Project: UK IT Industry Awards

Special Pandemic Award: AI and Machine Learning Awards

About HMRC

Our purpose

is to collect the money that pays for the UK's public services and give financial support to people. As the UK's tax, payments and customs authority, our work touches the lives of almost everyone in the country.

Our vision

is to be a trusted, modern tax and customs department.

Our values

are more important to us than ever. Achieving our vision is dependent on how we act, just as much as on systems, data and processes.

We are **professional**

We act with **integrity**

We show **respect**

We are **innovative**

Our Charter

We are committed to improving our customer experience and the HMRC Charter defines the service and standard of behaviour that our customers should expect when interacting with us. Read the HMRC Charter at **www.gov.uk/government/publications/hmrc-charter**

How we are organised

We are led by Jim Harra, our First Permanent Secretary and Chief Executive, and Angela MacDonald, our Second Permanent Secretary and Deputy Chief Executive. Our department is made up of 4 core customer-focused groups, supported by a range of corporate services, as set out below:

Our core customer groups	
Customer Strategy and Tax Design	Leads on the delivery of policy changes, and designs the tax and payments system in order to improve customer experience supporting HMRC's vision and objectives
Borders and Trade	Responsible for the policy, design and delivery of our accountabilities for UK transition and delivery of customs revenue at the border, working closely with Border Force
Customer Services	Supports customers to pay the right tax and get the right benefits, helps those who have built up debt to pay what they owe, and helps businesses to run smoothly and within the law
Customer Compliance	Ensures the right tax is paid and steps in with targeted intervention when there is a risk of that not happening

Our corporate services	
Chief People Officer Group	Develops and oversees the effective implementation of HR policies that support colleagues and improves their working experience, with overall responsibility for our workforce planning, recruitment, talent and learning activities
Chief Finance Officer Group	Provides the systems, tools, processes and controls for ensuring the smooth, safe and effective running of HMRC
Chief Digital and Information Officer Group	Creates innovative, joined up and reliable digital and information services for our people and our customers while ensuring we hold data in a way that is secure, proportionate, protected and meets the requirements of the law
Solicitor's Office and Legal Services	Provides legal services to the whole of HMRC
Transformation Group	Leads and manages cross-cutting transformational change within HMRC and oversees our response to the pandemic, through the COVID-19 Response Programme
Communications	Provides professional communications advice, support and services to the whole of HMRC and incorporates HMRC's Sustainability Team.

As well as the groups described above, our full departmental group includes:

- Valuation Office Agency: an executive agency which gives the government the valuations and property advice needed to support taxation and benefits
- Revenue and Customs Digital Technology Services Limited (RCDTS Ltd): a non-profit making company wholly controlled by and operated for HMRC which supplies the department with IT services

Our departmental group had almost 62,000 full-time equivalent employees at the end of financial year 2020 to 2021.

+ Read more about the Valuation Office Agency and RCDTS Ltd on pages 129 to 130.
+ Find out about our staff numbers and costs on pages 163 to 165.

Performance summary: 2020 to 2021

This was a unique financial year for HMRC, as we delivered our core purpose alongside vital services at the heart of the government's COVID-19 response and supported the UK's transition from the European Union.

We are proud to have continued collecting revenue for public services, tackling non-compliance and delivering vital benefits for families, while acting on government priorities swiftly and effectively at a time of national crisis.

In previous years, we have set out our objectives and public commitments in a Single Departmental Plan. However, in line with Cabinet Office guidance we were not required to publish a Single Departmental Plan for financial year 2020 to 2021. This was due to the need for all government departments to adapt their plans to the COVID-19 pandemic and the need to respond quickly to urgent government priorities.

For the same reason we did not set formal performance targets for 2020 to 2021, although we continued to publish performance updates during the year. We used rolling quarterly expectations to benchmark performance, publishing expected delivery for compliance yield in advance for quarters 2, 3 and 4 and for customer service in quarter 4.

As part of this performance summary, we have included the 30 commitments that we have been working to over the course of the year and the status of each one at year end.

+ Read our quarterly performance updates at **www.gov.uk/government/collections/hmrc-quarterly-performance-updates**

Our strategic objectives

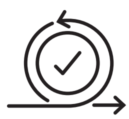
In Spring 2021, we updated our strategic objectives to set out what we will do over the coming years to achieve our vision. We make links to these new strategic objectives throughout our Performance Summary (pages 16 to 29) and our Performance Analysis (pages 30 to 99) in this year's report, to show how they connect with and build on the work we did in 2020 to 2021.

Collect the right tax and pay out the right financial support

Make it easy to get tax right and hard to bend or break the rules

Maintain taxpayers' consent through fair treatment and protect society from harm

Make HMRC a great place to work



Support wider government economic aims through a resilient, agile tax administration system

Collecting revenue and managing compliance

To ensure we could continue collecting the revenues that pay for public services throughout the pandemic, we adjusted our approach to reflect the changed needs of our customers and support the economy at a difficult time.

Despite the challenges of the year, we collected £608.8 billion in total tax revenues - lower than the £636.7 billion collected in the previous financial year, but higher than initial forecasts at the start of the pandemic.

Our debt balance increased during the pandemic. At the end of 2020 to 2021 we held £57.5 billion of debt - around £35 billion more than last year - but much of this increase was due to the choices the government made to support customers and the economy by temporarily deferring VAT and Self Assessment Income Tax payments.

Where people could not deal with our compliance enquiries, we deferred these if possible.

We still took compliance action if we suspected criminal activity or deliberate non-compliance - and we continued to take action to protect customers and the tax system from harm, with new measures to tackle evasion, promoters of tax avoidance and other forms of non-compliance.

We saw a drop in compliance yield to £30.4 billion, compared to £36.9 billion in the previous year, in part due to the unprecedented economic circumstances and also as a result of decisions we took to defer compliance activity and redeploy staff to customer service work on COVID-19 support schemes.

+ Read our full performance analysis on collecting revenue and managing compliance on pages 38 to 53.

5.3%

estimated UK tax gap in 2019 to 2020

£30.4bn

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

£608.8bn

total tax revenues collected

£57.5bn

debt balance

Our commitments

In financial year 2020 to 2021, alongside all of our work on collecting revenues and managing compliance, we made 7 specific commitments in this area. The table below outlines the status of each one at the end of 2020 to 2021.

Status at the end of 2020 to 2021:		
✔ on track or complete	△ risk to delivery	✘ not on track

Our commitments	Status
Deliver Budget 2020 measures to tackle tax avoidance, evasion and other forms of non-compliance that will raise an additional £4.7 billion between now and 2024-25.	✔
Introduce a new package of anti-evasion measures, including measures to end tax abuse in the construction sector and crack down on illicit tobacco packaging, finalising in 2021-22.	✔
Implement recommendations made by the Independent Loan Charge Review and accepted by the government, legislating in Finance Bill 2020-21.	✔
Tackle promoters of tax avoidance including preparing legislation for the Finance Bill 2020-21 to take further action against those who promote and market tax avoidance schemes.	✔
Implement the Off Payroll Working Programme in April 2021.	✔
Implement the Digital Services Tax.	✔
Consolidate existing anti-evasion and avoidance measures and powers.	✔

Improving customer experience

We recorded some of the highest ever customer satisfaction levels with our digital services during 2020 to 2021, with particularly high scores on our COVID-19 support schemes. We also saw an increase in positive ratings from individuals, small businesses and agents for all measures of customer experience (see page 59).

Overall, our helplines received 33.3 million calls - 8.3 million fewer than the previous year. Average waiting times were significantly longer, in particular on our Self Assessment and PAYE lines - primarily because we chose to divert skilled advisers to provide the COVID-19 support our customers needed most urgently. The average waiting time on our COVID-19 helplines was significantly shorter at 5:08 minutes. Customers on other lines, such as tax credits, Child Benefit and Tax-Free Childcare, experienced a service broadly in line with a normal year.

We introduced a range of digital services over the course of the pandemic - for example, holding more than 3 million webchats with customers, using digital stamps to avoid paper handling and introducing a virtual assistant to help customers find answers to common questions more easily. We also introduced measures for customers struggling to pay taxes on time. For example, Self Assessment customers could set up a payment plan online to spread their tax bill over a period up to 12 months.

For agents, we improved on our positivity ratings for 2020 compared to 2019, but we did not always provide the level of service that we would like. We are seeking to address this in 2021 to 2022.

We also took other important steps to improve the overall customer experience: preparing for the further roll-out of Making Tax Digital, working to improve the language and tone of our letters and guidance, and launching a new version of the HMRC Charter in November 2020 that sets out what customers can expect from us.

+ Read our full performance analysis on improving customer experience on pages 54 to 66.

630

COVID-19 support webinars for customers

85.2%

customer satisfaction with our digital services

+72.2

Net Easy score on our digital services*

97,162

customers helped by our Extra Support service

* Net Easy is a score from a survey conducted on digital services asking, ‘How easy was it to deal with us today?’ It represents the total number of positive responses minus the negative responses.

Our commitments

In financial year 2020 to 2021, alongside all of our work on improving customer experience, we made 5 specific commitments in this area. The table below outlines the status of each one at the end of 2020 to 2021.

Status at the end of 2020 to 2021:		
✓ on track or complete	△ risk to delivery	✗ not on track

Our commitments	Status
Continue to deliver the Making Tax Digital (MTD) programme. **Status update:** We have applied an Amber rating, in recognition of the scale of implementation for Income Tax Self Assessment (ITSA) over the years ahead. We are currently managing risks around the scope of delivery to develop a deliverable roadmap that we will actively communicate with our stakeholders. Over 2020 to 2021 we continued preparations to mandate MTD for Income Tax Self Assessment, which will now be introduced for businesses and landlords with income exceeding £10,000 in the tax year beginning in April 2024. We are continuing to gradually expand the ITSA pilot to allow more customers to test the service and have laid secondary legislation to introduce MTD for ITSA. During 2020 to 2021 we continued to expand the MTD VAT service, in readiness for extending mandation of MTD to VAT-registered businesses with a turnover below £85,000 from April 2022. We have legislated for MTD to be introduced to all VAT-registered businesses, laying regulations on 7 September 2021. We are migrating taxpayers onto our new Enterprise Tax Management Platform (ETMP). ETMP will enable us to provide an enhanced, more coherent user experience across our digital services, paving the way for a single master customer record which will provide businesses with a single picture of their tax affairs in one place.	△
Deliver our Contact Engagement Programme by: • replacing digital engagement, telephony, data and reporting services presently delivered by KCOM with a new and improved set of operational capabilities, processes, tools and technology by January 2022. This will enable us to transform how we interact with customers and improve their experience. • rolling out our Advisor User Interface (AUI) in 2020 to 2021. **Status update:** This programme of work is partially complete with new telephony and data services being used by 27,000 colleagues this year. The necessary shift to home working for many colleagues during the pandemic has slowed the roll out of the programme.	△
Improve our Child Benefit service by moving it to a new IT platform by the end of 2021.	✓
Continue to support the Department for Work and Pensions with the introduction of Universal Credit and close the tax credits system in 2025* *Natural transitions to Universal Credit (UC) from tax credits as a result of a change in circumstances continued as normal, but further pilot activities to move tax credits customers to UC were paused by the Department for Work and Pensions due to the impact of the pandemic. This activity is planned to restart in early 2022, however the overall timeline is unaffected and HMRC remains on schedule to close the tax credit system in 2025.	✓
Build and test a system to allow 'breathing space' for customers with problem debt.	✓

Delivering coronavirus (COVID-19) support schemes

When the first lockdown was announced in March 2020, we built vital support schemes from scratch in under 7 weeks - including the Coronavirus Job Retention Scheme and the Self-Employment Income Support Scheme - which helped to protect the economy and gave financial help to millions of individuals and businesses.

We also made multiple tax policy changes and clarifications to support customers and the economy, including increasing Working Tax Credit by £20 per week, deferring Income Tax payments for Self Assessment customers and VAT bills for UK businesses.

Our priority was to get the right level of support to individuals and businesses quickly. We put in robust measures to minimise and mitigate the potential for error and fraud in the COVID-19 support schemes from the outset, to the extent that this was feasible alongside getting support to people promptly. We also put measures in place to identify and address amounts overpaid as a result of claimant fraud and error.

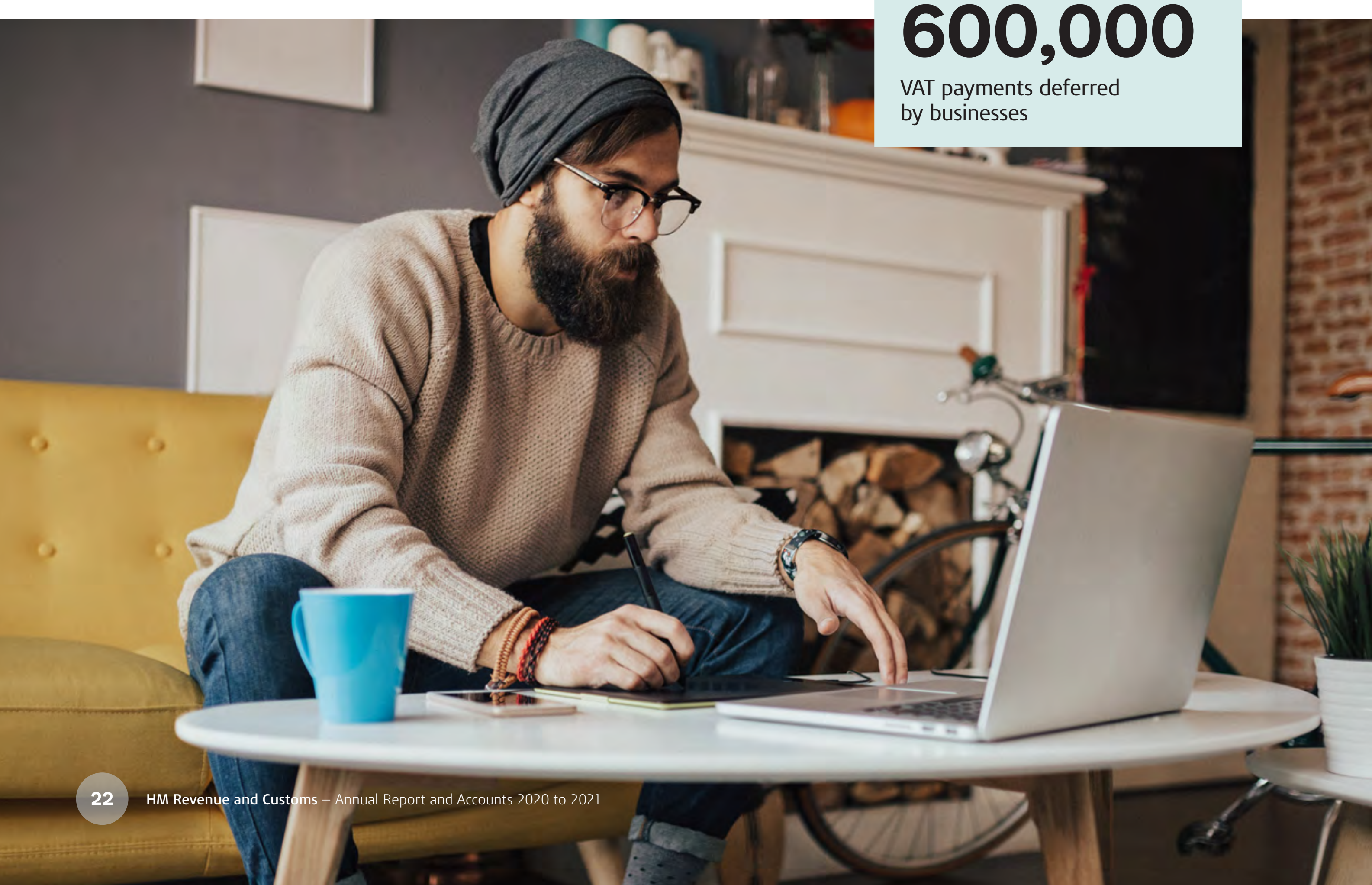
+ Read our full performance analysis on responding to COVID-19 on pages 68 to 72.

£60.7bn
paid in grants through the Coronavirus Job Retention Scheme, supporting 11.5 million jobs

7.2m
payments to the self-employed

80+
tax policy changes and clarifications to support customers and the economy during the pandemic

600,000
VAT payments deferred by businesses



Our commitments

In financial year 2020 to 2021, alongside all of our work on delivering coronavirus support schemes, we made 8 specific commitments in this area. The table below outlines the status of each one at the end of 2020 to 2021.

Status at the end of 2020 to 2021:		
✔ on track or complete	⚠ risk to delivery	✘ not on track

Our commitments	Status
Successfully administer the government's Coronavirus Job Retention Scheme, which launched on 20 April 2020.	✔
Successfully administer the government's Self-Employment Income Support Scheme, which launched in May 2020.	✔
Allow businesses affected by COVID-19 to defer VAT payments due between 20 March and 30 June 2020 and to defer certain Self Assessment payments due in July 2020.	✔
Successfully implement the temporary reduced rate of VAT (5%) that businesses in the hospitality and tourism sectors pay on some of their supplies. This rate came into effect on Wednesday 15 July 2020.	✔
Provide a Statutory Sick Pay Rebate, which fully covers the cost of two weeks of COVID-19-related Statutory Sick Pay per employee, for businesses with fewer than 250 employees. The rebate launched in April 2020.	✔
Automatically increase payments for Working Tax Credit by up to £20 per week from 6 April 2020 until 5 April 2021.	✔
Successfully administer the government's Eat Out to Help Out Scheme, announced on 8 July 2020.	✔
Successfully implement Stamp Duty Land Tax temporary rates, reducing the rates payable on purchases of residential property between 8 July 2020 to 31 March 2021.	✔

Supporting the UK's international trade

The EU-UK Trade and Cooperation Agreement and the provisions of the Withdrawal Agreement and Northern Ireland Protocol came into force on 1 January 2021. Helping businesses prepare for and navigate the new rules, after the biggest border change for more than 40 years, was an urgent priority for us and across government.

We worked with other departments across government to ensure the UK transition was as smooth as possible. As well as publishing information and engaging with businesses to make sure they were prepared for the end of the transition period, we carried out a major programme of process and system changes, including delivering over 60 IT requirements.

We opened new border customs facilities and pop-up sites in key locations, designed a grant scheme to increase the capacity of the customs intermediary sector and introduced the Trader Support Service to help businesses required to operate under the Northern Ireland Protocol. We also introduced multiple temporary changes to minimise disruption to trade flow at the border and we have been focused on stabilising the new processes to make sure the UK has a fully secure and operational border.

Working with other government departments, we also introduced a new online declaration service for passengers; digitising the declaration and payment process, minimising disruption and making it easier for passengers to be compliant with the rules.

Our customs and international trade helpline answered more than 70,000 calls from the start of 2021 to the end of the financial year, with an average speed of answer of less than 5 seconds in both February and March 2021.

We worked alongside HM Treasury to introduce postponed VAT accounting which allows UK VAT-registered businesses to account for import VAT on their VAT return, providing significant cash flow benefits compared to the alternative of paying the import VAT when the goods are imported.

+ Read our full performance analysis on supporting the UK's international trade on pages 74 to 77.

£80m

in grants to the customs intermediary sector

6

new border facilities built

600

guidance updates for customers and stakeholders

490,000

views of our GOV.UK support pages

Our commitments

In financial year 2020 to 2021, alongside all our work on the UK's international trade, we made 2 specific commitments in this area. The table below outlines the status of each one at the end of 2020 to 2021.

Status at the end of 2020 to 2021:		
✔ on track or complete	⚠ risk to delivery	✖ not on track

Our commitments	Status
Implement HMRC's role in the delivery of UK transition by: • delivering the necessary policy, operational, system and infrastructure changes • supporting the government in negotiations with the EU on the Northern Ireland Protocol and Future Trade Agreement • ensuring we have the people in place to support operational systems and support customers • developing contingency plans	✔
We will ensure that people coming into the country from the EU will only be able to access Child Benefit after five years, in the way non-EEA (European Economic Area) migrants currently do. We will no longer allow people to claim Child Benefit for children living overseas*. * Changes are consistent with commitments made under the UK's international agreements, including the UK-EU Withdrawal Agreement.	✔

Transforming how we work

We supported our colleagues to work effectively during the pandemic by providing comprehensive practical, health and wellbeing support. We moved most of our workforce to remote working but on average each week, 3,500 colleagues continued to work in COVID-safe offices, where their role could not be done from home.

We also made important longer-term progress on making HMRC a great place to work. Our ground-breaking pay and contract reforms made our working arrangements simpler, fairer and more consistent and will help us deliver a better service for customers.

We made significant progress in making HMRC a more inclusive workplace by continuing our Respect at Work programme, launched to implement recommendations made by Laura Whyte in her 2019 review of our workplace culture, and launching a new race equality action plan. Additionally, our Employee Engagement Index has increased by 8 percentage points to 57% as reported in the Civil Service People Survey 2020.

Many of our older legacy IT systems are in need of modernisation. We have refreshed our IT and data strategies to establish how, over time, we will move to a smaller number of better supported platforms. We have also opened more regional centres in Edinburgh, Cardiff, Leeds and Stratford as part of our locations programme, helping us become a more digital and highly skilled organisation, and we are proud to be meeting or exceeding the Greening Government Commitments.

+ Read our full performance analysis on supporting our people on pages 78 to 87.

55,000

approximate number of colleagues supported to work from home during the pandemic

6%

increase in colleagues feeling included and fairly treated

127

legacy IT systems decommissioned

74%

reduction in our greenhouse gas emissions

Our commitments

In financial year 2020 to 2021, alongside all our activity to transform how we work, we made 7 specific commitments in this area. The table below outlines the status of each one at the end of 2020 to 2021.

Status at the end of 2020 to 2021:		
✓ on track or complete	⚠ risk to delivery	✗ not on track

Our commitments	Status
Ensure our commitments and values are evident in every decision and interaction in HMRC, through the Respect at Work programme.	✓
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 (89% in 2019).	✓
Continue to make consistent positive progress towards achieving the Civil Service Employee Engagement Index benchmark (63% in 2019).	✓
Agree pay and contract reforms that deliver an improved pay offer and modernised contracts, through formal negotiations with our recognised trade unions.	✓
Support our people during the pandemic by ensuring an effective HR policy response.	✓
Continue to transform our estate into modern, adaptable workspaces serving every nation and region in the UK, delivering 12 out of 13 new regional centres over 5 years.	✓
Continue to support the Greening Government commitments in 2020 to 2021, working towards the targets set for us by government.	✓

Supporting wider government aims

Our vital role in the UK's COVID-19 response and preparing for the end of the UK's transition from the EU meant that we were working at the heart of the government's priorities throughout 2020 to 2021 - supporting the wider economy as well as administering the tax and customs system.

We also continued work to support the government's wider aims. This included administering tax reliefs designed to increase growth and productivity, introducing taxes that further the government's green agenda such as the tax on plastic packaging, enforcing the National Minimum Wage and playing an active role in cross-government work to tackle economic crime.

+ Read our full performance analysis on supporting wider government aims on pages 88 to 92.

£218.4m
recovered in proceeds of crime

1,145
supervisory interventions to prevent money laundering

575
National Minimum Wage penalties issued

770,000
employers and workers given guidance and support on National Minimum Wage rights and obligations

Our commitments

In financial year 2020 to 2021, alongside all our work on wider government aims, we made the following specific commitment. The table below outlines the status of it at the end of 2020 to 2021.

Status at the end of 2020 to 2021:		
✔ on track or complete	△ risk to delivery	✘ not on track

Our commitments	Status
Support the government in introducing a tax on plastic packaging manufactured in, or imported into, the UK from April 2022. **Status update:** Due to the disruption caused by COVID-19, we extended the consultation on the design of the Plastic Packaging Tax by three months to give stakeholders more time to submit their views. We adapted our delivery plans and key milestones accordingly and successfully delivered the primary legislation in Finance Act 2021. While we are broadly on track to implement the new tax, business readiness is our key concern. We are working collaboratively with industry experts to help channel communications and streamline the development of secondary legislation and guidance, which we will share with businesses in stages as they are developed to support their preparations.	△

Managing risks to our delivery

HMRC's Executive Committee manages 9 strategic risks to the delivery of our strategic objectives.

We worked hard to deliver sensible mitigations for our strategic risks throughout the financial year. Our focus in particular has been on dealing with data and security risks, and whilst there is still more to do, we have focussed mitigations and investment on the risks associated with older legacy IT systems, cyber security and other external threats.

As we approached the end of the UK's transition period with the EU, the key activity in minimising risk was planning to ensure the smooth operation of the UK border.

We have also focussed on our people-related risks during this challenging year, taking action to build a supportive, fair, kind and equal environment.

We have a number of risks related to delivering our core purpose and supporting our customers. We continue to work to build trust with our customers and stakeholders, with a particular focus this year on our powers and safeguards, and we continue to take important steps to improve the customer experience.

We plan and forecast to ensure we deliver on our targets within our budget and we have focussed on improving our change portfolio planning to ensure we deliver our key programmes.

Lastly, we continue to improve the way we exploit our data to further support revenue collection and customer service.

+ Read more about our risks and mitigations on pages 94 to 99.
+ Read more information about our risk management approach on pages 121 to 122.

HMRC's 9 strategic risks

- Capacity, capability and engagement of our people
- HMRC security
- Data protection
- Delivering the change portfolio
- Exploiting information
- External perception / loss of trust
- Impact of EU negotiations on tax administration
- Improving customer experience
- Funding and affordability

Performance analysis

How we delivered against our plans and commitments in financial year 2020 to 2021

Financial review

This review focuses on HMRC's financial performance during financial year 2020 to 2021. It covers our operational running costs, as well as benefits and credits payments, COVID-19 schemes and UK transition expenditure.

Where our funding comes from

Our funding comes from government, with the budgetary framework for spending set by HM Treasury. HM Treasury gives all government departments a budget or estimate for the year against which they monitor their spending. We have a firm budget set for controllable expenditure - for example, workforce and IT running costs - and this budget is referred to as Resource Departmental Expenditure Limit (RDEL). We also have more flexible budgets for volatile or demand-led expenditure, called Annually Managed Expenditure (AME). This spending is more challenging to control, so we closely monitor AME forecasts and HM Treasury reviews these budgets annually. In 2020 to 2021, we had a RDEL budget (excluding depreciation) of £4,580 million and an AME budget of £165,126 million.

Our financial performance in 2020 to 2021

In 2020 to 2021, we had total day-to-day running costs of £4,485 million excluding depreciation against a budget of £4,580 million. We therefore underspent by £95 million. The main reasons for the underspend are lower levels of spend on UK transition activities (£41 million) including grants expenditure and IT systems, along with lower than expected expenditure within our fiscal events and change portfolio (£44 million) as a result of prioritising the departments COVID-19 response and the wider impact of lockdown restrictions.

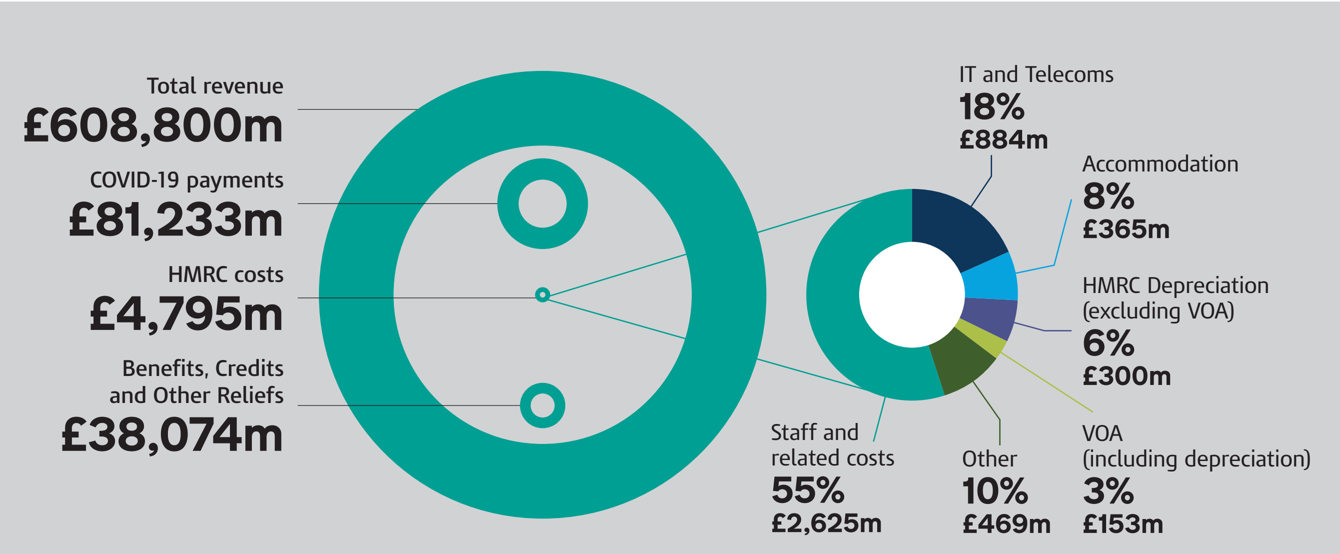
Table 1 summarises how we performed against our parliamentary funding in terms of our day-to-day running costs, benefit payments and COVID-19 relief payments. The Estimate figures were based on the best information that was available at the time of the Supplementary Estimate. Our financial performance is broken down further in the Statement of Parliamentary Supply (SOPS) tables on pages 191 to 201, where more detail of the underspend, along with further clarification of RDEL/AME definitions can be found and in Annex 2 Statistical Tables on page 298 which shows trend analysis and projections.

Table 1: Financial performance

Financial performance (funding vs spend)	Estimate (funding) £m	Outturn (spent) £m	Variance £m
Day to day running costs (RDEL excl depn)	4,580	4,485	95
AME including COVID-19 and other relief payments (AME)	165,126	119,309	45,817

Figure 1 shows what it cost to run HMRC in financial year 2020 to 2021. For a running cost of £4,795 million including depreciation, we raised £608.8 billion of tax for the UK's public services and provided £119.3 billion in financial support for COVID-19, personal tax credits, Child Benefit and other reliefs.

Figure 1 – RDEL and AME Expenditure relative to total revenue*



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

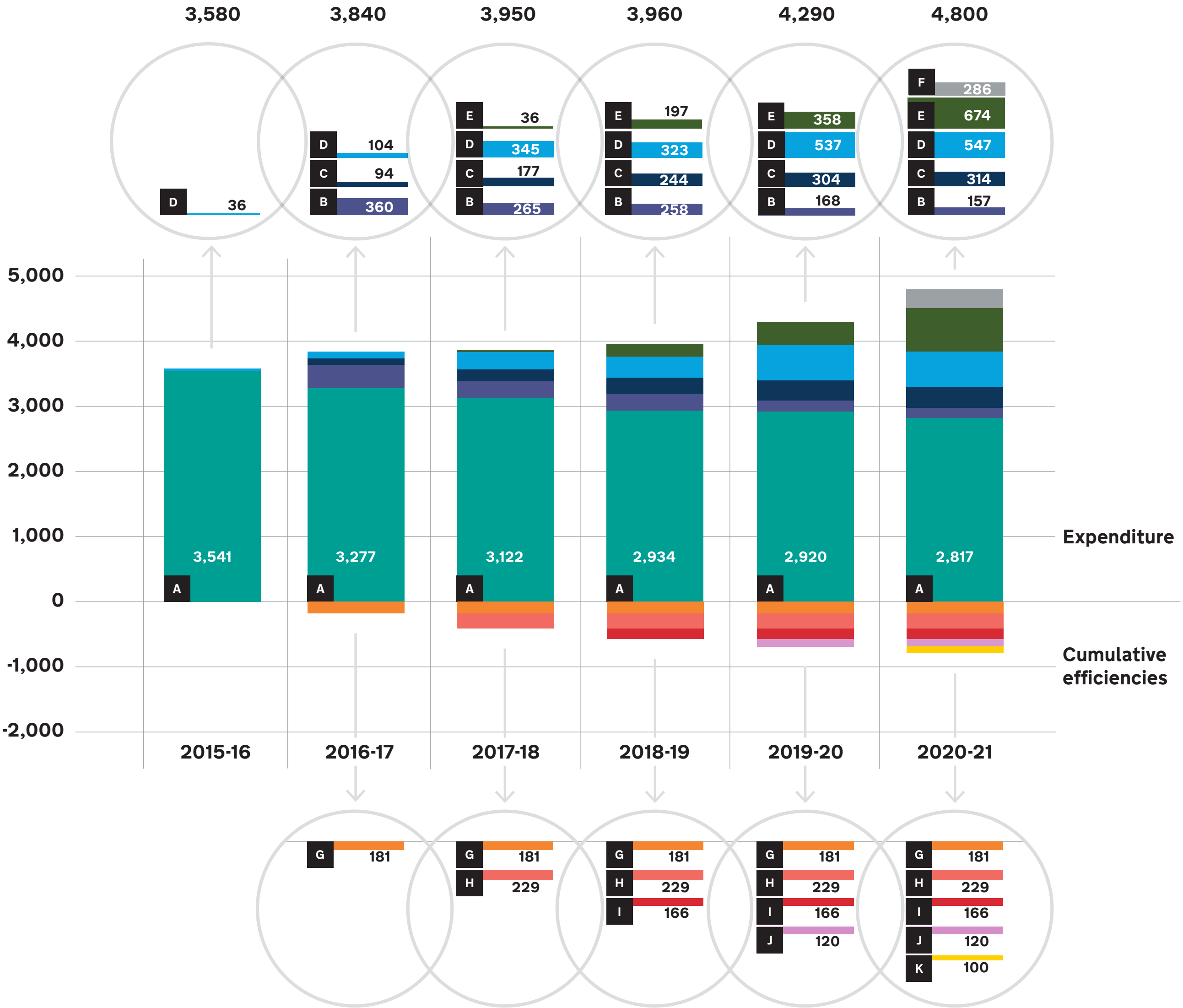
Continuing to deliver efficiently

Figure 2 shows how our expenditure and budget have changed over time. Over the Spending Review 2015 period, covering financial years 2014 to 2015 through to 2018 to 2019, our baseline funding from the government has reduced due to the sustainable efficiencies we've delivered. At the government's Spending Review in 2015, we were given funding to invest in our transformation for financial year 2016 to 2017 onwards. Since then, further funding has been provided at every fiscal event for tackling avoidance and evasion.

In financial year 2018 to 2019, we received funding for work related to EU exit, which continued into 2019 to 2020. An additional spending round took place during 2019 to 2020 whereby departments were provided with a financial allocation consistent with 2018 to 2019 funding levels. In financial year 2020 to 2021, there was a one-year settlement whereby the department's budget was set at 2019 funding levels but uplifted for inflation. Our total budget has increased, but this is due to additional funding for new work. Our underlying baseline budget (the budget required to run the tax administration) continues to decrease.

We have delivered sustainable efficiencies of £100 million over the 2020 to 2021 financial year. We did this through integrating and upstreaming our core activity processes, using fewer staff and making better use of technology and our estate. This sustainable approach has saved us time and money, enabling a much improved and targeted use of our staff, IT, and estate. In financial year 2020 to 2021, the cost of collecting taxes was 0.59p for every pound collected in tax revenue. This has increased on last year's figure of 0.54p in every pound. The main drivers for the change are the increase in expenditure on Customs and International Trade, outweighing the reduction in expenditure from resource diverting to COVID-19 support and the decrease in receipts for most tax regimes as a result of reduced economic activity and impact of the deferral policies which allowed taxpayers to make payments later than usual during the COVID-19 pandemic.

Fig 2: HMRC's expenditure 2015-16 to 2020-21 (£m)*



A **Baseline** HMRC's day to day running costs
B **Transformation/Investment** additional funding received at Spending Reviews for various programmes to transform HMRC
C **Avoidance and Evasion** additional funding received at previous fiscal events for measures which tackle avoidance and evasion
D **Further Funding for Additional Work** additional funding received during previous fiscal events to deliver government priorities
E **EU Exit/UK Transition Funding** additional funding to support the UK's exit from the European Union
F **COVID-19**

G **Sustainable 2016-17**
H **Sustainable 2017-18**
I **Sustainable 2018-19**
J **Sustainable 2019-20**
K **Sustainable 2020-21**

* 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.

External impacts on HMRC expenditure

Inevitably, 2 of our important areas of work in 2020 to 2021 - the COVID-19 response and the end of the UK's transition period with the EU - were external factors that impacted on this year's expenditure within the Resource Accounts (see pages 260 to 261).

Annually Managed Expenditure (AME) (including COVID-19 support payments and benefit and credit payments) expenditure has significantly increased during 2020 to 2021 as a result of the COVID-19 relief payments.

On 20 March 2020, the Chancellor announced new financial support schemes to protect jobs and businesses during the COVID-19 pandemic. HMRC was responsible for delivering these and launched the Coronavirus Job Retention Scheme and the Self-Employment Income Support Scheme from scratch within 7 weeks. We provided £81 billion of support payments to individuals and businesses affected by the pandemic, listed by support scheme as shown in table 2.

Table 2: COVID-19 support scheme payments

COVID-19 support schemes spend	Resource Account Note (page 264)	Outturn (spent) £m
Coronavirus Job Retention Scheme	4	60,677
Self-Employment Income Support Scheme	4	19,716
Eat Out to Help Out	4	840
Total		**81,233**

Day-to-day running costs have also been impacted by COVID-19, primarily through IT costs in designing and building the digital claims services for the Coronavirus Job Retention Scheme, Self-Employment Income Support Scheme, and Eat Out to Help Out, as well as costs relating to contracted out services, contingent labour, staff and estates.

Table 3: COVID-19 administrative expenditure 2020-21*

COVID-19 RDEL	Outturn (spent) (£m)
Staff costs	197
IT costs	53
Other costs	36
Capital costs	33
Total	**318**

* Numbers may appear not to sum due to rounding

Leaving the EU has also resulted in increased expenditure reported in the Resource Accounts, particularly in relation to work carried out at the UK's borders. Our budget for supporting the UK's transition from the EU totalled £977 million for 2020 to 2021, and our outturn was £936 million, an underspend of £41 million (4%). £22 million of the underspend related to funding provided in 2020 to 2021 for grants to traders. This expenditure is demand-led, and the timing of the applications resulted in payments falling into the next financial year. The remaining underspend was due to re-negotiating costs resulting in reductions across several programmes, some costs slipping into the following year and the impact of COVID-19 lockdown restrictions.

Table 4: UK Transition administrative expenditure 2019-20 and 2020-21

UK transition	2020-21 Outturn (£m)	2019-20 Outturn (£m)
Resource costs	321.1	318.7
Customs and SME support grants	54.3	9.0
Inland border facilities	163.6	54.2
IT costs	294.1	133.4
Trader Support Service	102.7	0.0
Total	**935.8**	**515.3**

Analysis: Collecting revenue and managing compliance

Faced with the unique circumstances of the COVID-19 pandemic, we continued to deliver our vital purpose of bringing in revenue for the UK's public services and did everything we could to help our customers pay tax on time and with ease.

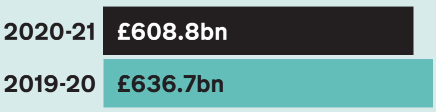
We aimed to work in a way that protected viable businesses whose ability to comply with their tax obligations had been adversely affected by the pandemic while maintaining a fair and level playing field for all.

We took account of the impact of the pandemic on our customers and their ability to meet their tax obligations. Where people could not pay their tax, we allowed them to defer payment and pay off their debts over time in affordable instalments. The experience of our customers is central to our ability to collect revenue and improve compliance, and you can read more about our customer service performance during 2020 to 2021 starting on page 54 and improving the experience of compliance checks on page 49.

Key revenue collection and compliance outcomes[1]

£608.8bn
total tax revenues

4.4% decrease on 2019-2020



£30.4bn
additional tax generated by tackling avoidance, evasion and non-compliance

17.6% decrease on 2019-2020

5.3%
Estimated UK tax gap in 2019-20 – the difference between tax that should be paid and what is actually paid

0.3 percentage point increase from **5.0%** in **2018-19**

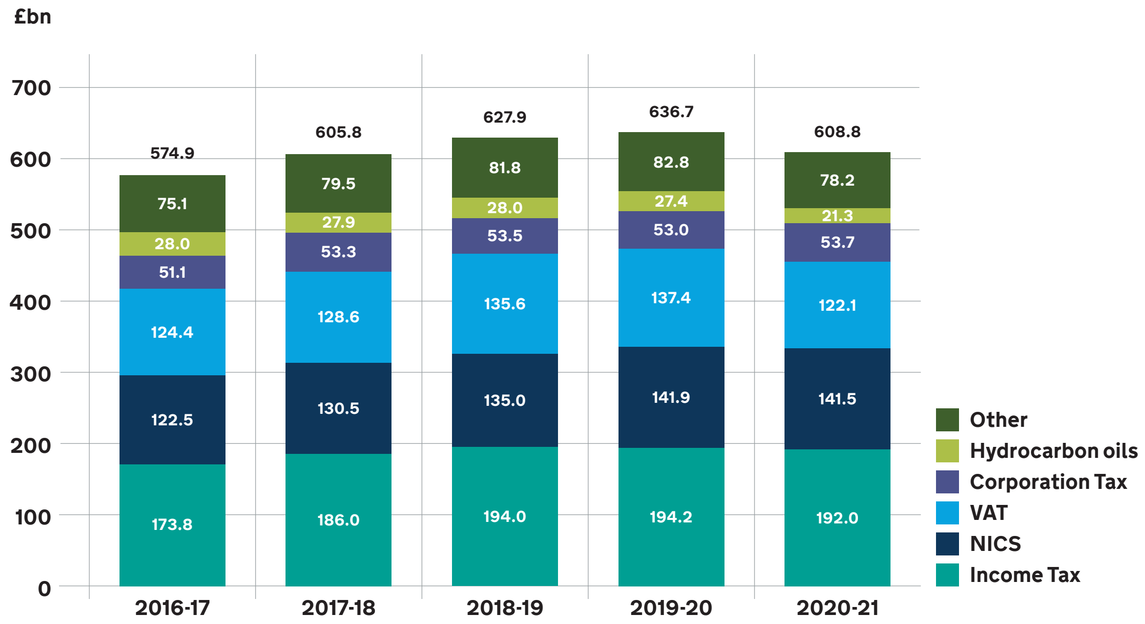
[1] For a historical data series, go to **www.gov.uk/government/publications/hmrc-annual-report-and-accounts-2020-to-2021**

Total tax revenues

Total tax revenues represent all money received and due to us after accounting for money we repaid and owed. They are driven by the overall level of activity in the economy and the rates of taxation, allowances and reliefs set by Parliament. During financial year 2020 to 2021, we collected total tax revenues of £608.8 billion (£27.9 billion less than the previous year). Figure 3 shows how total tax revenues have increased steadily up to financial year 2019 to 2020, before falling in 2020 to 2021, which reflects the significant impact of the COVID-19 pandemic on the economy.

+ For more information on total revenues, with year-on-year comparisons, read the Trust Statement on page 220.

Figure 3: Revenue (£bn)



Total revenues by type of tax

Income Tax, National Insurance Contributions and VAT make up the 3 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, and main movements in, our total tax revenue in 2020 to 2021.

Income Tax

- £192.0bn of total revenue
- 1.1% decrease from 2019-20

Income Tax revenue is split between Pay As You Earn (PAYE) and Self Assessment (SA). There was an overall reduction.

The amount of revenue raised for Income Tax is closely linked to the number of people in employment and wage levels. PAYE Income Tax increased, as although unemployment rose, average wages also rose during the pandemic, with increased unemployment being disproportionately at the lower end of the income distribution in sectors such as hospitality which were impacted by COVID-19.

Rate changes also impacted the amount of revenue collected, the key Income Tax thresholds were frozen.

An increase in PAYE revenue was offset by a reduction in SA revenue due to the impact of COVID-19.

National Insurance Contributions

- £141.5bn of total revenue
- 0.3% decrease from 2019-20

Rate changes impact the amount of revenue collected. The reduction in national insurance contributions (NIC), is partly due to tax thresholds, the primary threshold for national insurance was increased.

The increased unemployment was disproportionately at the lower end of the pay distribution, in sectors such as hospitality which were impacted by COVID-19, where NIC thresholds are higher and Income Tax rates are lower.

Value Added Tax

- £122.1bn of total revenue
- 11.1% decrease from 2019-20

Receipts tend to rise over time because of economic growth, inflation and consumer spending. As well as the impact of COVID-19 on the economy, there has been a decrease in household consumption. The largest decreases were in the accommodation & food service sector, manufacturing sector and the arts, entertainment and recreation sector.

Corporation Tax

- £53.7bn of total revenue
- 1.3% increase from 2019-20

Corporation Tax has increased from the previous year.

Hydrocarbon oils

- £21.3bn of total revenue
- 22.3% decrease from 2019-20

The oil and gas industry has been impacted by the COVID-19 pandemic. The UK lockdowns reduced road traffic and fuel consumption.

Stamp Taxes

- £12.6bn of total revenue
- 18.2% decrease from 2019-20

Stamp Tax has been impacted by the response to COVID-19. The first UK lockdown, and the introduction of the residential SDLT holiday for properties up to £500,000, were the main factors driving the decrease.

Alcohols

- £12.1bn of total revenue
- 1.7% increase from 2019-20

Alcohol revenue is likely to be affected by venue closures and the cancellation of sporting events in response to COVID-19; however, this was offset by increases in supermarket sales.

Capital Gains Tax

- £12.0bn of total revenue
- 20.0% increase from 2019-20

Movement in tax receipts is difficult to determine due to the underlying volatility of asset sales. Timely information is not available due to the significant lag in declaration via Self Assessment.

The deadline for filing and paying CGT arising on disposal of a UK property changed in April 2020, requiring taxpayers to submit returns within 30 days of disposal, this is a contributing factor in the increase.

Air Passenger Duty

- £0.3bn of total revenue
- 91.0% decrease from 2019-20

Air Passenger Duty has been impacted by the COVID-19 pandemic. The UK lockdowns led to a decrease in travel.

Insurance Premium Tax

- £6.1bn of total revenue
- 6.2% decrease from 2019-20

The reduction in Insurance Premium Tax is due to the impact of COVID-19, which has led to premiums reducing, in particular home and car policies. There has also been a significant reduction in foreign travel and therefore the number of travel insurance policies has reduced.

Tobacco

- £9.8bn of total revenue
- 1.0% increase from 2019-20

Tobacco duty remains largely unaffected by economic downturns. With effect from 11 March 2020 all tobacco duties were increased by 2% above RPI and a further 4% increase was applied to hand-rolling tobacco products.

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 pages 225 to 229

Tax by different customer groups

Every year, we collect revenues from millions of individuals and from businesses of all sizes. To help us do this, we segment our customers into groups so we can identify their needs and risks more accurately and tailor our responses accordingly.

The tables below show key performance data for our customer groups during 2020 to 2021. There are some differences between the way we segment receipts between customer groups and how theoretical liabilities are segmented when calculating tax gaps. For example, as employers operate PAYE schemes, we evaluate compliance in PAYE within the tax gaps for small, mid-sized and large business customer groups.

Individual customers: population 31 million (Income Tax payers)

Individuals are by far our largest customer group and many claim tax credits and other entitlements from us, as well as paying taxes. In 2020 to 2021 they were defined as having incomes below £200,000 and assets below £2 million in each of the last 3 years.

£255bn	£10bn	£2.6bn	£410m	£2.6bn
Estimated PAYE and National Insurance Contributions (NIC) receipts collected (to nearest £5 billion)[1]	Estimated receipts - other taxes, such as Corporation Tax, VAT, excise duties, Capital Gains Tax (to nearest £5 billion)	Estimated compliance yield generated from our activities (to nearest £0.1 billion)[2]	Estimated spend on compliance activities (to nearest £10 million)	Tax gap estimate for 2019 to 2020 (to nearest £0.1 billion)

Wealthy individuals: population 700,000

Wealthy individuals often have complex tax affairs covering multiple different taxes. In 2020 to 2021 they were defined as having incomes above £200,000 or assets above £2 million in any of the last 3 years.

£50bn	£45bn	£3.0bn	£190m	£1.5bn
Estimated PAYE and NIC receipts collected (to nearest £5 billion)	Estimated receipts - other taxes, including Corporation Tax, VAT, excise duties, Capital Gains Tax (to nearest £5 billion)	Estimated compliance yield generated from our activities (to nearest £0.1 billion)	Estimated spend on compliance activities (to nearest £10 million)	Tax gap estimate for 2019 to 2020 (to nearest £0.1 billion)

Small businesses: population 5.7m

Small businesses represent more than 95% of businesses in UK. In 2020 to 2021 they were defined as having turnover below £10 million and typically fewer than 20 employees.

£70bn Estimated PAYE and NIC receipts collected (to nearest £5 billion)	**£75bn** Estimated receipts - other taxes, including Corporation Tax, VAT, excise duties, Capital Gains Tax (to nearest £5 billion)	**£5.3bn** Estimated compliance yield generated from our activities (to nearest £0.1 billion)	**£480m** Estimated spend on compliance activities (to nearest £10 million)	**£15.1bn** Tax gap estimate for 2019 to 2020 (to nearest £0.1 billion)

Mid-sized businesses, charities and public bodies: population 200,000+

Mid-sized businesses make up less than 5% of UK businesses, but some are growing rapidly, making their tax affairs increasingly complex. In 2020 to 2021 they were defined as having turnover between £10 million and £200 million or typically 20 or more employees.

£120bn Estimated PAYE and NIC receipts collected (to nearest £5 billion)	**£50bn** Estimated receipts - other taxes, including Corporation Tax, VAT, excise duties, Capital Gains Tax (to nearest £5 billion)	**£3.1bn** Estimated compliance yield generated from our activities (to nearest £0.1 billion)	**£260m** Estimated spend on compliance activities (to nearest £10 million)	**£5.0bn** Tax gap estimate for 2019 to 2020 (to nearest £0.1 billion)

Large businesses: population 2,000

Large and complex businesses play a pivotal role in the UK economy. In 2020 to 2021, they were broadly defined 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.

£115bn Estimated PAYE and NIC receipts collected (to nearest £5 billion)	**£125bn** Estimated receipts - other taxes, including Corporation Tax, VAT, excise duties, Capital Gains Tax (to nearest £5 billion)	**£13.2bn** Estimated compliance yield generated from our activities (to nearest £0.1 billion)	**£220m** Estimated spend on compliance activities (to nearest £10 million)	**£6.1bn** Tax gap estimate for 2019 to 2020 (to nearest £0.1 billion)

[1] PAYE receipts are included in the total receipts for individual and wealthy customer groups, whereas the PAYE tax gap is reported as part of the tax gaps for small, mid-sized and large business customer groups.

[2] Some compliance yield and activities are directed towards organised crime, which is not included in this table.

Receivables, debt and tax losses

Receivables

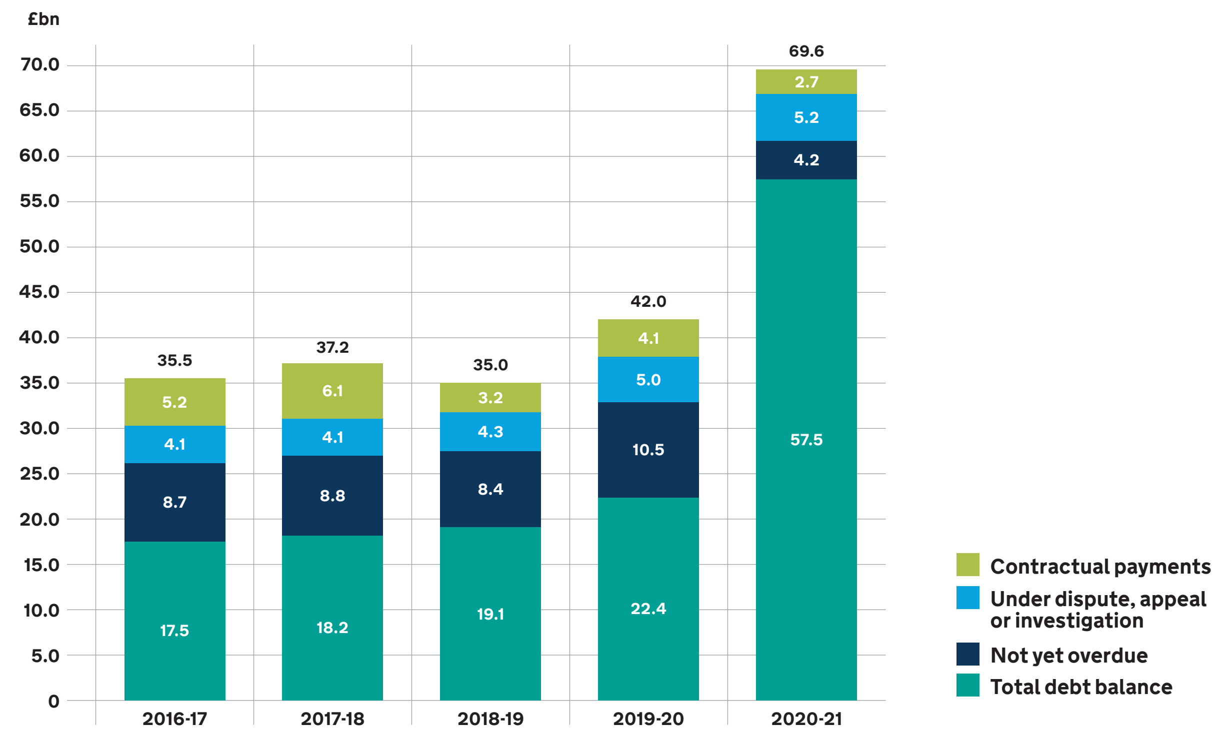
Receivables describes revenue we have not received yet, but we know is due - whether it is currently overdue or not. It covers all liabilities, including taxes, duties, overpaid tax credits, penalties and interest charges owed by individuals and businesses. Receivables amounted to £69.6 billion at 31 March 2021, compared to £42.0 billion at 31 March 2020. The increase in receivables is mainly due to COVID-19 and the government deferral schemes which allowed taxpayers to pay certain liabilities later than usual. Tax receivables were gross £65.3 billion (see Trust Statement on page 231) while tax credits receivables were gross £4.3 billion (see Resource Accounts on page 268).

Impairment of receivables

Receivables in the Statement of Financial Position are reported after impairment, an estimate of potential non-payment, to reflect an amount that is likely to be collected. We have considered how the adverse macro-economic conditions due to COVID-19 affect our collection rates.

+ For more information, read note 4.2 of the Trust Statement on page 232

Figure 4: Breakdown of receivables and debt (£bn)



Managing customer debt

£2.0bn

debt and 0.65m customers in payment plans 2019-20 compared to:

£15.1bn

debt and 0.86m customers in payment plans 2020-21

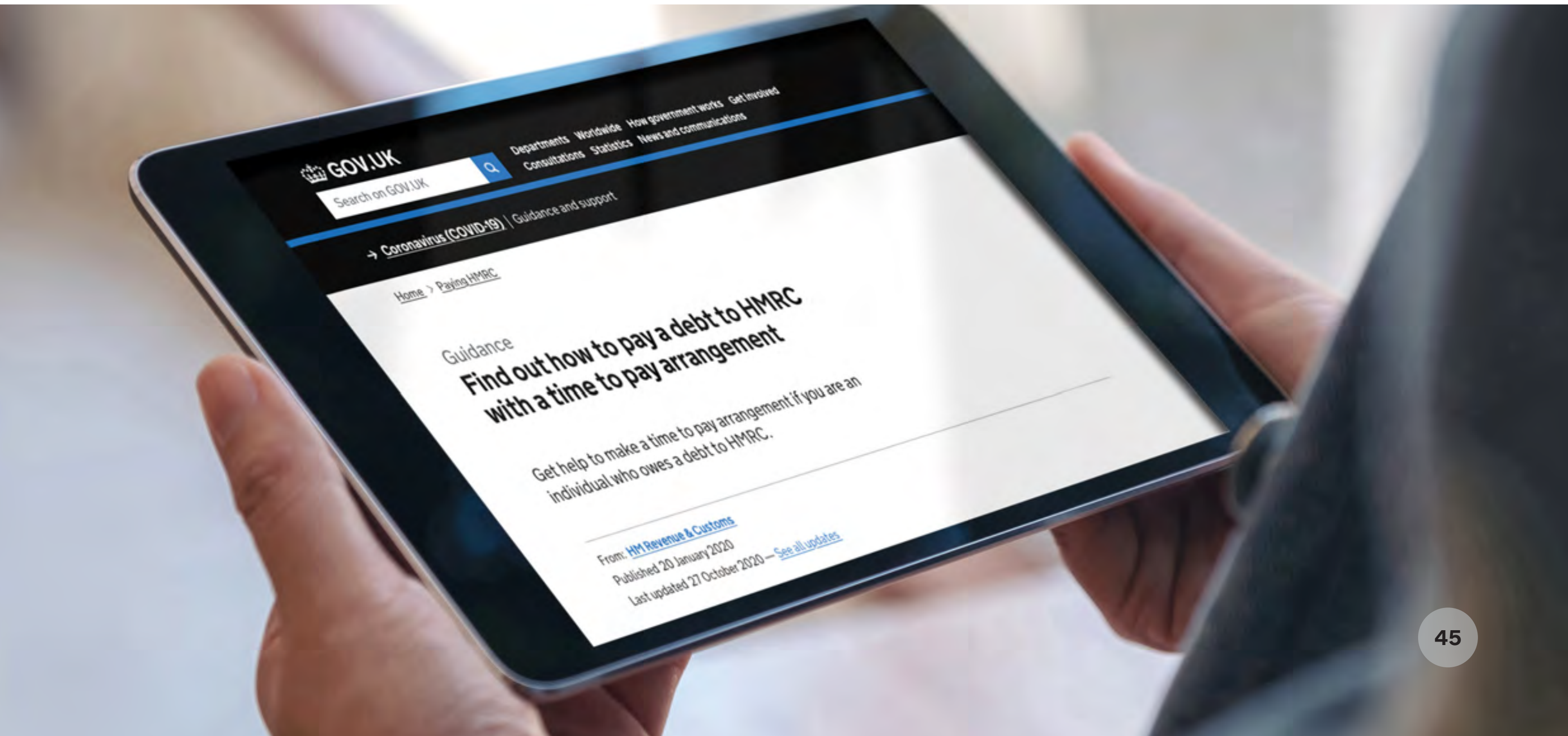
If a receivable becomes overdue for payment and is not under appeal, it becomes a debt. The pandemic, and the choices the government made to support customers, inevitably had an impact on the HMRC debt balance. Following a peak in August of £72 billion, our debt balance at the end of March 2021 was £57.5 billion. This includes £54.5 billion of tax debt (which equates to 8.9% of tax revenues) and £3.0 billion of tax credits debt. Expectations are that the debt balance will further reduce during financial year 2021 to 2022 but will still remain above financial year 2019 to 2020 year-end results.

In response to COVID-19, the Chancellor announced automatic tax payment deferrals for VAT and Self Assessment customers. During both periods of lockdown in 2020 to 2021 we paused all pro-active debt pursuit, for a total of 6 months (April to mid-June 2020 and mid-December to end of March 2021). In preparation for returning to collection we overhauled our approach to engaging with customers - segmenting the population based on our estimate of their impact from the pandemic. We reviewed and altered the tone of our communications, with different messaging determined by whether customers had experienced a high or low COVID-19 impact. As part of our ongoing support to our customers we also offered more flexible payment options such as longer Time to Pay (TTP) arrangements and extended review periods.

More than half of our debt balance was made up of the deferred VAT debt (approximately £31.3 billion which became due either on 31 March 2021 or when the VAT New Payment Scheme closed at the end of June 2021) and Self Assessment Payment on Account (approximately £6.6 billion which became due on 31 January 2021). The VAT deferral scheme allowed businesses to defer almost 600,000 payments of VAT, helping them through the pandemic.

The government announced specific schemes to support the repayment of these debts - the VAT New Payment Scheme and an enhanced Self Assessment Self Serve Time To Pay facility. At the end of the financial year we had 864,000 Time To Pay arrangements in place to support customers to pay what they owe in an affordable way.

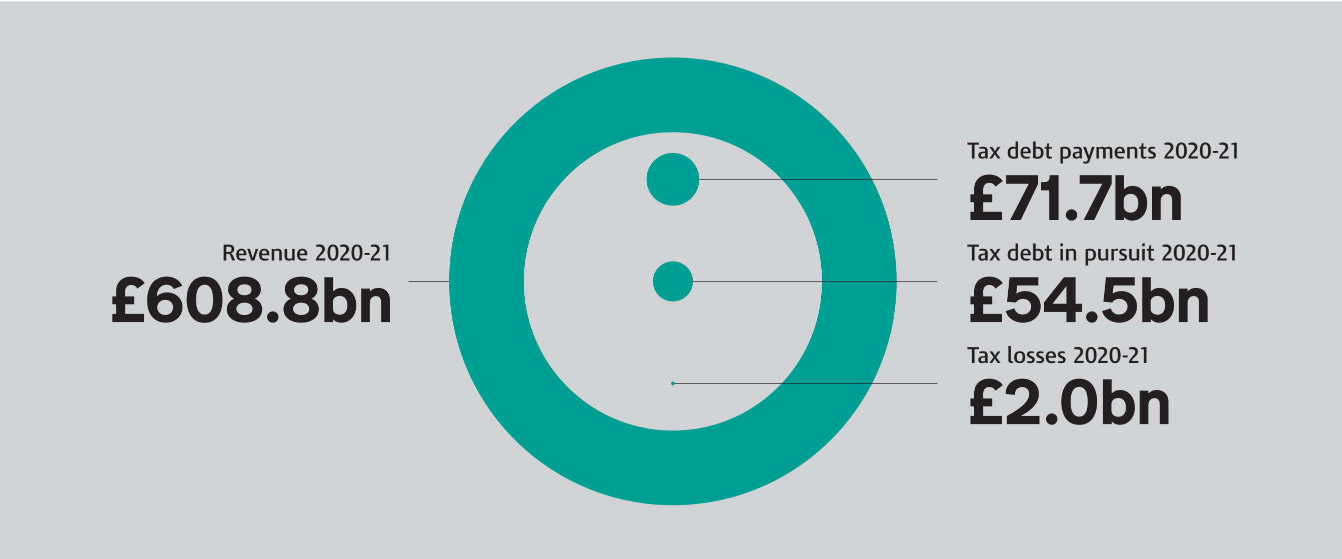
+ Read about how we supported customers throughout the COVID-19 pandemic on pages 54 to 55.



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, for example, if companies become insolvent. We take decisions on a case-by-case basis. Tax losses were £2.0 billion in financial year 2020 to 2021 and these were split between remissions of £0.5 billion and write-offs of £1.5 billion. The significantly lower losses compared to financial year 2019 to 2020 resulted from the focus on supporting businesses where possible and the impact of the government's insolvency measures introduced in response to the pandemic, including a moratorium on insolvency actions.

Figure 5: Tax debt in pursuit and tax losses compared to revenue



Improving customer compliance and tackling non-compliance

HMRC's aim is for everyone to pay the tax that is legally due, no matter who they are. Our role is to help people to pay the right tax through education and well-designed systems, and to step in when tax is at risk of not being paid.

Tax goes unpaid for many reasons: some taxpayers make errors despite their best efforts, while others don't take enough care when they submit their returns. Disputed legal interpretation, avoidance, evasion and criminal attacks on the tax system also result in a tax gap.

When issues come up, our aim is to work with customers promptly and professionally so we can get them back on the right track. However, we take firm action against the minority who deliberately try to avoid their obligations. We use our civil (and where appropriate, criminal) powers where we believe a business or individual is trying to cheat the tax system - with appropriate oversight and operational checks and balances, alongside the statutory safeguards that enable customers to dispute our decisions or complain about their treatment.

Ultimately, we are the guardians of a tax system that relies on public trust. Honest taxpayers, rightly, want to know we will step in to enforce the rules where necessary, creating a level playing field for individuals and businesses.

+ Read more about the experience of our customers on pages 54 to 59.
+ Read more about our powers and safeguards when investigating customers in the Tax Assurance Commissioner's report on pages 140 to 141.

Over £3bn

protected from those attempting to hide money offshore since 2010

£216m

Recovered from offshore through the Worldwide Disclosure Facility since 2016

£1.5bn+

Protected revenue losses through the Self Assessment repayment system

Promoting good compliance

A well-designed system prevents non-compliance before it can occur, while making things easier for taxpayers and allowing HMRC to focus our resources where they can make the most difference.

Our work covers almost everyone in the country. The most efficient way to collect the right amount of tax across these vast groups of individuals and businesses is for HMRC to guide the taxpayer by intervening before anything has the chance to go wrong.

That includes building prompts into our online Self Assessment system, which flag when a customer's entry is out of line with what we expect to see. Our digital prompts programme has an estimated 3.4 million users, displaying personalised messages to support customers with their digital filing journey, and preventing compliance risks before submission. In 2020 to 2021, the programme delivered £147.2 million yield and since 2015 to 2016 has reached 24 million customers, bringing in £1 billion of upstream yield and HMRC resource savings of £750,000.

As an example, in 2020 to 2021 we added an 'upfront declaration' into the Charity Gift Aid Repayments claim process, which is used by around 75,000 charities to make around 550,000 claims each year. The prompt prevented around £20 million of ineligible relief from being paid in 2020 to 2021.

We also included Flat Rate Expenses in the 2019 to 2020 Income Tax Return filing journey in an attempt to remove ineligible tax relief claims by large numbers of employees. Along with other changes to our online Self Assessment service, it helped to prevent errors in filing for up to 200,000 customers and protected revenue of £57 million in 2020 to 2021 alone.

Tackling non-compliance

Our approach is underpinned by cutting-edge data analysis, which we use to identify where tax is most at risk of not being paid. From this insight, we can design tailored, targeted and proportionate interventions to address these risks. We have carried out detailed risk assessment and analysis of over 1 million cases in 2020 to 2021.

How we managed compliance enquiries during the pandemic

We recognised that many customers needed to focus on keeping their businesses afloat and supporting their families during the pandemic. This meant we usually only opened a new enquiry:

- where we suspected criminal activity, fraud or significant deliberate non-compliance, including avoidance
- where not doing so would have meant missing a deadline preventing us from ever collecting the unpaid tax
- where we were protecting their employees (for example the National Minimum Wage)
- for a mandatory check

For ongoing compliance checks, we gave people more time to respond where appropriate. We reduced visits and used more digital communication. We also:

- continued checks for our large business customers unless there were valid reasons to stop - work therefore continued on over 90% of our largest risks
- focused on settling disguised remuneration avoidance cases for customers who wanted to conclude settlement with us ahead of the 30 September 2020 deadline for filing their 2018 to 2019 tax returns and paying the loan charge

1,468 of our compliance colleagues were deployed to support the implementation of the COVID-19 financial support schemes (see page 54). In May 2020, we had 4,396 people deployed on work related to COVID-19 and we continue to deploy circa 1,250 people onto compliance work for the support schemes in 2021 to 2022.

+ Read more about how we are improving the experience of customers undergoing compliance checks on page 49.

Decisions on when and where to intervene are not made solely on the amount of money that we will recover, we also consider the broader impact our interventions will have on compliance in the tax system as a whole. Fairness also helps us decide when we step in - it is important for individuals and businesses to know we cover all parts of the economy impartially, so they can be confident they are not being disadvantaged. We opened 256,000 new civil compliance check interventions in 2020 to 2021, which ranged from light-touch single risks to complex, multiple risk checks. We closed 250,000 compliance checks over the same period.

We will not hesitate to act against arrangements that seek to artificially minimise tax liabilities, whether it is multinationals diverting profits out of the UK or tax avoidance schemes used by individuals. We are increasingly focusing on measures to tackle issues at source, including focusing on the small minority who make money by promoting tax avoidance and even enabling fraud.

We will conduct criminal investigations and seek criminal prosecutions if it is in the public interest, particularly where the behaviour displayed is very serious or where a criminal prosecution will act as a strong deterrent. Our focus is on maximising compliance and minimising the tax gap, rather than chasing arbitrary targets for arrests and prosecutions.

Our use of powers is subject to appropriate oversight and statutory safeguards; strong internal processes coupled with external engagement, ministerial, parliamentary and judicial oversight. Following the powers and safeguards review, we continue to work with stakeholders to improve and strengthen our internal governance. Further detail on penalties, reviews and appeals are reported on in the Tax Assurance Commissioner's Report on pages 136 to 155.

We are constantly learning and adapting. Our approach has developed in response to social, economic and technological changes, coupled with learning from our partners in other tax authorities. For example, we have developed legislation to introduce tax conditionality in England and Wales from April 2022, making the renewal of certain licenses conditional upon applicants completing checks confirming they are appropriately registered for tax.

In focus: improving the experience of compliance checks

We want to make sure we always treat people empathetically and with respect when they are undergoing a compliance check, and we want them to know what they need to do in the future. Some of the work we have been doing to improve customer experience of compliance checks is:

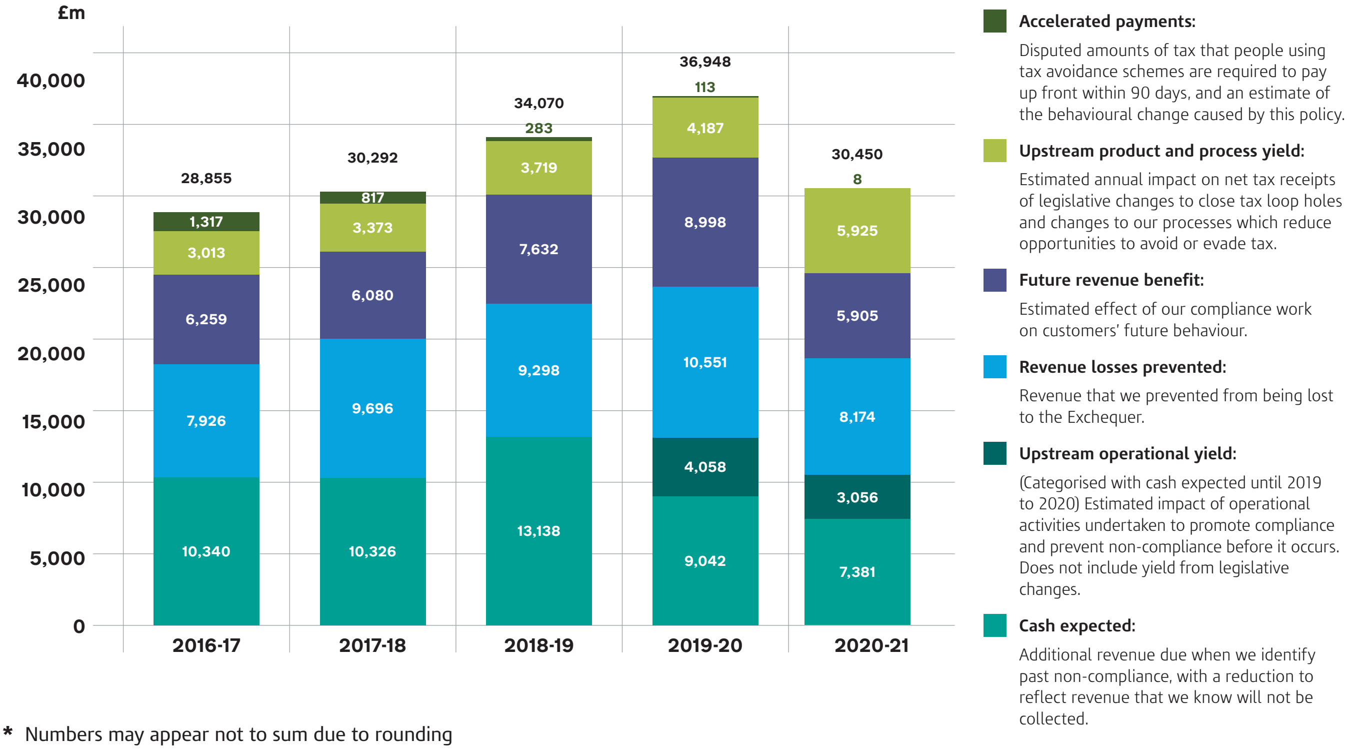
- re-designing the training that our people receive
- introducing a new set of compliance professional standards for our caseworkers that are aligned to HMRC's Charter
- introducing an 'exit survey' for customers following a compliance check, helping us to ensure that we treat people professionally and make things as straightforward as possible
- designing new communications for customers when we open a compliance check, providing more transparency about why, what we expect from the customer and what the customer can expect from us
- signposting customers to how they can get help from us if they need extra support
- updating 1,048 products - including standard letters we use when we open and work an enquiry
- developing a series of YouTube videos that explain the compliance check process and what to expect from us

Compliance yield

Every year, through our policy and process design and risk-based work to tackle non-compliance, we collect and protect billions of pounds of 'compliance yield'. This is revenue that would have otherwise been lost to the Exchequer through error or deliberate non-compliance, such as tax avoidance and evasion. You can read more about our work to tackle non-compliance, starting on page 52.

There are a number of components that make up compliance yield, as shown in Figure 6.

Figure 6: Compliance yield (£m)*



* Numbers may appear not to sum due to rounding

The challenging economic circumstances, and HMRC's changing operational response, had an effect on compliance yield in financial year 2020 to 2021. For example, we record Future Revenue Benefit in the year it impacts rather than the year of intervention. We reduced the Future Revenue Benefit brought forward to 2020 to 2021 relating to our interventions in previous years by £0.5 billion to take account of the anticipated reduction in tax receipts. In addition, our forecast of compliance yield for 2020 to 2021 was already lower than the year before, due in part to a few very large cases that were finalised in financial year 2019 to 2020, the number of which naturally fluctuates from year to year. As a result, total compliance yield was £30.4 billion, compared to £36.9 billion in the previous year.

+ For more information about how we managed compliance activity during the pandemic, go to page 48.
+ For more information about how we managed error and fraud in the coronavirus support schemes, see page 71.
+ See our report 'HMRC's compliance yield: how HMRC reports future revenue benefit' published alongside last year's annual report and accounts at **www.gov.uk/government/publications/hmrc-annual-report-and-accounts-2019-to-2020**

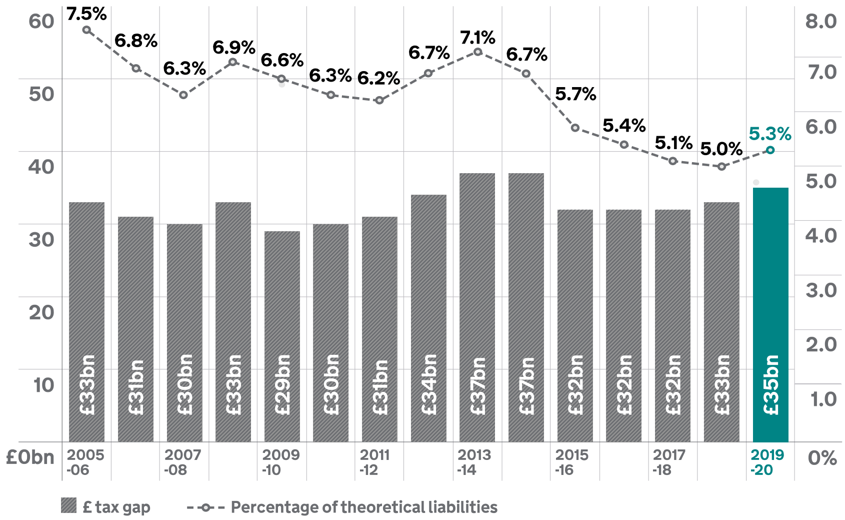
UK's tax gap

The tax gap is the difference between the amount of tax that should, in theory, be paid to HMRC, and what is actually paid. The tax gap arises for a number of reasons. Some taxpayers make simple errors in calculating the tax that they owe, despite their best efforts, while others don't take enough care when they submit their returns.

Legal interpretation, evasion, avoidance and criminal attacks on the tax system also result in a tax gap. It is impossible to collect every penny of tax that is owed - for example, we cannot collect outstanding tax from businesses that become insolvent.

The UK tax gap in tax year 2019 to 2020 (the latest figure available) is estimated to be 5.3% (£35 billion) of total theoretical tax liabilities, which means that HMRC secured 94.7% of all tax due. There has been a long-term reduction in the overall tax gap, falling from 7.5% in 2005 to 2006 to 5.3% in 2019 to 2020. Between 2016 to 2017 and 2019 to 2020 the overall percentage tax gap has remained low and fairly stable.

Figure 7: Tax gap as a percentage of theoretical tax liabilities, 2005 to 2006 up to 2019 to 2020



HMRC's tax gap estimates are official statistics produced in accordance with the Code of Practice for Statistics. These are best estimates based on the information available, but there are many sources of uncertainty and figures may be revised as more data becomes available which is why it is best to focus on the trend in results. Where possible, our estimates include a range, which helps to show some of the uncertainty in these statistics and an uncertainty assessment to help guide interpretation of the results. We may revise previous years' tax gaps as more data becomes available, in order to show the long-term trend.

The best way to reduce the tax gap is through a well-designed tax administration system. We promote good compliance by helping customers to get things right and prevent non-compliance occurring by using data and system design to block fraud and prevent mistakes. It is also important for customers who do comply with their obligations to know that HMRC responds to non-compliance in a proportionate way when necessary.

We recognise that to keep the tax gap low we must continue to adapt with a changing world that will increase some tax risks, reduce others and throw new challenges at us. HMRC and the government are always exploring modern, innovative responses and we will continue to consider how best to use our resources to address these new challenges over the coming years.

+ For more information, including confidence intervals and trend analysis, see our Measuring tax gaps report and methodological annex at: **www.gov.uk/government/statistics/measuring-tax-gaps**

How we are tackling non-compliance

These are some case studies where we have been working to tackle non-compliance during 2020 to 2021:

Diverted Profits Tax

The UK has led the way internationally in making sure that multinational companies pay their share. We carefully scrutinise businesses to make sure they are not artificially diverting profits away from the UK - while the Diverted Profits Tax (DPT) is helping to ensure that the tax paid by multinationals in the UK is commensurate with the activities they undertake here. We are currently carrying out around 100 investigations into multinationals, and the total amount of tax under consideration in these cases was £3.8 billion at the end of March 2021. We have seen increases in both Corporation Tax and VAT as DPT starts to have an impact.

Digital Services Tax

Effective from 1 April 2020, Digital Services Tax (DST) was introduced to address issues with how the international tax framework allocates business profits between countries. The current framework, even when it is applied correctly, does not always reflect the value digital businesses derive from user participation. DST addresses this by taxing the revenues that online marketplaces, search engines and social media generate from their UK users at a rate of 2%. By 31 March 2021, groups had started registering with HMRC using a new online service developed to administer this tax. HMRC continues to work with businesses and tax agents to maximise certainty on how these new rules apply.

Offshore non-compliance

We remain committed to tackling offshore non-compliance, securing around £122 million in financial year 2020 to 2021. At the end of March 2021, we had around 95 individuals under criminal investigation for offences relating to tax evasion on overseas income. Since 2012 at least 40 individuals have been successfully prosecuted, receiving a collective 183 years in custody and 17 years of suspended sentences.

International data sharing and co-operation is vital to improve our understanding of the nature and scale of the offshore compliance risk. The Common Reporting Standard (CRS) calls on jurisdictions to obtain information from their financial institutions and automatically exchange that information with other jurisdictions annually. Around 6.4 million accounts were reported to us through the CRS in 2020 from 93 jurisdictions.

We have analysed the 24,000 taxpayer submissions to the Worldwide Disclosure Facility and are using this insight to help people get their offshore tax right first time. In December 2020, we also launched nudges and prompts in the online Self Assessment system, using automatically exchanged data.

Fraud and criminal attacks

Tax fraud covers a wide range of illegal activity including deliberately submitting false tax returns, falsely claiming repayments or reliefs, hiding income, wealth or assets offshore or smuggling taxable goods. Some of this is carried out by determined, dishonest individuals but organised criminals also deliberately target the UK’s tax system.

We tackle fraud in a variety of ways, including via changes in legislation to make it more difficult or impossible for frauds to succeed, through process changes, education and via civil investigations. We conduct criminal investigations and seek prosecutions when it is in the public interest, particularly where the behaviour is serious or where a criminal prosecution will act as a strong deterrent. We also protect the tax system from attack by organised criminals who deliberately set out to defraud the UK public. In recent years we have delivered a more than eight-fold increase into individuals being investigated for serious and complex tax crime - rising from 50 in financial year 2016 to 2017 to 437 in 2020 to 2021.

Despite the impact of COVID-19 on our compliance work, we continued to take on new criminal cases throughout the pandemic. We adjusted to the challenges of reduced contact and adapted to the use of personal protective equipment (PPE), to enable face-to-face aspects of our investigations to progress. The restrictions that we operated under, combined with the impact on our key partners (for example, a reduced capacity in the court system) and an increased focus on the most impactful casework, led to a reduction in prosecutions, from 691 last year to 163 in 2020 to 2021, and in charging decisions, from 573 last year to 304 in 2020 to 2021. We worked closely with our partners to progress cases wherever possible, ensuring that we followed all current guidance.

We encourage the public to report all kinds of tax fraud, including fraud related to the COVID-19 relief schemes, via our Fraud Hotline channels and we received almost 120,000 reports in the financial year 2020 to 2021. There are times when it is appropriate for us to make payments to individuals for providing us with information that helps us tackle avoidance and evasion. This year we paid out £397,950 in rewards to individuals who provided us with information.

During 2020 to 2021, there was a significant increase in criminal attacks on the Self Assessment repayment system. As criminals make more sophisticated attacks upon our systems, we have worked to further improve and strengthen our controls to sustainably reduce the level of attempted fraud and its impact on legitimate customers. In 2020 to 2021 over £1.5 billion of Revenue Loss was protected through the SA Repayment System.

+ Our powers incorporate a comprehensive suite of safeguards for customers, built into the tax administration and criminal justice frameworks. Read more about these in the Tax Assurance Commissioner's report on 140 to 142.

Next steps: collecting revenue and managing compliance

The tax administration system needs to continually modernise and keep pace with rapid changes in society, the economy and technology.

In July 2020, HMRC and HM Treasury published a 10-year tax administration strategy that commits the government to establishing a fully digital tax system that works closer to real-time: helping people to get their tax right first time, making it harder to bend or break the rules and building trust by operating in a fair and even-handed way. This will ensure we can continue to effectively bring in the tax revenue due under the law, reduce the tax gap and give the right financial support to those that need it.

In the short term, our compliance activity is gradually returning to a more normal level as the UK emerges from the pandemic. As businesses begin to recover from the pandemic, we will increase the number of our people working on tax compliance, using the funding secured at the 2020 Spending Review. We will keep the situation under review to ensure we aren't doing anything which could unnecessarily jeopardise the nation's economic recovery as we continue to adapt to the impact of the pandemic.

A key focus for our compliance work is improving customer segmentation and using data analytics for more targeted compliance interventions. We will continue to increase our focus on upstream compliance (promoting compliance and preventing non-compliance) alongside our more traditional interventions.

+ Read the tax administration strategy at **www.gov.uk/government/publications/tax-administration-strategy**

Analysis: Improving customer experience

We are proud to have kept all our core services running during the pandemic, despite its impact on our customers and our working practices. We worked hard to ensure customers could access the help they needed: many more customers successfully used our online services to get the information they needed and we increased webchats as an alternative to phone calls. Waiting times on some of our helplines increased, in particular on our Self Assessment and PAYE lines, where we made the decision to divert skilled advisors to supporting COVID-19 activity.

+ Read our quarterly performance expectations and updates at **www.gov.uk/government/collections/hmrc-quarterly-performance-updates**

Key customer experience outcomes[1]

14.1m
customers accessed their online digital services account for individuals

2020-21	14.1m	
2019-20	12.1m	

85.2%
customers satisfied or very satisfied with our digital services

2020-21	85.2%	No target
2019-20	81.6%	Target 80%

33.3m
calls received to customer services

2.5m to coronavirus helplines

170,000 calls to customs and international trade helpline

12:04 mins
average speed of answering calls

2020-21	12.04 mins	No target
2019-20	06:39 mins	Target 5mins

70.4%
online iForms processed within 7 days

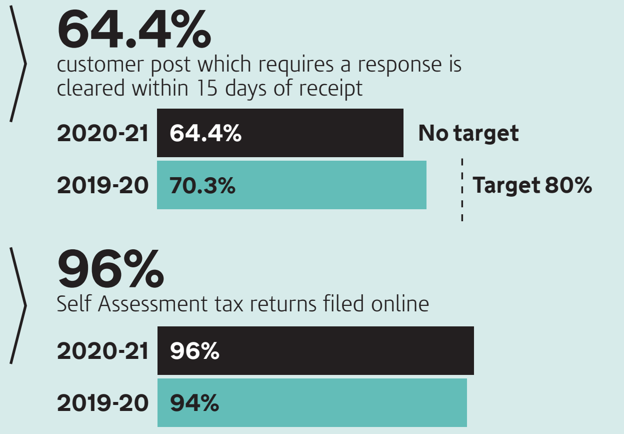
2020-21	70.4%	No target
2019-20	87.6%	Target 95%

Supporting customers during the pandemic

Our priority throughout the year was to ensure that customers were well supported during the pandemic. We responded to customers' needs by:

- launching a new COVID-19 helpline in the space of just 5 days during March 2020
- holding 462,000 COVID-19 webchats across all key areas of demand as an alternative to phone calls
- running 630 webinars on COVID-19 support topics
- moving 9,066 colleagues from other areas of our work to support our coronavirus helpline and support schemes

- introducing a virtual assistant as an alternative to people contacting us
- producing coronavirus support scheme pages on GOV.UK, which had been accessed more than 100 million times by end of March 2021
- taking a sympathetic approach where people could not pay their tax, allowing them to defer payment, and to pay off their debts over time in affordable instalments
- deferring our compliance enquiries where people were finding it hard to engage, if possible, to ensure otherwise viable businesses did not become insolvent or cease to trade at a time of acute economic stress
- not mandating a particular format for employers to provide data about their employees to us for the Coronavirus Job Retention Scheme - using artificial intelligence to match the data to our own records
- working with the voluntary and community sector to provide support to customers we would otherwise find hard to reach due to language barriers, confidence, physical or mental health needs.



[1] For a historical data series, go to **www.gov.uk/government/publications/hmrc-annual-report-and-accounts-2020-to-2021**

Delivering new digital services

We introduced a range of new digital services over the course of the pandemic, like digital stamps to avoid paper handling and a virtual assistant to handle routine Self Assessment and tax credits queries like password resets and payment date queries. These simple and efficient services are available 24 hours a day, reducing the need for customers to contact our helplines. Customer satisfaction with our digital services reached a record high of 88.5% during the period after these new services were released, and remained high at 85.2% overall for the year.

We encouraged more customers to use our webchat service as an alternative means of communication, because it could already be delivered by colleagues working from home. We trained more than 1,000 new colleagues on webchat and expanded it into new areas. This led to the average number of webchats increasing from 4,000 a day before the pandemic to a peak of over 33,000 on 21 April 2020. Numbers have fluctuated throughout the year and ended in March 2021 with around 6,000 chats per day.

Following changes that allowed individuals who were working from home to claim £6 per week to cover additional household costs, we also developed and launched a new digital claims service that received 2.5 million successful claims by the end of March 2021.

Making Tax Digital for VAT

Our long-term plan is to deliver a tax administration system that is fully digital, works closer to real-time and provides more resilience. Making Tax Digital (MTD) for VAT is the first step, making it easier for businesses to keep on top of their affairs and get their tax right first time.

Since MTD for VAT was launched in April 2019, over 1.5 million businesses have signed up, including nearly a third of non-mandated VAT-registered businesses (under the VAT threshold) who have joined voluntarily. Over 10 million returns were made through the system to 31 March 2021.

We are continually reviewing customer experiences in MTD for VAT. Our March 2020 research report 'Evaluating Making Tax Digital's impact on record-keeping behaviour and scope for error among small businesses' found that businesses using MTD were already starting to see a positive impact, including reduced scope for error and less time spent on managing their tax. More recently, in a quantitative study, 'The Impact of MTD for VAT', published in July 2021, the majority of businesses found the process of transitioning to and submitting via MTD easy, the majority of respondents reported experiencing at least one benefit from MTD, and the majority of these felt that at least one benefit had increased over time.

In July 2020, we announced our plans to extend MTD to apply to all VAT customers from April 2022, and to businesses and landlords with trading and property income chargeable to Income Tax with gross income at or above £10,000 from April 2023. We have since legislated to implement the extension of MTD to all VAT-registered businesses from April 2022, laying regulations on 7 September 2021. In addition, in recognition of the challenges faced by many UK businesses and their representatives as the country emerges from the pandemic and in response to stakeholder feedback, MTD for Income Tax Self Assessment will not be introduced until 2024. This was announced on 23 September 2021, alongside the publication of MTD for ITSA regulations.

In focus: Self Assessment returns

Following representations from accountancy bodies as well as MPs, we recognised how difficult some Self Assessment customers would find it to file on time due to the pandemic. We took the decision not to issue penalties to customers who missed the 31 January filing deadline as long as the return was received by 28 February 2021.

We received 85% of Self Assessment returns by 31 January 2021 compared to 92% last year, but that figure increased to 91% once 28 February returns were included. 96% of returns received were online, continuing the trend away from paper filing.

Answering customer calls

For much of the year, average call waiting times on our telephone helplines were longer than we saw in the previous financial year. We received 33.3 million calls and, on average, they were answered in 12:04 minutes.

A comparison of the performance figures for our individual helplines shows the reasons for this increase. Customers for tax credits, Child Benefit and Tax-Free Childcare experienced a service that was broadly in line with a normal year. Additionally, calls to our customs and international trade helpline were answered in an average of just 37 seconds throughout financial year 2020 to 2021. However, the impact of our need to prioritise was more keenly felt on our PAYE and Self Assessment services where customers were typically experiencing average call waiting times of 17 minutes, compared to 8 minutes in financial year 2019 to 2020.

The skills and capabilities needed to help customers with the COVID-19 support schemes are the same vital skills that we use for our PAYE and Self Assessment services. We took the conscious choice to divert those skilled advisers to providing COVID-19 support because that is what individuals and small businesses needed from us most urgently at a time of acute crisis. At the start of the year, over 5,000 colleagues were deployed in this way. This number has fluctuated during the year and at the end of 2020 to 2021 it stood at just above 2,000.

Despite these pressures we were proud to keep delivering all our usual customer services throughout the year, thanks to a number of new innovations. We successfully tested and introduced technology to allow 7,000 customer service colleagues to answer queries from their own homes if needed.

We replaced our old system with an integrated multi-channel platform capable of voice, chat and system generated interactions so we could serve customers more effectively in the way they choose to engage with us. We also launched a new user interface for our customer advisers, giving them all the information they need in one place and reducing the need to open and update multiple IT applications. Figure 8 shows the proportion of callers that wanted to speak to an advisor and were successful.

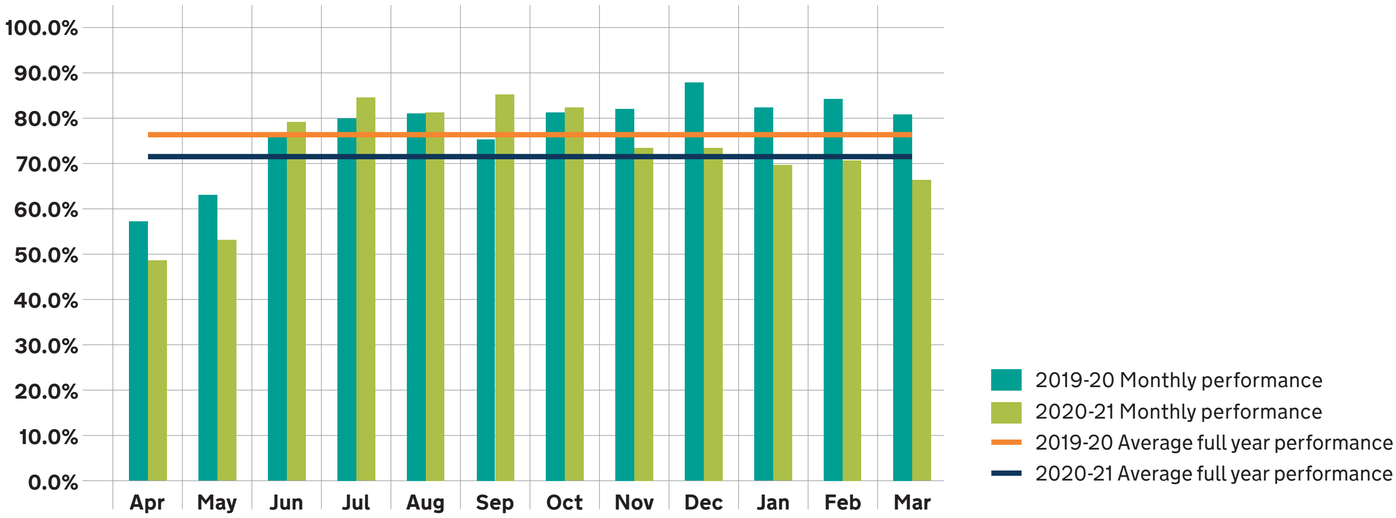
During the final quarter of the year we saw a large number of calls to our customs and international trade helpline. We expect the number of calls to these lines will continue to reduce as our customers get used to the new regulations.

In focus: COVID-19 helpline

We opened a COVID-19 helpline on 16 March 2020. It received 2.5 million customer calls across all its lines by the end of the financial year - ranging from helping those worried about paying their tax due to the pandemic to answering questions about the various government support schemes.

We deployed more than 5,000 customer advisers onto the helpline at the start of the pandemic and continued to prioritise this service. Towards the end of the first quarter of financial year 2020 to 2021, customers experienced an average waiting time of only 3 minutes and 6 seconds and towards the end of quarter 4, this had reduced to 1 minute and 16 seconds. On average, throughout the year calls were answered in 5 minutes and 8 seconds.

Figure 8: Advisor attempts handled

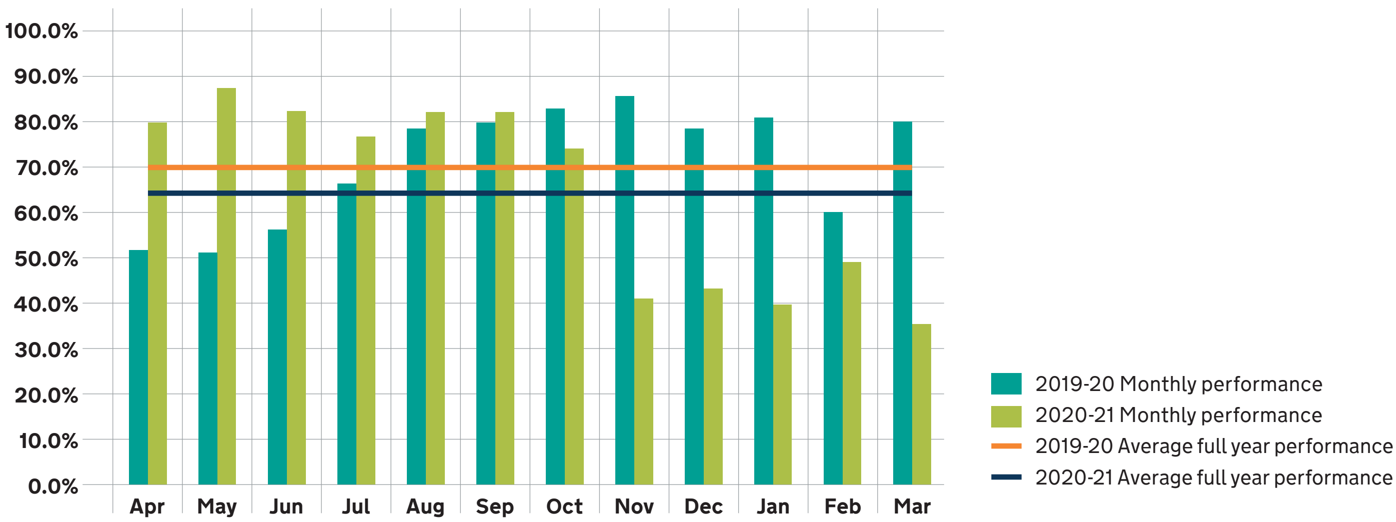


Handling customer post

As our digital offer has expanded and due to the impact of the pandemic, contact through post has reduced. We received 15.7 million items of post compared to around 17.3 million in financial year 2019 to 2020 - an overall reduction of 9%.

Our post is scanned on receipt which meant colleagues working at home during the pandemic were able to continue dealing with customer correspondence. As a result, post turnaround in the first half of the year was above 80% cleared within 15 days. In later months we received a significant amount of unanticipated post related to home expenses, repayments and other COVID-19 related items. These items of post are complex, resulting in longer turnaround times. The year end result was 64.4% items of post cleared within 15 days.

Figure 9: Post cleared in 15 days



New ways to measure customer experience

Net Easy

'Net Easy' is a new way for customers to assess their own experience of our digital services, every time a customer exits their online account against a five-point scale from 'very easy' to 'very difficult'. The average year end scores were 72.2, suggesting that significantly more customers find our online offerings easy to use than find it difficult. Net Easy will be extended to our telephone service in 2021 to 2022.

Once and Done

Through our 'Once and Done' measure, we aim to resolve customer queries after a single contact. We saw positive scores in each month throughout the year, consistently above 86% for digital. This indicates our services met the needs and expectations of most customers. Once and Done will be extended to our telephone service next year.

Proportion of adviser attempts handled

Our measure of the proportion of callers that want to talk to an advisor that manage to get through- 'advisor attempts handled' - was at 71.6% this year. We played fewer 'busy' messages this year compared to 2019 to 2020, which means fewer customers had their call terminated before reaching an advisor.

+ Read our published experimental data at **www.gov.uk/government/publications/hmrc-quarterly-performance-report-january-to-march-2021**

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 is how businesses, individuals and agents rate their overall experience of dealing with HMRC.

Small businesses*

82% positive

2019 75% positive

Mid-sized businesses**

63% positive

2019 58% positive

Large businesses***

91% positive

2019 86% positive

Individuals*

68% positive

2019 63% positive

Agents*

61% positive

2019 51% positive

* HMRC Individuals, Small Businesses and Agents Customer Survey 2020

** HMRC Mid-sized Business Customer Survey 2020

*** HMRC Large Business Customer Survey 2020

HMRC's Charter and customer equality objectives

On 5 November 2020, we published a new version of HMRC's Charter, which sets out the experience we want to deliver to our customers and the standards they can expect. This followed a public consultation between February and August 2020.

The Charter is key in helping make HMRC a trusted, modern tax and customs department. It gives our customers confidence that we will aim to meet the highest standards while responding to their concerns and demonstrates our commitment to building greater trust.

Now, we are working to embed the standards of the Charter in our day to day activity by:

- building the Charter into our standard skills and ways of working, from policy design through to delivery and operations
- making clear links between our internal values and the principles behind the Charter, so our values are reflected in customer experience
- developing measures that incorporate customer experience into our performance management framework
- rolling out new Compliance Professional Standards in July 2020 - these are the operational articulation of the Charter in our compliance work and place a strong emphasis on the relationship we want with our customers

+ Read HMRC's Charter at: **www.gov.uk/government/publications/hmrc-charter** and the Charter Annual Report at: **www.gov.uk/government/collections/your-charter-annual-reports**
+ Read more about HMRC's Customer Experience Committee on page 109 and at: **www.gov.uk/government/organisations/hm-revenue-customs/about/our-governance#customer-experience-committee**.

HMRC's Charter standards are also integral to how we comply with our statutory responsibilities under the Equality Act 2010 Public Sector Equality Duty. We publish customer equality objectives from which we measure improvements in our performance, while our annual Public Sector Equality Duty Report shows how we performed against those objectives.

+ Read our equality objectives at **www.gov.uk/government/publications/hmrc-equality-objectives-2020-to-2024**
+ Read our Public Sector Equality Duty Report 2019 to 2020: **www.gov.uk/government/publications/hmrc-compliance-with-the-public-sector-equality-duties-2019-to-2020/part-1-our-customer-service-and-policy-work**

Customers who need extra help

Our new principles of support for customers who need extra help were published alongside the new Charter and demonstrate our commitment to providing tailored support, at the earliest opportunity, for customers who may need extra help.

Customers identified as needing extra help are transferred to our Extra Support advisers, who have the skills and time to handle queries at the customer's pace. They supported 97,162 customers in 2020 to 2021, including helping 6,284 of these customers with applications for financial support during the pandemic.

Since launching the compliance Extra Support service in January 2020 we have continued to embed this service for those customers who need extra help when undergoing a compliance check, with our advisers supporting both the caseworker and the customer throughout the process. The team handled 1,443 referrals in the 12 months to 31 March 2021.

The reasons why customers need extra help can vary widely and could be permanent or temporary. This year we rolled out a training programme and improved our guidance for our customer service colleagues and compliance officers to enable them to better identify when we might need to provide that extra help. We are working hard to ensure our digital services are fully accessible and provide alternative ways for all customers who need help to communicate with us digitally.

+ For more information on HMRC's support for customers, read the Tax Assurance Commissioner's report on page 142.
+ Read HMRC's principles of support for customers who need extra help at: **www.gov.uk/government/publications/hmrc-charter/hmrcs-principles-of-support-for-customers-who-need-extra-help**
+ Read more on the range of extra support services HMRC can provide at: **www.gov.uk/get-help-hmrc-extra-support**

Working with intermediaries to improve the tax system

We use an integrated, multi-channel approach to working with intermediaries, agents, professional bodies and other stakeholders, so we can involve them in our decisions, extend our reach and amplify our key messages.

COVID-19 challenges

We worked with the stakeholders to design specific COVID-19 support schemes, amplifying key messages through stakeholder digests and other HMRC communications and establishing the COVID-19 enquiries database. We also increased the regularity of our virtual stakeholder engagement forums, providing opportunities for discussion and raising issues on strategic and specialist subjects. Senior officials provided further assurance by speaking directly to a number of professional bodies and voluntary sector organisations such as Low Incomes Tax Reform Group, Tax Aid and Tax Help for Older People.

Raising standards in the tax advice market

We worked with agents and their professional bodies on raising standards in the tax advice market, holding a series of virtual roundtable discussions with them to ensure that their voices were properly heard. Some professional bodies arranged virtual events with their members on our behalf to extend the reach. Engagement with the agent community played a significant role in informing the consultation that was launched in March.

+ For more information, see: **www.gov.uk/government/consultations/call-for-evidence-raising-standards-in-the-tax-advice-market**

Grant funding for voluntary and community sector (VCS) organisations

We recognise that VCS organisations are key to supporting vulnerable customers and we work closely with this sector. Each year, we provide grant funding to VCS organisations to help support customers we find it hard to reach. Where possible, we work with those organisations to help customers form or rebuild a relationship with HMRC that enables them to engage directly in the future.

Working with stakeholders to improve our guidance

We created a Guidance Strategy Forum to improve the effectiveness of our customer guidance. This forum brings together external stakeholders to help us gauge the effectiveness of the changes we are making and to test our thinking on key guidance issues.

+ Details of the forum can be found at **www.gov.uk/government/groups/guidance-strategy-forum**

Handling complaints

We aim to provide an easy, accessible and responsive complaints service. We want to reach the right outcome as quickly as possible, acknowledging where we have made a mistake and the customer impact of that mistake.

We are investing in a new complaints system which will provide greater insight into the reasons for complaints. We have also piloted a new operating model where frontline advisors resolve complaints at the earliest opportunity. This will be rolled out gradually across HMRC to ensure it lands successfully.

We operate a two-tier internal complaints process providing customers with the opportunity for a second independent review of their complaint. If a customer remains dissatisfied with our decision, they can refer their complaint to the independent Adjudicator's Office and then to the Parliamentary and Health Service Ombudsman (PHSO).

Complaints this year increased by 19.7% at Tier 1, 30.9% at Tier 2 and 46% at Adjudicator level. Complaints relating to the COVID-19 financial support schemes have increased complaints volumes. Escalation rates on those complaints compared to our non-coronavirus complaints have been high (12.8% of new complaints were escalated compared to 6.1% respectively). Upheld rates for these complaints have however been low at 14.1% at Tier 1 and 12.7% at Tier 2. 6 detailed investigations were concluded by the PHSO in 2020-21. Of those conclusions 1 was fully upheld and 1 was partially upheld resulting in 10 recommendations, all of which we have complied with.

78,542

new complaints received

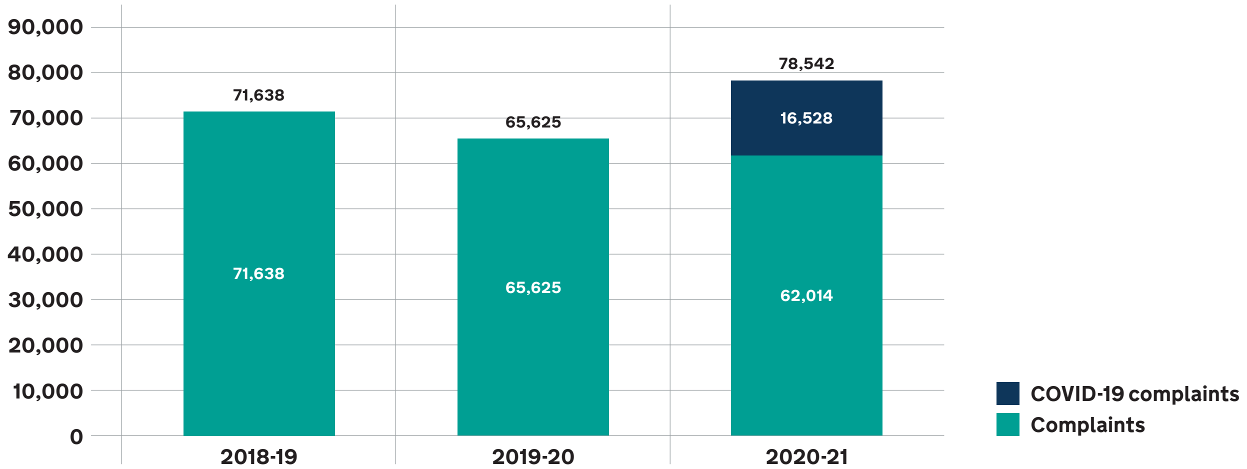
21%

of new complaints linked to COVID-19 impacts on individual customers

16.3

average days to handle a new complaint (compared to 17 days in the previous year)

Figure 10: New Tier 1 complaints



We value the insight we receive from the Adjudicator to improve our service. In our formal response to the Adjudicator's 2020 annual report, we focused on the good progress we have made in addressing the historical issues identified from feedback and developing a more forward-looking programme that uses real-time insight from complaints. We continue to strive to embed a cultural shift in our approach to complaints handling and learning from customer feedback.

+ Read the Adjudicator's Office 2021 annual report at **www.gov.uk/government/publications/the-adjudicators-office-annual-report-2021**
+ Read our formal response to the Adjudicator's Office 2020 annual report at **www.gov.uk/government/news/hmrcs-response-to-the-adjudicators-office-2020-annual-report**

Managing the tax credits and Child Benefit system

We are responsible for administering tax credits and Child Benefit, and our priority is to pay customers on time and make sure they receive their correct entitlement. Last year, tax credits helped around 1.9 million families and 3.5 million children, while Child Benefit supported around 12.5 million children in eligible families.

Since 1 February 2019, there have been no new claims to tax credits, except from claimants who meet certain restricted criteria. This is due to the gradual transfer of customers from tax credits to Universal Credit, administered by the Department for Work and Pensions (DWP), or Department for Communities (DfC) in Northern Ireland. As a result of this transition, we ended 398,122 claims during financial year 2020 to 2021, of which 328,884 involved active payments. We are working closely with DWP and DfC to help customers get their claims right before they move across to Universal Credit.

We have maintained performance in processing new UK claims and changes, taking an average of 11.2 days. When processing new claims and changes for international customers we took an average of 64.8 days. 58% of tax credits customers renewed their tax credits online.

On 23 February 2021, the new Child Benefit service went live, replacing a DWP based system that was over 40 years old. We migrated 7.3 million Child Benefit households to the new system with no interruption to customer payment date and frequency. The new service means that Child Benefit debt is now easier to manage, processing 1.8 million annual changes of circumstance is more efficient, and data quality is improved.

1.9m
families and
3.5m
children
helped through tax credits

12.5m
children
supported by Child Benefit

5.0%
estimate of tax credits error and fraud

0.8%
estimate of Child Benefit error and fraud

Tackling tax credits and Child Benefit error and fraud

Personal tax credits

We continue to devote significant effort to tackling error and fraud, working to a target to keep overpayments in the tax credits system at no more than 5% of paid entitlement. 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 financial year 2019 to 2020. Our estimate of error and fraud in the tax credits system in 2019 to 2020 suggests HMRC met its target, with an error and fraud overpayment rate of 5.0% (£0.88 billion) of paid entitlement, in comparison to 4.9% or £1.11 billion in financial year 2018 to 2019. This slight increase in the error and fraud rate has been delivered in the context of ongoing pressures on resourcing for tax credits compliance work and changes to our usual compliance processes in response to COVID-19. These changes included reallocating staff to support delivery of HMRC's wider response to COVID-19, leading to a reduction in compliance activity; and extending the automatic renewal of tax credits claims to cover all but the most high-risk claimants.

We have retained a target for 2019 to 2020 to keep tax credits underpayments no higher than 0.7% of finalised entitlement. The latest estimate for underpayments related to 2019 to 2020 is at 0.8% (£150 million), this means we have missed our target as underpayments have increased in percentage terms from the 2018 to 2019 estimate of 0.7% (£170 million). This is the first time we have missed this target and is likely due to the impact of extending the automatic renewal of tax credits claims to cover all but the most high-risk claimants. We enacted this change primarily to allow for earlier payment of the temporary working tax credit uplift, but also to free up compliance resource to support delivery of the department's COVID-19 support schemes.

Child Benefit

Our estimate of the overall level of Child Benefit error and fraud overpayment in 2020 to 2021 is 0.8% of total Child Benefit expenditure £90 million, compared to the 2019 to 2020 estimate of 0.9% (£105 million).

For both tax credits and Child Benefit, we are increasingly focused on guiding customers to voluntarily meet their obligations and effectively manage their awards, through education and reminder campaigns.

+ Read more about what we are doing to address error and fraud in the Principal Accounting Officer's report, on page 132

Next steps: improving customer experience

We are starting work on introducing a Single Customer Record and Account. This will bring all of a customer's tax and payments information together in one place, so they can access tax services more easily and update their records digitally.

We will continue to encourage our customers to use our digital services as the default option, providing more support services such as webchat, so customers can do everything they need to online.

We are also working to provide new payment channels for our customers, enabling them to transact with us in a variety of new and more efficient electronic formats, including the roll out of a Single Payment Processing Channel to all our major customer-facing bank accounts by March 2022.

Following the commitments we made in the February 2021 evaluation of the implementation of HMRC powers and safeguards introduced since 2012, we will be taking forward further steps to ensure that our use of powers builds trust and that safeguards are effective for taxpayers.

Analysis: Delivering coronavirus (COVID-19) support schemes

The COVID-19 pandemic dominated the financial year 2020 to 2021 and we were at the heart of the UK's emergency response. Our rapid and efficient response protected jobs and incomes, provided support for self-employed people and cash flow boosts for businesses - as well as introducing over 80 tax policy changes and clarifications.

Our customer services also focused on supporting people through the pandemic - you can read more about the experience our customers received in 2020 to 2021 starting on page 54.

Key coronavirus support outcomes in 2020 to 2021

£60.7bn

paid in grants through the Coronavirus Job Retention Scheme, supporting 11.5 million jobs from 1.3 million employers

£19.7bn

paid in grants through the Self-Employment Income Support Scheme, helping 2.7m people

£840m

paid out through the Eat Out to Help Out Scheme

20% to 5%

reduction in Hospitality VAT implemented

£1,045

increase in basic element of Working Tax Credit from 6 April 2020 until 5 April 2021

Financial support schemes: at a glance

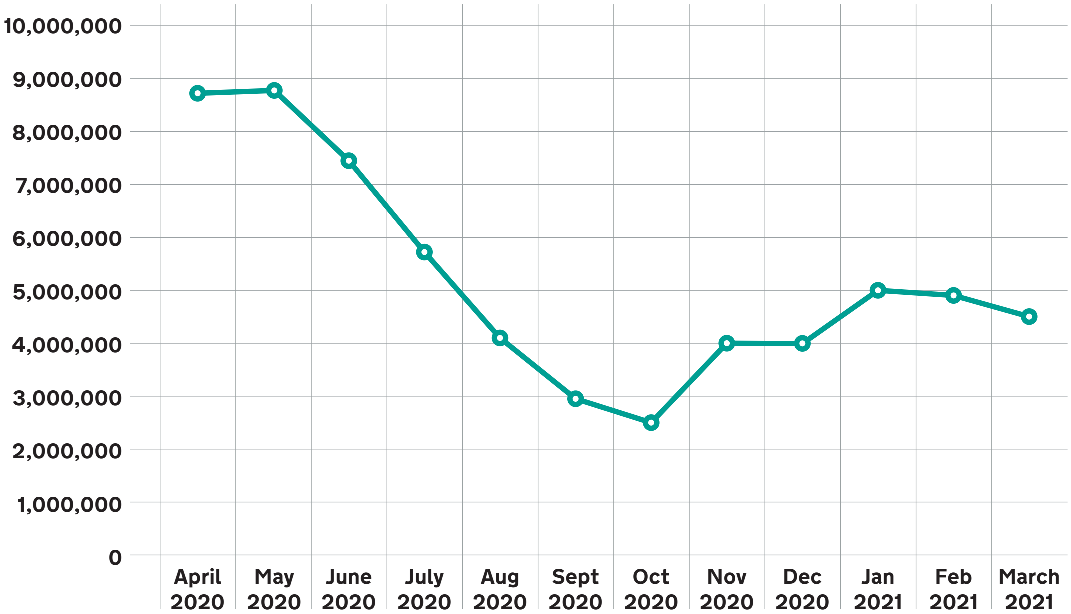
We worked quickly to deliver the government's financial support schemes, building the Coronavirus Job Retention Scheme (CJRS) and Self-Employment Income Support Scheme (SEISS) from scratch in under 7 weeks, and making payments across both schemes within 6 days of customers making an online claim. We engaged with external stakeholders on their design and delivery so we could understand the pressures our customers faced and how best to support them.

Coronavirus Job Retention Scheme (CJRS)

CJRS paid a proportion of the wages of employees who were furloughed during the coronavirus outbreak. The scheme went live on 20 April 2020, less than one month after the first national lockdown was announced on 23 March 2020. Up to 31 March 2021, the Coronavirus Job Retention Scheme supported 11.5 million jobs. HMRC expenditure on CJRS claims (net of voluntary repayments) was £60.7 billion in 2020 to 2021[1]. At the highest point of demand, CJRS was supporting 8.9 million jobs at once.

[1] This figure includes March 2020.

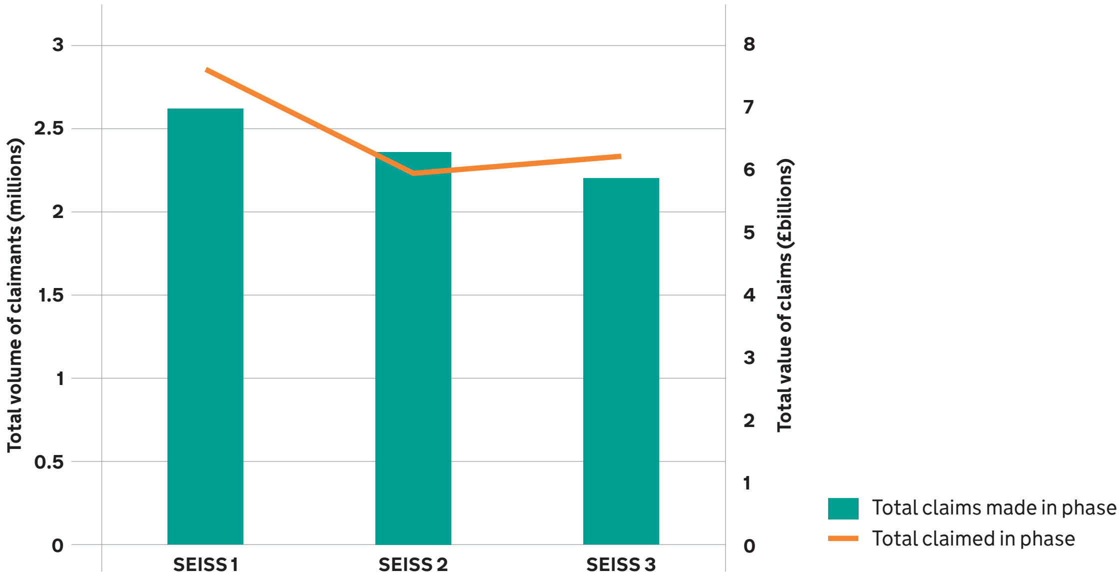
Figure 11: Average number of employments on furlough and supported by the CJRS (April 2020 to March 2021)



Self-Employment Income Support Scheme (SEISS)

SEISS was established to support self-employed individuals and members of partnerships whose businesses have been impacted due to coronavirus. We delivered over £19.7 billion of SEISS support over the last year to 2.7 million people. Applications for the first grant opened on 13 May 2020. Two further grants were made available to cover the period from November 2020 to January 2021.

Figure 12: Number and values of claims for first, second and third SEISS grants



* Further information on SEISS 4 and 5 can be found in the link below

Coronavirus Statutory Sick Pay Rebate Scheme

This scheme repaid employers for the Statutory Sick Pay (SSP) they paid to employees due to absence caused by COVID-19. The scheme covered up to 2 weeks of SSP for every eligible employee. It was available to UK-based businesses with fewer than 250 employees from 28 February 2020 and was paid out from 26 May 2020. The costs for this scheme were met by the Department for Work and Pensions.

Eat Out to Help Out

Eat Out to Help Out was set up to encourage people to return to eating out at restaurants. Discounts were available at participating restaurants for customers who consumed meals on the premises during Monday to Wednesday from 3 August 2020 to 31 August 2020. The claims service was open from 7 August 2020 to 30 September 2020. We set up an online service that enabled 49,000 businesses covering 78,000 venues across the UK to claim support for 162 million meals. We paid out a total of £840 million to participating businesses.

+ Read more statistics on the government's COVID-19 support schemes at **www.gov.uk/government/collections/hmrc-coronavirus-covid-19-statistics**

Error and fraud in the schemes

The government's priority from the start of the pandemic has been on protecting jobs and getting support to those who need it as quickly as possible, and our employment support schemes have provided a lifeline to millions of hard-working families across the UK. We put in robust measures to minimise and mitigate the risks of erroneous and fraudulent overpayments in the COVID-19 support schemes as far as possible while not holding up payments.

Our initial planning assumptions in financial year 2020 to 2021 about error and fraud in the Coronavirus Job Retention Scheme (CJRS) was 5-10%, Self-Employment Income Support Scheme (SEISS grants 1 to 3) of 1-2% and Eat Out to Help Out (EOHO) 5-10%. These assumptions were based on the best information available at the time.

Our current assessment of error and fraud for CJRS for financial year 2020 to 2021 is 8.7%. For SEISS grants 1 to 3 it is 2.5% while Eat Out to Help Out is 8.5%. These are provisional estimates, see page 133 for more on expected estimates.

We appreciate that many claimants who made inaccurate claims will have made genuine mistakes, and where we find them, we will work with customers to put them right. By the end of March 2021, around £830 million of CJRS grants had been repaid to correct a mistake or because the grant was no longer needed.

We are taking tough action to tackle those who set out to defraud the COVID-19 support schemes. Our compliance work is expected to recover £494 million from overpayments due to customer error or fraud and prevented £347 million in overpayments.

At the Spring Budget in March 2021, the government announced it was investing £100 million to considerably expand the scope of our compliance work. The Taxpayer Protection Taskforce will see us commit over 1,200 colleagues to recovering around £1 billion over the next 2 years paid out in incorrect and fraudulent claims.

+ Read more about the methodologies of our COVID-19 error and fraud assessments at: **www.gov.uk/government/publications/measuring-error-and-fraud-in-the-covid-19-schemes**

Evaluating the schemes

In 2020, the National Audit Office carried out a study called 'Implementing employment support schemes in response to the COVID-19 pandemic', focusing on CJRS and SEISS. They found that HMRC and HM Treasury (HMT) met the objective to rapidly implement the schemes and commended the departments for delivering ahead of schedule. The study also noted the close working across departments - a key feature of the schemes' success.

HMRC and HMT are committed to learning the lessons from their overall joint response to the pandemic. One way we are doing this is by thoroughly evaluating the economic support schemes that have been implemented. For CJRS, HMRC and HMT produced a CJRS Evaluation Plan on 20 December 2020, outlining the framework for evaluating the scheme, assessing its delivery and the difference it made to employees and businesses, and identifying lessons learned. The evaluation will determine how the CJRS supported the longer-term economic recovery and whether it provided good use of public funds. Similarly, plans are in place to carry out an evaluation of SEISS as HMRC receives Self Assessment tax returns for financial years 2020 to 2021, and 2021 to 2022 which are due by January 2022 and January 2023 respectively.

+ Read the National Audit Office report 'Implementing employment support schemes in response to the COVID-19 pandemic' at: **www.nao.org.uk/report/implementing-employment-support-schemes-in-response-to-the-covid-19-pandemic**
+ Read the CJRS Evaluation Plan at: **www.gov.uk/government/publications/coronavirus-job-retention-scheme-evaluation-plan**

Other policy changes for customers during COVID-19

We implemented many other government tax policy changes and clarifications to support customers and the economy during the pandemic, including:

- a VAT payments deferral scheme between 20 March 2020 and 30 June 2020
- making it easier for Self Assessment customers to spread their tax bill over 12 months and removing late filing penalties if customers filed online by 28 February 2021
- temporary relief for customs duty and import VAT on personal protection equipment and other medical supplies
- temporary domestic relief of VAT on certain types of personal protective equipment (PPE)
- ensuring alcohol duty controls did not create unnecessary barriers to support an increase in the supply of hand sanitiser
- early implementation of VAT zero rate on e-publications from 1 May 2020, brought forward from 1 December 2020
- increasing the basic element for Working Tax Credit by £1,045 from 6 April 2020 until 5 April 2021, which meant up to an extra £20 each week for claimants
- a temporary reduced rate of VAT (5%) for hospitality, holiday accommodation and attractions from 15 July 2020 to 30 September 2021, and a new reduced rate of 12.5% from 1 October 2021, ending on 31 March 2022
- reduced rates of Stamp Duty Land Tax (SDLT) applied for residential properties - from 8 July 2020 until 30 June 2021 SDLT was applicable only on properties above £500,000 and from 1 July to 30 September 2021 the nil rate band was £250,000

We have also developed and introduced other measures to support business and personal customers and aid economic recovery, including the extended loss carry back for businesses and the super deduction for companies investing in new plant and machinery, both announced at Budget 2021.

+ Read about how the VAT and Self Assessment measures affected our debt balance on page 45.
+ Find out about our customer service during the pandemic on pages 54 to 55 and how we supported our workforce on page 78.
+ Read about how we managed compliance enquires during the pandemic on page 48.

Analysis: Supporting the UK's international trade

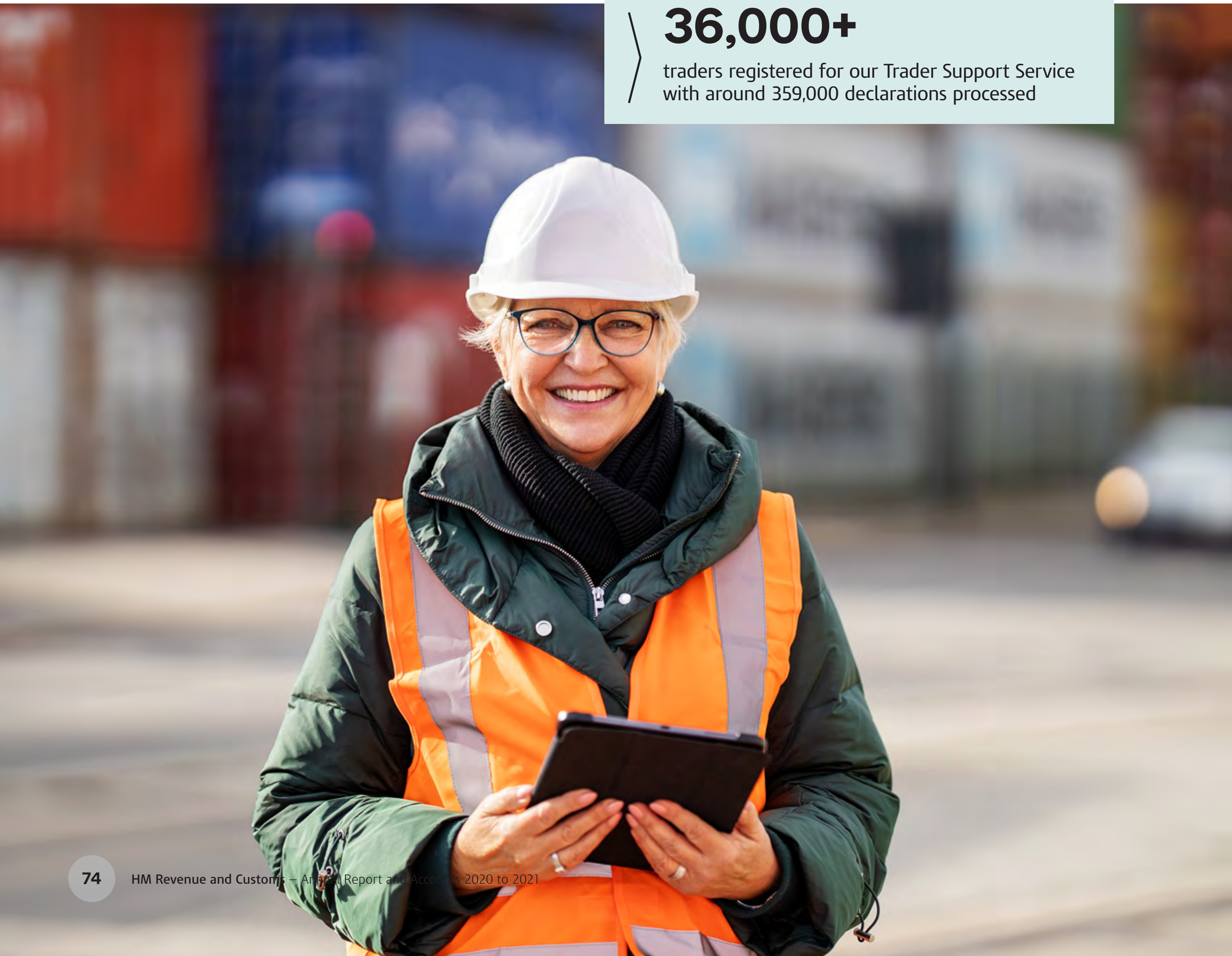
Our urgent priority in financial year 2020 to 2021, alongside the response to COVID-19, was to support movement of goods and passengers between the UK and EU after the end of the transition period. We also helped our customers prepare and took steps to minimise disruption.

Key transition outcomes

8,000+
colleagues supporting UK transition changes

6
inland border facilities delivered plus 3 pop-up sites

36,000+
traders registered for our Trader Support Service with around 359,000 declarations processed



Delivering the end of UK transition

We implemented a significant programme of process and system changes, including over 60 IT requirements, for the end of the UK transition period. This involved changes to our declaration platforms and transit services, as well as building new systems such as the Goods Vehicle Movement Service which captures details of vehicles and the declarations for the goods they are carrying. We trained nearly 3,000 colleagues in these systems and processes - our biggest ever single remote training programme.

We delivered 6 inland border facilities where checks and customs processes can be completed away from the border at Ebbsfleet, Ashford Waterbrook, Manston, North Weald, Warrington and Birmingham - and 3 pop-up sites at Rugby, Rotherham and Holyhead.

To help customers prepare, we published almost 600 guidance updates and provided enhanced support arrangements for our customers and industry partners. Our free Trader Support Service (TSS) for businesses operating under the Northern Ireland protocol was welcomed by traders and their representative organisations. Over 36,000 traders have registered and TSS has processed around 359,000 declarations.

During the transition period, we ensured all critical legislation would be in place for 1 January 2021. We successfully placed 30 statutory instruments into the statute book before the end of transition. We implemented a number of temporary easements in January 2021 to mitigate a lack of external readiness and enable trade at the border to continue at the end of the transition period. Removal of easements will require changes from businesses so we are taking steps to ensure they are supported and ready to operate.

Since the end of the UK transition period, we have:

- kept goods moving across our borders quickly and efficiently - including essential supplies to help deal with the pandemic like hospital equipment, PPE and vaccines
- kept our clearance times within target: 95% within 2 hours and 100% within 4 hours
- introduced a new out of hours service providing 24/7 support for urgent border issues

We also expanded the capacity of our customs and international trade helpline, allowing us to answer more than 70,000 calls since the beginning of 2021, with an average speed of answer of less than 5 seconds in both February and March 2021.

We have tailored our compliance approach, supporting customers when they get things wrong, while responding firmly to deliberate non-compliance where the customer has sought to obtain a financial advantage; and protected the system against deliberate non-compliance by ensuring high-risk traders who have a recent record of poor tax compliance are not allowed to delay their customs declarations as part of the announced staged approach.

Introduction of full customs controls for EU to GB import movements are still due to be introduced on 1 January 2022. But safety and security declarations for imports from the EU will not now be required until 1 July 2022.

+ Find out about how we supported customers through our customs and international trade helpline on page 57

Working across government to support UK transition

We collaborated with many government departments and agencies to deliver the IT systems and infrastructure that were needed for UK transition, which helped the government to support businesses making customs and export returns. We developed policy, provided guidance and developed strategies for non-compliance, revenue protection, policy development and enforcement.

We worked closely with the Border Protocol Delivery Group to develop a Border Operating Model, detailing the processes and systems required to move goods between Great Britain and the EU at the end of the transition period and beyond. We maintained consistent and close contact with ministers throughout the transition period, providing robust reporting to the Transition Task Force within Cabinet Office to support ministerial level briefing and reporting.

In focus: measures and policy changes to support traders

We have made changes at the border to support traders, including:

- abolishing low value consignment relief (LVCR) on goods imported from overseas with a value of less than £15, addressing the long-standing abuse of this relief and VAT is now due on all imported goods
- moving VAT collection from consignments under £135 away from the border - VAT is now charged on qualifying goods at the point of sale by the overseas seller, or an online marketplace where they facilitate the sale, and accounted for on a UK VAT return
- introducing postponed VAT accounting from the end of the transition period for UK VAT-registered businesses who import goods into Great Britain from anywhere outside the UK, and into Northern Ireland from outside the UK and EU
- introducing duty-free shopping on travel to the EU from Great Britain and the withdrawal of tax-free shopping schemes including the VAT Retail Export Scheme
- delivering a new online declaration service to support passengers to make informed decisions on tax and duty implications of bringing goods into the UK, making declarations easier and quicker and minimising disruption at the UK border

Resources

Throughout 2020, we prioritised UK transition activity alongside our COVID-19 response to ensure readiness for the end of the transition period and maintain consistent customer service levels. We ran an extensive recruitment campaign and used contractors and contingent labour. By 31 March 2021, we had the equivalent of 6,788 permanent full-time employees working on UK transition and a further 1,345 contractors and contingent labour.

EU Commission's infraction proceedings against the UK

In March 2018, a formal notice of infraction was received from the European Commission alleging that over the period 2011 to 2017, the UK 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 referred the case to the European Court of Justice (CJEU). The government does not agree with the Commission's estimate of evaded duty and does not accept liability, and has fully contested the case. The written and oral hearing stages of the infraction have now concluded, with the case being heard at the CJEU on the 8 December 2020. The Advocate General's Opinion was published in September 2021 which is advisory in nature and non-binding on the court. The judgement is expected in 2022. Should any financial obligations arise from the judgement in 2022, these will be paid from the Consolidated Fund Account of HM Treasury.

Next steps: the UK's international trade

Since March 2021, we have continued to engage businesses in sectors that are affected by our new relationship with the EU, making sure they are aware of new requirements and helping them adjust so they can successfully compete on the global stage.

We will continue to engage constructively with EU institutions and member states to ensure there is minimal disruption to the flow of goods and to the sharing of information, and to resolve issues where required. This will continue as we prepare for the introduction of full import controls for goods from the EU.

By the end of July 2022, we will be able to implement a secure border with full border controls with which traders can comply and support the long-term vision for UK Customs. As part of the government's manifesto, we are also introducing 8 freeports in England - and we are committed to working with the devolved nations to establish freeports across the UK.

The 2030 Borders and Trade Strategy will define the role of customs in driving economic growth, enhancing border compliance and supporting our ambition to be a trusted, modern tax and customs department.

Analysis: Transforming how we work

In response to the pandemic, we have adapted how we use technology, data and processes and shown flexibility in how, when and where we work.

More widely, our aim is to build a fair and kind workplace where everyone can thrive and deliver the best possible service for customers. We are focusing on the respect we show to each other, the pride in what we do and the skills we develop.

Key supporting our people outcomes

6,122

full-time equivalent colleagues recruited (includes Valuation Office Agency)

57%

Our employee engagement index score

4

new regional centres opened in 2020 to 2021 part of our eventual network of 13 regional centres

Supporting our people

Working through the coronavirus pandemic

On average each week, 3,500 of our people continued to work in COVID-safe offices throughout the pandemic to deliver vital services that could not be done from home.

We supported these and other colleagues to work effectively through unprecedented personal and professional challenges. For the majority of our workforce who switched to a remote working environment, this included new digital platforms to support safe and effective working, wellbeing and connectivity.

Through our COVID Workforce Response Board we were able to act rapidly following government announcements. We provided comprehensive health and wellbeing support for all colleagues, as well as essential equipment for effective home working and occupational health chairs for those who needed them. We also provided additional support and flexibility for carers and those home-schooling children.

Pay and contract reform

It has been clear for a significant period of time that, in order to modernise the way we administer the tax system, we also need to modernise our working arrangements. As a key part of this, in August 2020, we entered negotiations with our recognised trade unions, Association of Revenue & Customs (ARC) and Public and Commercial Services Union (PCS), to negotiate a pay and contract reform offer for all colleagues at grades AA to Grade 6.

The aim was to design more flexible and modern terms and conditions that enable us to respond better to the changing needs of our customers - and to make HMRC a great place to work by giving our colleagues a better work-life balance. The reforms included a new approach to flexitime and more flexibility to work from home. The savings generated for HMRC through changes to terms and conditions and budget efficiencies have been used to fund a more generous pay settlement for our people, ensuring they are fairly rewarded for their vital work and that we can recruit and retain the skills and experience we need.

ARC and PCS trade union members voted overwhelmingly to accept the offer, with Ministers and HM Treasury approving the deal. As a result, all colleagues between AA and Grade 6 will receive an average 13% pay rise over 3 years to June 2022. We are implementing the contract reform changes throughout 2021, working closely with our departmental trade unions.

Training and skills

Despite unique circumstances, we were able to maintain training and career opportunities for our people, helping them develop the skills they need to deliver our vital purpose. Highlights included:

- we currently have 24 professions with in HMRC in 2020 to 2021
- 3,800 of our people undertook formal training in leadership and management, and 2,800 people registered as a coach, mentor or reverse mentor
- 187 trainees joined our Tax Specialist Programme and 137 trainees successfully completed the programme and were promoted
- we continued our partnership with Manchester Metropolitan University to award a BA (Hons) in Professional Studies in Taxation
- we recruited over 1,000 people to our Level 3 and 4 tax apprenticeships
- we transformed much of our Criminal Justice training into digital classrooms, remotely delivering over 8,000 student days of training to new recruits and existing staff in criminal investigation and intelligence roles

Respect at Work

We continued our programme of improvement to address the recommendations from Laura Whyte's 2019 independent review of what it is like to work at HMRC. We have focused on embedding 'Our Commitments' (the standards and expectations of behaviour we have set for each other) and radically overhauling our HR policies, processes and systems. Our actions included:

- listening events and podcasts for managers to understand the reality of colleagues' experiences and build empathy and self-reflection
- videos of how Our Commitments are lived in real working scenarios
- behavioural learning on micro-behaviours and their impact
- workshops to improve self-awareness and confidence to speak up when things are not right
- race equality workshops
- a suite of learning to build manager capabilities and a management development programme

We also encouraged our business groups to drive change in day-to-day colleague interactions, by:

- developing new customer service performance measures
- supporting managers to open conversations with their teams on work-life balance
- establishing a new pilot scheme for handling grievances, which has reduced the average length of cases
- holding confidence building sessions for managers to discuss tricky issues such as wellbeing, performance, discrimination and inclusion

Creating a permanent change in work culture takes time, but our early work is making a difference. In 2020, our people survey results showed a 5% reduction in people experiencing bullying, harassment and discrimination and a 6% increase in people feeling included and fairly treated. In addition, our colleagues' perceptions of whether senior leaders live by our values increased by 16%.

+ Read the Respect at Work Review report at **www.gov.uk/government/publications/hmrcs-respect-at-work-review**

Creating a more inclusive workforce

Much of our work this year has focused on race equality in the workplace. We had identified some disparities, which we shared with colleagues along with an action plan in July 2020.

Across HMRC, colleagues had structured conversations about race equality and inclusion. Black, Asian and minority ethnic colleagues shared their experiences through listening events and podcasts. Feedback from colleagues was that the experiences were powerful to listen to and they were motivated to take action, with leaders using the insight they gained to create positive change. We developed and launched a race equality learning package to enable colleagues to recognise and challenge racist and other inappropriate behaviours in the workplace.

Although starting with a focus on race, our actions look across all equality and diversity characteristics and encourage our colleagues to take personal responsibility for creating a more inclusive workplace. Our commitment to this is reinforced in our equality objectives, published in January 2021.

+ Read more on HMRC equality objectives and compliance with public sector equality duties at: **www.gov.uk/government/collections/equality-and-diversity**

6,120
HMRC leaders attended listening events led by our BAME colleagues

37,300
of our people attended structured conversations about race equality

20,300
colleagues had completed the race equality learning package by March 2021

Modernising HMRC

Building a modern IT estate

Our aim is to run a secure, flexible, and modern IT estate that enables us to meet changing policy needs and evolving customer and colleague expectations. Achieving this aim will mean moving to a smaller number of better supported IT platforms that continue to protect our customer's data and managing them to ensure they can support the huge scope and scale of our work.

Our IT solutions this year were critical for delivering the COVID-19 financial support schemes and supporting UK transition from the EU. We have looked at what we can learn and take forward from this exceptional period, particularly around configuring change and looking at new ways of operating effectively.

Through our Technology Sourcing Programme, we are opening up our IT supply chain, and changing the way that we work with partners. This will help us to protect key live services, modernise our IT estate, ensure value for money, and give us better access to the latest technology. During the year we began talking to the IT marketplace about our intentions and launched our first group of procurements.

Here are some of our key achievements this year.

COVID-19 response

- we more than doubled our remote working capacity to enable more than 50,000 colleagues to work from home in just 5 days
- we delivered the Coronavirus Job Retention Scheme in just 4 weeks - a brand new service that would have normally taken 12 months to deliver
- we rapidly delivered 3 further coronavirus support schemes successfully and on time - including the Self-Employment Income Support Scheme, Coronavirus Statutory Sick Pay Rebate scheme and Eat Out to Help Out - the average satisfaction rate across all our digital COVID-19 services for the year was 94.5%

Here are some of our key achievements this year.

Supporting UK transition from the EU

- our preparations included major changes to existing systems and the delivery of brand new ones, involving 1,700 colleagues working across 15 programmes and 69 projects
- between September and 31 December 2020, this amounted to 380 individual releases across 6 IT platforms

Improving the health of our IT

The huge amount of data we hold in HMRC is vital to our core functions, but this carries significant responsibilities to ensure we hold data in a way that is secure, proportionate, protected and meets the requirements of the law. We are firmly committed to achieving and maintaining compliance with data protection laws in order to fully protect the personal data of customers and colleagues.

UK General Data Protection Regulation

Our progress towards meeting the full requirements of data protection laws, including the UK General Data Protection Regulation (UK GDPR), has been a challenge due to the considerable scale of our organisation and, in particular, the age of our IT infrastructure, much of which is in need of modernisation. Our compliance journey has also been impacted by a shift in priorities to deal with the special circumstances relating to COVID-19. Recognising these challenges and our commitment to attaining a position of improved compliance with UK GDPR, we commissioned a review by Deloitte into the strengths and weaknesses of our UK GDPR positioning in early 2020. This helped us to identify follow-up actions and has since formed the basis of a significant body of ongoing work to tackle any gaps in our approach to data protection.

As a result, we have undertaken significant work to discover and understand our remaining data protection compliance challenges and the impacts these could have on our customers and colleagues. While HMRC was not as quick to address these compliance challenges as we would have liked, we have now increased the levels of resource dedicated solely to the management of our data protection and security risks and our activity planned for 2021 to 2022 will help us to mitigate, reduce and ultimately eliminate these risks.

We have improved security incident monitoring and response tools that enhance our ability to act on and report security incidents. The fact that security incidents continue to occur remains a significant concern for HMRC. However, we are working hard to ensure that all security incidents are investigated and analysed so that we can understand and learn from them to reduce security and information risk for the future.

The size of our organisation has meant adopting good data protection practices as part of our culture across all our lines of business has been challenging. We recognise that more resource needs to be dedicated to meet this challenge head on. However, our programme of data protection risk management and remediation includes a review and enhancement of all data related policies, standards and governance. Also, substantial additional resource has been provided to our Office of the Data Protection Officer to help educate the organisation, advise on compliance risks and give assurance to our senior leadership that these risks are being addressed in line with legal obligations. A new risk management team has been appointed and is specifically charged with the management and reporting of our data protection risk and monitoring of remediation activity, while enhanced governance of data protection and information security risks and issues is being led by the Second Permanent Secretary.

In addition, during 2020 to 2021, we have been actively engaging with the Information Commissioner's Office (ICO). This is not just where we are required by law to do so - for example, in consultations relating to new laws and policies and where we are asked questions as part of ICO enquiries, for example following reported security events - but also as part of regular collaborative engagements between the regulator and our data protection team. As part of all these engagements, we are being transparent about the risks we carry, working with the regulator to address their concerns and act on their recommendations. In addition, we have been actively working with the ICO to consider the implications of the 2020 Deloitte review and the steps we are taking to deliver the actions arising from that review.

We recognise that there have been occasions when security incidents have arisen in HMRC as a result of human error. As a result, we are increasing our programme of education to reinforce good security and data-handling processes to reduce the security and information risk, supporting our vision to build a trusted, modern tax administration. We do this through mandatory security training covering the Data Protection Act and UK GDPR and through targeted and department-wide education and communications campaigns.

We also recognise that the challenges presented by the department carries more physical data holdings than is acceptable owing to poor records management practices and the scale of our estate. We are therefore driving greater enforcement of our retention policy through our locations programme, enhancing management of our paper files as our estate is rationalised. As part of this work, we have disposed of more than 60% of our centrally stored physical data holdings in line with newly agreed departmental document retention policies.

+ Details of all personal data-related incidents during 2020 to 2021 are published on pages 188 to 189

Cyber threats

We have recognised the challenges presented by the rapidly evolving cyber threat landscape, initiating a new Enterprise Security Programme to reduce the cyber risk to protect customers, government and colleagues. This includes projects to deliver tactical cyber improvements, improve our ability to detect and respond to cyber-attacks, and maximise benefits from central government security initiatives.

Resilience and security of our IT systems

The age and extent of our legacy IT has provided HMRC with particular challenges for its compliance with UK GDPR and associated security obligations. However, we are committed to upgrading our IT infrastructure as part of our ambitious programme of technical reform. During the last 2 years we have made significant progress addressing resilience and security issues associated with legacy IT systems. We have successfully decommissioned more than three quarters of the 166 IT services that were identified as being obsolete, with plans to tackle the remainder in the next year.

Securing our data is a priority for HMRC, and we recognise that this is a continuously evolving risk as new threats continue to emerge. In response to this, we are moving our estate to a more secure and efficient footing. In 2020 to 2021, we successfully moved our tax, finance and human resources platform, one of the largest estates of its kind in Europe, to cloud-hosting. And we have migrated comprehensive data stores onto a fully secured Cloud environment to ensure the confidentiality, integrity and availability of our data holdings. We will continue to build on this success, with further migrations and upgrades planned during 2021 to 2022.

+ Details of our risks during 2020 to 2021 are published on pages 94 to 99

Building modern, flexible workplaces

In order to keep building a more trusted and modern tax and customs department, we need modern, flexible workplaces where our colleagues can collaborate and use new technology more effectively to serve customers. This year we opened new regional centres in Edinburgh, Cardiff, Leeds and Stratford to join those already operational in Croydon, Bristol and Belfast. Ultimately, we will have 13 regional centres around the UK helping us become a smaller, more digital and highly skilled organisation.

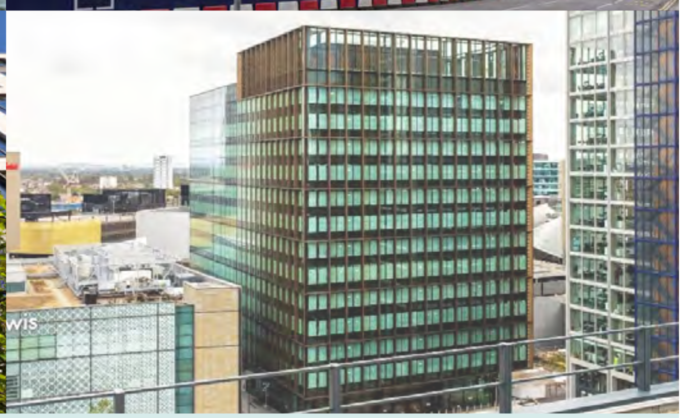
The COVID-19 pandemic has demonstrated that with enhanced technology and digital connectivity, we can move to more flexible ways of working - but it has also shown us that we still need to balance that with face-to-face and collaborative working. There are also some roles that for technical or security reasons cannot be done remotely. We will therefore embrace a mixture of office and home-based working - providing safe, high-quality workspaces and enabling our people to build more rewarding careers in one location.

Moving to regional centres will save us around £300 million cumulatively up to financial year 2025 to 2026 and will deliver annual cash savings of £74 million in 2025 to 2026, rising to around £90 million from financial year 2028 to 2029. Our regional centres will be the first of a national network of government hubs, in great locations where demand is highest. They play a crucial role in the government's Places for Growth programme which aims to move thousands of civil service jobs out of London to ensure the civil service has a greater spread across the country and is closer to the communities it serves. Working closely with the Government Property Agency and Places for Growth we are seeing increased interest from other government departments seeking space within the hubs.

Edinburgh Regional Centre

Cardiff Regional Centre

Leeds Regional Centre



Stratford Regional Centre

Becoming more sustainable

We are committed to becoming a more sustainable organisation in everything we do - from taking environmental considerations into tax policy through to our business activity and supporting communities.

Environmental sustainability

We are proud to have committed to lower our carbon emissions to Net Zero by 2040. We are also proud to be meeting or exceeding the Greening Government Commitments, as shown below in table 5.

The Greening Government Commitments 2016 to 2020 set a challenge for us to reduce the environmental impact of our estate and operations. They also form part of our contribution to the United Nations' Sustainable Development Goals. Due to the COVID-19 pandemic, these commitments were extended to financial year 2020 to 2021.

Table 5: Greening Government Commitments summary

	Government target (2009 to 2010 baseline)	2020 to 2021 performance against baseline
Greenhouse gas emissions	54% reduction	74% reduction
Domestic flights	30% reduction	99% reduction
Waste arising	Reduce overall waste generated	83% reduction
Waste to landfill	Less than 10%	1% to landfill
Waste recycled	Increase proportion recycled (57% in 2009 to 2010)	76% recycled
Water consumption	Continue 2014 to 2015 reductions	71% reduction
Water efficiency	Reduce to 7 cubic metres per FTE	3.69 cubic metres per FTE
Paper purchased	50% reduction	97% reduction

We have made significant strides in making our operations greener. We have added 61 ultra-low emission cars to our operational fleet to make progress towards the Government Fleet Commitment.

We are always looking to deliver improvements across our estate and are striving to make our buildings as efficient as possible. Our estates team have developed an app that maps the occupancy of our offices with energy consumption and assists with optimising the way we utilise the space in our regional centres. As we deliver efficient buildings, we also recognise the importance of how we procure our energy; therefore, we have moved to a 100% green tariff for the electricity that we purchase directly.

Sustainability as part of procurement

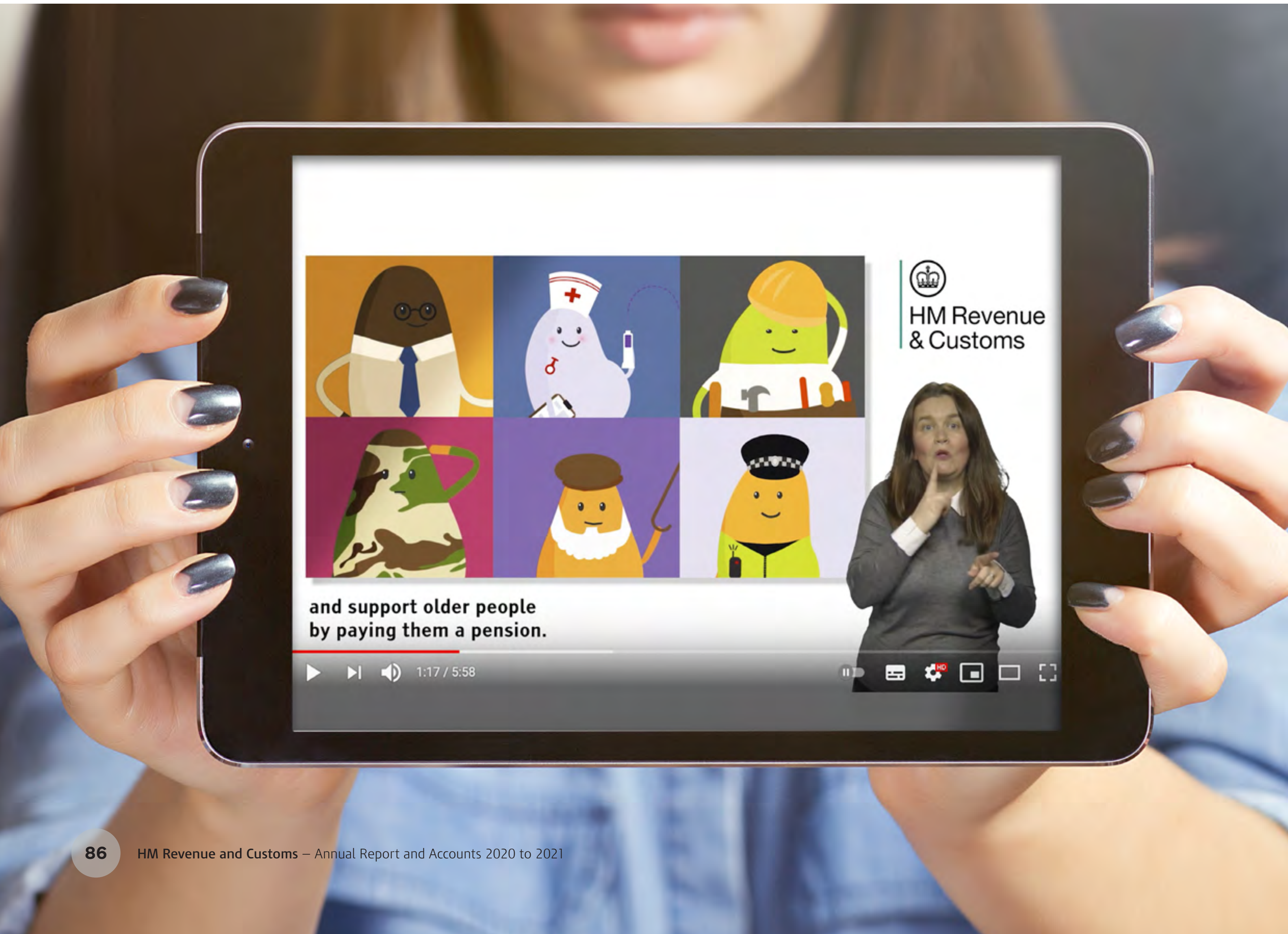
Sustainability forms an important element of our supplier assessment procedure and we consider it throughout the various stages of relevant procurement processes and resulting supplier relationships. Where able, we embed commitments to deliver environmentally sustainable initiatives into our contractual requirements.

Sustainability forms part of our standard procurement question set. Areas assessed by our standard procurement questions include, but are not limited to:

- compliance with environmental legislation
- commitment to supporting the HMRC sustainable procurement strategy
- the supplier's environmental policy

We participate in central government procurement working groups to ensure we remain up to date with upcoming environmental policy requirements. For example, we are currently liaising with Cabinet Office on upcoming policy updates covering how to assess a supplier's commitment to carbon net zero as part of the procurement process.

We are implementing the requirements of the Social Value Model (SVM) - introduced under Procurement Policy Note (PPN) 06/20 - as part of any in-scope procurement exercises we undertake. As part of the SVM, we assess suppliers on their commitment to deliver positive social value outcomes, including environmental sustainability where relevant, throughout the duration of the contract.



Supporting sustainable communities

The COVID-19 pandemic placed physical and practical constraints around some of the community programmes we would normally do, but we remained very active throughout the year:

- we funded 1,338 days of employee time for COVID-19-secure community activity by encouraging our employees to work with schools, charities and third sector organisations, and to participate in public duty roles such as school governors and magistrates
- we worked with our charitable partners, and developed new partnerships with organisations, to redesign and implement a remote programme of community activity, ensuring vital support continued to be delivered whilst keeping our colleagues safe during the pandemic
- on average we had 6,733 monthly views of our 'Tax Facts' animations, our tax education programme for young people
- we produced a Tax Facts home learning pack to support young people during school closures which has been downloaded 158 times since launching in November 2020
- we developed and launched British Sign Language versions of the Tax Facts videos to improve accessibility
- £917,000 charity funds were raised and donated by our people, including more than £16,000 for our annual BBC Children in Need appeal - the total includes £550,000 donated by staff individually through Payroll Giving to 900 of their own wide range of charities
- £360,000 was raised for the Charity for Civil Servants including from the 'STEPtember300' walking challenge which hundreds of our people took part in

+ Read about our sustainability at **www.gov.uk/government/publications/hmrc-and-valuation-office-agency-sustainability-report** and UN Sustainable Development Goals at **www.un.org/sustainabledevelopment/sustainable-development-goals**

+ Read more about details of our commitments in this area on page 27

Next steps: transforming how we work

We are committed to continuing action to make HMRC a great place to work, where colleagues feel trusted, respected and confident in their role, working in modern, inclusive environments and using improved technology, data and processes. This means recruiting and retaining the people we need, ensuring managers have the support and confidence to fulfil their role, building and retaining skills and investing in new technology, data and insight.

We will also open 12 out of 13 regional centres by 2022 - and once restrictions relating to COVID-19 are removed, we will move towards the mix of home and office working, where roles allow, that we offered as part of our pay and contract reforms.

Analysis: Supporting wider government aims

We play a key role in delivering the government's wider objectives. Beyond our vital part in the government's economic response to COVID-19, here are some of the other ways our work supported people, businesses and the wider economy during financial year 2020 to 2021.

Key government aims outcomes

£14m
National Minimum Wage penalties

£218.4m
recovered in proceeds of crime

£32.8m
Money laundering regulatory penalties

Tax reliefs

The UK tax system includes 2 categories of tax reliefs:

- structural tax reliefs, which are integral to the tax system and define the scope and structure of tax
- non-structural tax reliefs, which are designed to support government policy objectives, encourage certain behaviours, benefit a group, or promote wider social objectives

We publish statistics on tax reliefs annually, including information on costs, claimants, descriptions and links to further statistics and evaluations. In October 2020, we published cost estimates for 85 structural and 176 non-structural tax reliefs, an increase of 73 on the 2019 statistics. We also improved the commentary and explanations for the cost variance over time for the largest reliefs and provided comparisons of the costs of recently created reliefs against the forecasted cost. We aim to continuously improve our understanding of the cost of tax reliefs and plan to publish more information and commentary on the costs of reliefs throughout 2021 and 2022.

In the October 2020 statistics, we also published the tax relief evaluation prioritisation criteria. These criteria are being used as the basis of a systematic evaluation programme of non-structural, behaviour-inducing tax reliefs. Subject to ministerial approval, we expect to publish results from late 2021 onwards. In November 2020, we also published the evaluations of the 3 reliefs, the Research and Development (R&D) SME Scheme, the R&D Expenditure Credit and the Patent Box.

The National Audit Office extended their qualified opinion on our financial year 2019 to 2020 accounts to include the estimated levels of error and fraud within the research and development tax reliefs. We remain steadfast in our commitment to reduce the levels of error and fraud and are devoting significant effort toward this. We continue to improve our understanding of the level of error and fraud for R&D tax reliefs and the underlying behaviour which causes it, as well as our response.

We have developed a professionalism programme with focused training, leading to increased criminal and civil fraud investigations. A notable success in November 2020 was the prosecution of 3 individuals involved in a £29.5 million claim for research and development relief on a bogus IT project.

At Budget 2021 the Chancellor announced a fundamental review of the reliefs with a consultation to ensure the reliefs are up-to-date, internationally competitive, targeted and robust against abuse. This review will consider improving the effectiveness of the schemes by designing out error and fraud.

+ Read more about tax reliefs error and fraud on page 133
+ Our tax relief statistics are published at **www.gov.uk/government/collections/tax-relief-statistics**

In focus: Tax on plastic packaging

Following extensive consultation, we have developed primary legislation for a new tax on plastic packaging. This aims to provide a clear economic incentive for businesses to use recycled material in the production of plastic packaging, which will create greater demand for this material and in turn stimulate increased levels of recycling and collection of plastic waste, diverting it away from landfill or incineration.

National Minimum Wage

We enforce the National Minimum Wage (NMW) and the National Living Wage (NLW) on behalf of the Department for Business, Energy and Industrial Strategy (BEIS).

In 2020 to 2021, we investigated 2,740 businesses, identifying £16.8 million in National Minimum Wage arrears for 155,000 workers and issued 575 penalties amounting to £14 million.

We are monitoring 24 employers to ensure they comply with Labour Market Enforcement Undertakings - a sanction given to a person or business believed to be non-compliant with National Minimum Wage regulations. Where they do not comply, we can request the court to issue a Labour Market Enforcement Order. Failure to comply with this can result in criminal sanctions and imprisonment.

To promote compliance and help ensure that people understand their rights and obligations we have:

- contacted over 770,00 employers and workers to provide a range of National Minimum Wage specific guidance and support to help them understand their rights and obligations
- developed information to ensure that workers and employers are aware of the National Minimum Wage legislation through online learning and events - these have been viewed and attended by 13,000 businesses and workers

During 2020 to 2021, allegations of labour exploitation in the Leicester textile industry began to surface. Building on work already in place before media reports raised concerns in July 2020, we have been a leading participant in significant cross-agency activity, working at a local and national level to look at all the different allegations made about working conditions in the Leicester textile industry. All intelligence and information received has been followed up and we have undertaken more than 100 visits to businesses operating in the Leicester textiles industry considering both potential NMW and tax issues.

We have also undertaken a significant programme of targeted outreach activities, writing to textile employers about their obligations and employees about their entitlements, and distributing multilingual leaflets to workers based in Leicester, setting out their rights and avenues of redress.

Economic crime

HMRC is a signatory to the UK's Serious Organised Crime Strategy and the Economic Crime Plan, making us a core member of the national law enforcement and national security community. We work closely with National Crime Agency and Policing colleagues, supporting serious and organised crime priorities, including child sexual abuse, modern slavery, drug county lines, COVID-19 related frauds, and terrorism, through the provision of intelligence, expertise and operational support. This includes 24 secondees into Police regional organised crime and intelligence units, who facilitated almost 10,000 requests for support during financial year 2020 to 2021. We work with partners to reduce harm to the UK's economy and society - for example, we worked with the NHS Counter Fraud Authority to convict a senior manager who stole over £800,000 from the NHS.

With our capabilities as an anti-money laundering supervisor, tax authority and law enforcement agency, we also contribute to cross-government efforts in combating economic crime risks such as money laundering. In 2020 to 2021, we recovered £218.4 million in proceeds of crime and issued 151 Account Freezing Orders valued at £26 million.

We are a founding partner of the National Economic Crime Centre - where we contribute intelligence and investigation personnel to support the broad economic crime agenda. In our capacity as a supervisor we support businesses across 9 sectors: accountancy service providers, art market participants, high-value dealers, estate agency businesses, high-value letting agency businesses, money service businesses, trust and company service providers, digital and IT payment service providers, and bill payment service providers.

However, for those who don't take their obligations seriously, we respond robustly, using a range of civil and sometimes criminal measures to ensure future compliance. In 2020 to 2021 we undertook 1,145 supervisory interventions to prevent money laundering and issued £32.8 million in penalties for anti-money laundering failures, with 17 criminal convictions for money laundering offences.

Devolution and the Union

Although there has been substantial devolution of tax powers over the past decade, we remain the UK's primary tax authority serving customers across the UK.

Northern Ireland

Corporation Tax

Legislation was passed in 2015 to enable the devolution of Corporation Tax rate-setting powers to Northern Ireland - but this has not yet commenced. We have undertaken preparatory work to enable Northern Ireland Corporation Tax rate-setting powers.

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 Rates of Income Tax

The Welsh Parliament has the power to set Welsh rates of Income Tax, which HMRC administers. Welsh rates of Income Tax were introduced in 2019 to 2020 and set so that overall Income Tax rates for Welsh taxpayers effectively matched the UK rates.

Welsh Income Tax raises

Non-Savings, Non-Dividend Income Tax for Welsh taxpayers:

outturn for 2019-20 = £4,662 million.

Of this, the final outturn for the Welsh Rates of Income Tax (the portion set by the Welsh Government) = £2,041 million

Scotland

Scottish Income Tax

The Scottish Parliament has the power to set rates, bands and thresholds for Scottish taxpayers, which HMRC administers. Since 2018 to 2019, Scotland has had 5 income bands, compared to 3 in the rest of the UK.

Scottish Income Tax raises

Non-Savings, Non-Dividend Income Tax for Scottish taxpayers:

outturn for 2019-20 = £11,833 million

Air Passenger Duty and Aggregates Levy

The UK government has committed to devolving Air Passenger Duty and the Aggregates Levy to Scotland. 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.

Land transactions and landfill tax

The Scottish and Welsh parliaments have full legislative powers over taxes on land transactions and disposals to landfill. The Scottish equivalents 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.

We administer all reserved elements of the UK's tax system, implement Income Tax policy on behalf of the UK, Scottish and Welsh governments and work closely with the devolved revenue authorities in Scotland and Wales in areas where tax administration has been devolved. We are also working with the Scottish government to support the introduction of new Scottish benefits.

Throughout the COVID-19 response, we worked with all the devolved governments to understand the tax, tax credit and National Insurance implications of coronavirus support packages and help provide solutions. Examples include processing returns from Scottish and Welsh local authorities issuing self-isolation payments and advising all devolved governments on the taxability of support schemes and what evidence should be available to businesses to support applications.

+ For information on our workforce across the Union, see page 164.

Analysis: Our strategic risks

In order to protect public money, optimise performance and ensure we are likely to achieve our strategic objectives, we identify and manage our 9 strategic risks, shown below.

This provides a summary of each of our 9 current strategic risks, with each sponsored by a director general on behalf of our Executive Committee (ExCom). It reflects the position up to 31 March 2021, with individual mitigations and associated objectives, as described on page 29.

We continually build on our risk management capability to increase our ability to analyse risks to our performance. With our updated strategic objectives, we are reshaping our portfolio of strategic risks during 2021 to 2022 to build more explicit links and identify relevant new risks, identify more cross-cutting risks that impact on HMRC and our customers and enhance our ability to manage and report on risk effectively.

Our strategic objectives

In Spring 2021, we updated our strategic objectives to set out what we will do over the coming years to achieve our vision. We make links to these new strategic objectives throughout our Performance Analysis in this year's report, to show how they connect with and build on the work we did in 2020 to 2021.

Collect the right tax and pay out the right financial support	Make it easy to get tax right and hard to bend or break the rules	Maintain taxpayers' consent through fair treatment and protect society from harm	Make HMRC a great place to work	Support wider government economic aims through a resilient, agile tax administration system

Risk 1: Capacity, capability and engagement of our people

AMBER

There is a risk that 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.

This risk is currently stable* and rated Amber. Throughout the year, we have continued to take action to build a supportive, fair, kind and equal environment where we are all able to thrive and be our best, although we have more to do. In particular, this year saw the introduction of our ground-breaking pay and contract reforms to make our working arrangements simpler, fairer and more consistent, which will help us deliver a better service for customers, and we are now focused on its successful implementation across the department. We have also continued our programme of improvement to address the recommendations from Laura Whyte's 2019 independent review of what it is like to work at HMRC ('Respect at Work'), focused on embedding Our Commitments (the standards and expectations of behaviour we have set for each other) and radically overhauling our HR policies, processes and systems - see pages 78 to 80 for more details.

Risk 2: HMRC security

RED

There is a risk that business and critical services will fail because we do not operate our security processes and controls or manage our infrastructure and vulnerabilities effectively enough to protect HMRC, our customers, people and assets from harm or misuse.

This risk is currently stable*, although rated Red. Over the course of this year, we have continued to address key challenges including managing the risk to HMRC assets from existing legacy technologies, securing HMRC assets and managing physical security during our move out of old offices and into regional centres. We have particularly focused on 2 critical areas of security issues associated with legacy IT systems and cyber security/protection against external threats. Over the last 2 years we have had some success in addressing legacy IT systems, having made significant progress in de-commissioning many of our obsolete IT services and moving our tax, finance and human resources platform to cloud-hosting. We plan to continue to build on this success, with further migrations planned in during 2021 to 2022 (further details to be found on page 83). Cyber security has proved more challenging, as we continue to implement protections against the evolving threat from cyber criminals, ensuring a high order of IT resilience and system security, whilst delivering new essential services for customers throughout the COVID-19 pandemic. Our programmes are delivering mitigating solutions that reduce the exposure of our cyber security risk to within acceptable levels, but we continue to closely monitor this risk (further details to be found on page 83).

Risk 3: Delivering the change portfolio

AMBER

There is a risk that we will not deliver the change agenda priorities to enable us to deliver our strategic objectives and benefits commitments within financial allocations.

This risk is improving*, although still rated Amber. Through the year we have focused on improving our change portfolio planning and forecasting activities to ensure resources, finance and people are in place and prioritised accordingly to deliver on our key programmes. This has included the development of a resource hub to enable more detailed workforce planning, and a refreshed assessment process to better address issues impacting deliverability and to highlight key areas of concern. Addressing these areas will continue to be a focus in future.

Risk 4: Exploiting information

RED

There is a risk that we fail to effectively exploit our data resulting in reduced revenue collection, tax gap widening and weaker customer service by failing to build capability effectively.

This risk is currently stable*, although remains rated Red. This year we have continued to build our ability to exploit our data, with a specific emphasis on building our employee capability. This has meant recruiting and retaining the people we need, ensuring managers have the support and confidence to fulfil their role, building and retaining skills and investing in new technology, data and insight. We have enhanced and will continue to enhance our cross-government collaboration, with our Chief Data Architect now leading the Data Standards Authority. We have also improved our compliance data, having further embedded data standards into our compliance systems and processes, and enhanced our risking capability to better target customer compliance interventions which will all remain priorities going forward.

Risk 5: External perception / loss of trust

AMBER

There is a risk that 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.

This risk is currently stable* and rated Amber. We continue to work to build trust with our customers and stakeholders through effective and transparent communication, with a particular focus this year on our use of powers and safeguards, and assessment of our professional standards. Building on the programme of work announced in the Financial Secretary to the Treasury's Written Ministerial Statement of 22 July 2019, we continued, through 2020 to 2021, to engage with taxpayers, voluntary organisations and the tax professional community to maintain and build public trust in the tax administration system and our use of powers and safeguards. We also established a Professional Standards Committee to provide oversight of how HMRC administers the tax system and applies policies in accordance with its values. The committee considers how our actions could affect trust in the tax system and public perception of fairness. It also offers critical challenge to how HMRC exercises its powers, supporting good practice in the use of its powers and safeguards.

Risk 6: Impact of the future relationship with the EU on the Tax Administration

AMBER

There is a risk that we fail to design and deliver robust policy and operational changes that meet the outcome of EU exit negotiations leading to an inability to secure revenue, make payments and meet customer needs upon exit from the EU.

This risk is currently improving* and rated Amber. We planned and delivered successfully for the end of the UK's transition period in 2020, including working with other departments across government to ensure the UK transition was as smooth as possible. Now, our emphasis has shifted to ensuring the smooth operation of the UK border and flow of goods. We delivered new border customs facilities in key locations which are operating well, designed a grant scheme to be used flexibly by the customs intermediary sector to increase its capacity, and introduced the Trader Support Service to help businesses required to operate under the Northern Ireland Protocol. We also introduced a new online declaration service for passengers, making it easier for passengers to be compliant with the rules and minimising disruption at the border. Trader readiness remains our biggest challenge for the remaining changes to come. We continue to work on further enhancements to support the government's ambition for having the world's most effective border that creates prosperity and enhances security for a global United Kingdom.

Risk 7: Improving customer experience

RED

There is a risk that failing to deliver improvements in customer experience, in line with our objectives, could result in HMRC not fulfilling the ambition to be a trusted, modern tax and customs department, with reduced compliance and lower satisfaction levels, making it more challenging to deliver a healthy tax administration system.

This risk is currently stable* although rated Red. We have taken a number of important steps to improve the overall customer experience, which we continue to progress into the next financial year. These include preparing further roll-out of Making Tax Digital (MTD), working to improve the language and tone of our letters and guidance, and launching a new version of the HMRC Charter in November 2020, setting out what customers can expect from us. MTD in particular is at the heart of our work to improve both customer experience and compliance. We are also working to provide new payment channels for our customers, enabling them to transact with us in a variety of new and more efficient electronic formats, including the roll out of a Single Payment Processing Channel to all our major customer-facing bank accounts by March 2022. We are also starting work on introducing a Single Customer Record and Account, bringing all of a customer's tax and payments information together in one place, so they can access tax services more easily and update their records digitally.

Risk 8: Data protection

RED

There is a risk that being non-compliant with Data Protection legislation, including UK GDPR, Data Protection Act 2018, and Public Records Act 1958 will result in:

- loss of trust
- exposing our customers to harm by compromising the confidentiality, integrity and availability of their data
- enforcement by Information Commissioners Office
- financial penalty
- compromised commercial relationships
- impact on the UK's right to exchange data internationally by adversely affecting the country's ability to meet EU adequacy requirements for data sharing

The risk is currently stable*, although rated Red. We take our legal obligations seriously and are acutely aware of the responsibilities which fall to us as one of the largest guardians of customer personal data in the UK. Our compliance with data protections laws has not always been at an acceptable level, and our response to the implementation of the UK GDPR was not as comprehensive as we would have liked. However, we have continued to work to improve our compliance with UK GDPR and data protection legal requirements in order to fully protect the personal data of customers and colleagues. This is crucial not only to meet legal requirements but to maintain and increase public confidence and trust. Our compliance with data protection legislation is hampered at times by the age of our IT systems, many of which are in need of modernisation. We are committed to giving our compliance needs more resources, and over the course of this year we accelerated our programme of investment into ensuring that our legacy IT systems, security vulnerabilities and colleague handling of data meets the standards required by the law, and we expect this commitment to further increase in financial year 2021 to 2022 and beyond. In the meantime, we continue to record, report, address and learn from all data-related incidents involving the loss, theft or inappropriate disclosure of HMRC data, reporting any such incidents to the Information Commissioner and any individuals concerned whenever the legal threshold for reporting is met.

Risk 9: Funding and affordability

RED

There is a risk that we are unable to deliver our strategic objectives or operate within our budget.

This risk is currently stable* although rated Red. We were able to manage this risk across the year 2020 to 2021 via a flexible mitigation strategy that focused on effective planning, forecasting and was able to respond to the changing economic climate. We continually assessed and evidenced our cost base, and kept Ministers and Treasury fully engaged, ensuring they are informed and aware of changing priorities and needs. Whilst we have started 2021 to 2022 with a significant financial pressure, we do expect this to be resolved over the course of the year via a continued focus on identifying saving opportunities whilst protecting performance wherever possible, and further funding from HMT Treasury via Supplementary Estimates.

* the trend assessment is based on a comparison between the risk status in March 2020 and that of the position in March 2021.

+ Read more information about our risk management approach for our strategic risk portfolio on pages 121 to 122.

Jim Harra
Accounting Officer
28 October 2021

Our accountability

How we operated HMRC in financial year **2020** to **2021**

Governance statement

Foreword by Dame Jayne-Anne Gadhia, HMRC's Non-Executive Chair

My predecessor, Mervyn Walker, is to be commended for his leadership of the board during a year of extraordinary demand on HMRC. The department has successfully delivered the requirements of both the UK's transition out of the EU and the COVID-19 support schemes, as well as handling an extensive 'business as usual' agenda.

During the year, non-executives have focused on the following areas to provide challenge and support to an open and engaged executive:

- UK transition
- COVID-19 support schemes
- technology developments
- ensuring HMRC is a great place to work
- customer service and support

The success of the UK transition and COVID-19 programmes has demonstrated that HMRC has the capability to offer structural resilience in a period of change. The board will be working with the executives to build on this opportunity for the future.

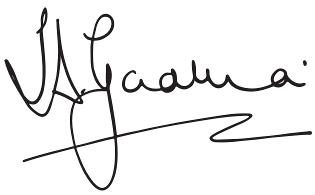
We are pleased to welcome David Cooper as a non-executive director who will support the team charged with maintaining our leading technical and data capability and ensuring that it can adapt to the changing demands of taxpayers and government.

Our People and Nominations Committee has been focused on ensuring that colleagues have been supported during the last year of working from home. Their other priority has been developing a strong, diverse and inclusive culture to underpin our position as a great place to work, now and in the future.

Our Customer Experience Committee has been working with the executive team to maintain, as far as possible, acceptable standards of customer service during a year of exceptional complexity and demand. It is also working with HMRC teams on the critical agenda of Making Tax Digital. This will form the basis of our continued focus on making it easier for customers to pay tax and providing them with timely and appropriate support when they need it.

Underpinning this work and that of the board, we have also drawn assurance from the Audit and Risk Committee's focus on regulating and monitoring our whistleblowing processes, the adequacy of our control framework, the quality of our business-critical models, our arrangements for UK transition and UK General Data Protection Regulation (UK GDPR).

As we move into recovery from the pandemic, the board will continue its active role in challenging and supporting HMRC to deliver its best for all stakeholders.



Dame Jayne-Anne Gadhia
Lead Non-Executive

Our governance arrangements

This governance statement sets out our governance, risk management and internal control arrangements for the financial year 1 April 2020 to 31 March 2021 and up to the date of approval of the annual report and accounts, in accordance with HM Treasury guidance.

Ministerial arrangements

HMRC is a non-ministerial department established by the Commissioners for Revenue and Customs Act (CRCA) 2005. This gives legal powers and responsibilities for managing our day-to-day functions to commissioners appointed by the Queen. Our status as a non-ministerial department is intended to ensure that administration of the tax system is fair, impartial and does not bring political decision-making into individual taxpayer affairs. We are accountable to the Chancellor of the Exchequer for how we conduct our business. The Chancellor has delegated responsibility for overseeing HMRC to the Financial Secretary to the Treasury - currently the Rt Hon Lucy Frazer QC MP.

We comply with directions of a general nature given by Treasury ministers, for example on our strategies, operational policies and targets. We work in partnership with HM Treasury to advise ministers on developing and delivering tax policy. HM Treasury leads on strategic policy development, supported by HMRC. HMRC leads on policy maintenance and delivery, supported by HM Treasury. The policy partnership covers direct and indirect taxes and duties, National Insurance, tax credits and Child Benefit, for which HMRC has legal responsibility.

Commissioners of Revenue and Customs

The commissioners are responsible for collecting and managing revenue and payments and managing tax credits. They conduct business according to the CRCA and are entitled to appoint officers of Revenue and Customs, who must comply with their directions. In the financial year 2020 to 2021, we had 6 commissioners - Jim Harra, Angela MacDonald, Justin Holliday, Penny Ciniewicz, Melissa Tatton (until 6 September 2020) and Ruth Stanier.

First and Second Permanent Secretaries

Our First Permanent Secretary and Chief Executive, Jim Harra, is HMRC's Principal Accounting Officer. Jim is responsible for delivering our strategy and is accountable to Parliament for managing our resources. He chairs the Executive Committee (ExCom) and is a member of HMRC's Board. We set out Accounting Officer responsibilities on pages 124 to 125. Our Second Permanent Secretary and Deputy Chief Executive is Angela MacDonald, appointed on 1 August 2020.

Tax Assurance Commissioner

We introduced the role of Tax Assurance Commissioner (TAC) in 2012, as part of a package of measures to strengthen governance of tax disputes. Justin Holliday was appointed as TAC on 4 August 2020. Prior to that the role was held by Melissa Tatton. The TAC provides assurance and transparency, with an explicit role to make decisions in the largest and most sensitive disputes, and a sample of smaller cases. Decisions relating to resolving our largest and most sensitive cases are decided by 3 commissioners, led by the TAC, who reports each year on how HMRC's tax dispute resolution governance operated (see pages 136 to 155).

Non-executive directors

Non-executive directors bring external experience and expertise to HMRC. They play an important role in providing advice, challenge and scrutiny to the work of ExCom and HMRC in board and sub-committee meetings and more widely. For example, they work closely with executives on specific initiatives and examine risks. Non-executives also support the effectiveness of programme boards for our most significant transformation programmes.

Dame Jayne-Anne Gadhia is HMRC's Lead Non-Executive Director and Chair. She took over from Mervyn Walker on 1 January 2021, chairing HMRC Board meetings since 19 January 2021. Dame Jayne-Anne meets regularly with other non-executive directors and the First and Second Permanent Secretaries, acting as a sounding board where necessary. She also actively liaises with lead non-executive directors across government and is responsible for developing and appraising non-executives as effective board members.

Our governance committee structure

HMRC has 2 top-level governance committees:

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

This framework enables our Executive Committee (ExCom) to undertake effective and transparent decision-making and provides appropriate support, challenge and assurance by our non-executives.

Figure 13: HMRC committee structure during 2020 to 2021

Executive Committee

Oversees HMRC's performance and transformation, both in terms of immediate and future objectives.

Executive Committee (COVID-19)

Oversees the development of HMRC's work programme relating to COVID-19.

This committee disbanded in August 2020 and its work was escalated to ExCom as necessary.

ExCom sub-committees

Strategy Committee

Provides oversight and approval of HMRC's strategy for tax administration. It also has an assurance role to ensure that strategy is delivered.

Change Investment and Design Committee

Provides oversight and approval of how change is designed and implemented and approves spend on change within its delegations. It also helps to assure that the right change is being delivered.

Resources and Performance Committee

Makes decisions where appropriate and supports ExCom decision-making by providing the best advice on resources and strategic performance, including overseeing the formulation and implementation of the HMRC Business Plan, governing the investment of financial and non-financial resources and assuring corporate performance.

Professional Standards Committee

Provides oversight of how HMRC administers the tax system and applies policies in accordance with its values. This committee was set up in October 2020.

Quarterly business reviews

Provides advice and challenge from the Chief Executive to lines of business on delivery of the HMRC Business Plan, targets and transformation at an operational level.

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 on governance, risk management and the control environment and the integrity of the financial statements.

Customer Experience Committee

Provides challenge and support on customer experience related issues and monitors departmental performance against HMRC Charter.

HMRC Board

Purpose: The HMRC Board helps to guide HMRC strategically by drawing on wide-ranging public and private sector expertise. It also provides 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. The board is advisory and does not have a role in operational decision-making, tax policy or individual taxpayer matters.

Chair: Jayne-Anne Gadhia

Members: Lead Non-Executive, non-executive directors, First and Second Permanent Secretaries, Chief Finance Officer. Other executives attend as relevant to the agenda.

Number of meetings in 2020 to 2021: 11

Highlights in 2020 to 2021

- contributing to the development of HMRC's long-term strategy and delivery plans
- monitoring performance against targets and challenging on customer service delivery
- reviewing HMRC's Spending Review submission and settlement
- reviewing progress on HMRC's transformation programme
- supporting work on UK transition and future borders and trade strategy
- supporting work on COVID-19 programmes and support schemes
- reviewing work on powers and safeguards
- reviewing plans to modernise the IT estate
- supporting the Respect at Work agenda and the strategy to make HMRC a great place to work

Board effectiveness

The board conducts a thorough review of its effectiveness each year, by completing the structured Cabinet Office questionnaire and through individual discussions. 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 2020 to 2021 review found that the board is engaged and clear on its responsibilities. There is a good mix of skills on the board and non-executives feel that their experience and contributions are valued. There is an open atmosphere at board meetings, with good engagement from both non-executives and executives. The board was satisfied with the quality of data provided and the flow of management information used by both the board and the Executive Committee (ExCom). The review identified further improvements that would build on progress made in 2020 to 2021. These include:

- fostering continuous improvement through increased challenge from the non-executives to ExCom on HMRC's strategy, including whether it is reacting appropriately to the changing social and economic context (particularly in light of COVID-19 and UK transition)
- improved organisation of board agendas and enhanced integration between the board and its committees to ensure better coordination of agendas, more formal transfer of advice and challenge from the board and its sub-committees to the Executive
- improved oversight of management of key risks to ensure they are fully articulated and properly mitigated
- continuing to strengthen the relationship with the Financial Secretary to the Treasury

+ Board compliance with the Corporate Governance Code is dealt with in the same way as for previous years. Read about how we comply on page 134.

HMRC Board sub-committees

The HMRC Board is supported by 3 sub-committees:

Audit and Risk Committee

Purpose: To provide independent assurance to the board and Principal Accounting Officer. This covers the integrity of financial statements as well as the comprehensiveness and reliability of assurances across HMRC on governance, risk management and the control environment - comprising our standards, processes and structures set by ExCom.

Chair: Michael Hearty

Members: Four non-executive directors. The First Permanent Secretary, Chief Finance Officer, Director of Internal Audit, Head of Risk Management and representatives from the National Audit Office attend each meeting. Other executives attended as the agenda dictated.

Number of meetings in 2020 to 2021: 8

Highlights in 2020 to 2021

- overseeing the production and integrity of the 2019 to 2020 Annual Report and Accounts for HMRC, National Insurance Fund for Great Britain, National Insurance Fund for Northern Ireland and Revenue and Customs Digital Technology Services Ltd
- advising and providing assurance on annual statements, the assessment of risk, controls and governance made by ExCom members
- monitoring processes for whistleblowing, the adequacy of HMRC's control framework, the review of arm's length bodies, quality assurance of business-critical models, UK Transition and UK General Data Protection Regulation (UK GDPR)

People and Nominations Committee

Purpose: To provide advice and scrutiny for the HMRC Board on the HR function's support for HMRC's strategic direction. This includes 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.

Chair: Alice Maynard

Members: For most of the year the committee had 3 members, all non-executives (including the chair). In addition, committee meetings are normally attended by the Chief People Officer, Director General for Customer Services Group, Director General for Customer Compliance Group and Director General for the Solicitor's Office and Legal Services. Towards the end of the year, 2 external independent advisers, with expertise in workforce productivity and complex operational delivery, joined the committee.

Number of meetings in 2020 to 2021: 4

Highlights in 2020 to 2021

- shaping workforce planning, location, diversity and inclusion strategies
- advising on how Civil Service people survey results can support HMRC to provide an improved experience for employees
- using experience to advise on developing future and regional leadership capability across HMRC
- supporting the strategy for making HMRC a great place to work

Customer Experience Committee

Purpose: To support and challenge ExCom on customer experience-related issues, to help HMRC deliver on its strategic objectives and to support HMRC's vision of being a trusted, modern tax and customs department. The committee also oversees and monitors our performance against the HMRC Charter and produces the Charter annual report for the HMRC Commissioners.

Chair: Juliette Scott (since January 2021), Mervyn Walker (prior to January 2021)

Members: Up to March 2021, the committee had a lead permanent ExCom member - the Director General of Customer Strategy and Tax Design - and 3 other permanent members of ExCom: Director General Customer Compliance, Director General Customer Service and the Chief People Officer. These were in addition to 3 non-executive directors (including the chair), the Adjudicator and 4 external independent advisors with customer experience expertise.

From March 2021, the committee has the Second Permanent Secretary and a lead permanent ExCom member - the Director General of Customer Strategy and Tax Design - as well as 3 non-executive directors (including the chair), the Adjudicator and 4 external Independent Advisors with customer experience expertise. Other Executive staff members are invited to attend where they have responsibility relevant to agenda issues.

Number of meetings in 2020 to 2021: 6

Highlights in 2020 to 2021

- developing a new HMRC Charter, published on 5 November 2020
- running sessions on customer experience issues in key areas, such as COVID-19, investment planning and compliance professional standards
- running working groups with non-executive directors and independent advisers, utilising their specific customer experience to delve deeper into areas of key focus and priority. For example, effective complaints handling and HMRC's new performance management framework
- advising on the development of a customer-focused culture in HMRC
- supporting HMRC's strategy for customers who need extra help

Executive Committee and sub-committees

Executive Committee

Purpose: The Executive Committee (ExCom) is HMRC's most senior decision-making body. 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 experience and change agendas. Every month, ExCom considers HMRC's performance against key performance indicators.

Chair: Chief Executive and First Permanent Secretary, Jim Harra

Members: First and Second Permanent Secretaries, Directors General for Customer Strategy and Tax Design, Customer Service, Customer Compliance and Transformation, General Counsel and Solicitor, Chief People Officer, Chief Finance Officer, Chief Digital and Information Officer, Director of Communications, and Chief Executive of the Valuation Office Agency. Other executives, the lead non-executive and the HM Treasury Director General for Tax and Welfare attended as the agenda on risks and decisions dictated.

Number of meetings in 2020 to 2021: 23 full meetings, 4 away-days, 3 specific subject meetings

Highlights in 2020 to 2021

- overseeing development of the government's tax administration strategy 'Building a trusted, modern tax administration system' and associated implementation planning
- overseeing delivery of new processes and systems for the end of the UK transition period
- overseeing delivery of key government COVID-19 support schemes
- overseeing delivery of HMRC's usual services and managing key departmental risks, including technological debt, cyber-attacks and UK General Data Protection Regulation (UK GDPR) compliance
- improving employee engagement and respect at work, and leading colleagues through the COVID-19 restrictions and pay and contract reform

ExCom (COVID-19)

Purpose: ExCom (COVID-19) was set up in April 2020 and disbanded in August 2020. Its work was then transferred to the COVID-19 Response Board with items escalated to ExCom as necessary. Its purpose was to make strategic decisions on HMRC's operational delivery of policy measures responding to COVID-19. This included matters arising from the general impact the pandemic had on the delivery of HMRC's strategic objectives and business over the initial period of the pandemic.

Chair: Melissa Tatton

Members: First and Second Permanent Secretaries, directors general, General Counsel and Solicitor, Chief People Officer, Chief Finance Officer, Chief Digital and Information Officer. Other executives and the lead non-executive attended as the agenda on risks and decisions dictated.

Number of meetings in 2019: 16

Highlights in 2020 to 2021

- monitoring and managing issues and risks relating to the cross-HMRC response to COVID-19
- agreeing external communications relating to COVID-19
- agreeing the pipeline of future measures the Chancellor of Commissioners could take, and the potential impacts and risks

Strategy Committee

Purpose: The Strategy Committee provides high-level oversight of HMRC's strategy and how it is implemented across HMRC.

Chair: Ruth Stanier

Members: Representative directors from across HMRC including: Directors of HMRC Strategies, Customer Service, Finance, Human Resources, Customer Insight and Design, and Chief Digital and Information Officer. Other executives attended as the agenda dictated.

Number of meetings in 2020 to 2021: 7

Highlights in 2020 to 2021

- developing the Tax Administration Strategy published in July 2020
- providing oversight of the tax administration framework review
- advising on strategy work including HMRC's strategic objectives and sustainability strategy
- providing oversight of strategic work on devolution matters

Change, Investment and Design Committee

Purpose: The Change, Investment and Design Committee ensures that all change takes us towards achieving our strategic objectives and approving the key design, investment and delivery points in a programme's lifecycle.

Chair: Justin Holliday and Ruth Stanier

Members: Representative directors from across HMRC including Customer Strategy and Tax Design, Strategic Finance, Compliance and Customer Services. Other executives attended as the agenda dictated.

Number of meetings in 2020 to 2021: 13

Highlights in 2020 to 2021

- being the approval point for business cases and those over the Investment Board threshold
- advising on the development of the Change Portfolio
- developing, supporting and assuring design principles and standards across HMRC
- shaping and informing HMRC's planning for the Spending Review

Resources and Performance Committee

Purpose: The Resources and Performance Committee provides strategic oversight of the resources available to HMRC and its strategic performance, against the HMRC business plan. It also provides oversight of key corporate performance, efficiency, productivity and highlights opportunities, strategic gaps and issues.

Chair: Justin Holliday

Members: Representative directors from across HMRC, including all finance directors.

Number of meetings in 2020 to 2021: 10

Highlights in 2020 to 2021

- shaping and informing 2021 to 2022 planning, Spending Round 2020 and next Spending Review
- providing advice to ExCom on business planning
- supporting and informing delivery of the Change Portfolio

Professional Standards Committee

Purpose: The Professional Standards Committee held its first meeting in October 2020. The committee provides oversight of how HMRC administers the tax system and applies policies in accordance with its values. The committee considers how HMRC's actions could affect trust in the tax system and public perception of fairness. It offers critical challenge to how HMRC exercises its powers, supporting good practice in the use of its powers and safeguards.

Joint Chair: Ruth Stanier

Members: First and Second Permanent Secretaries, directors general, General Counsel and Solicitor, Chief People Officer, Chief Finance Officer, Chief Digital and Information Officer. Also, 3 non-executive directors, and 4 independent advisers attend this committee.

Number of meetings in 2020 to 2021: 2

Highlights in 2020 to 2021

- establishing the committee, including recruitment of 4 supporting independent advisers
- developing a work programme for the committee, focusing on procedural fairness, transparency and technology

+ Summaries of meetings to date can be found at **www.gov.uk/government/organisations/hm-revenue-customs/about/our-governance#executive-committee**

Register of interests

HMRC maintains a register of interests (see Figure 14) to ensure that potential conflicts of interest can be identified, and appropriate mitigations put in place, in line with the Code of Conduct for Board Members of Public Bodies. No mitigations were required to be utilised in 2020 to 2021.

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. No executive members of the Board reported any significant company directorships or other interests that may conflict with their management responsibilities.

Figure 14: Non-Executive Directors' interests

HMRC Board non-executive directors

Dame Jayne-Anne Gadhia

Name of company or organisation	Type of interest (eg Pay, fees, shareholding)	Position held	Other relevant information
Usnoop Limited	Paid	Executive Chair	
Gadhia Consultants		Director	
Lloyd of London	Paid	Member of the Cultural Advisory Group	
Goldacre Fund	Fee	Non-Executive Chairman	
Gadhia Group Limited		Director	
Mayor's Business Advisory Board		Member	
Tate		Trustee	
UniCredit	Paid	Board member	

Alice Maynard

Name of company or organisation	Type of interest (eg Pay, fees, shareholding)	Position held	Other relevant information
Future Inclusion Limited	Shareholding	Director	
The Cross & Stable Charities	Unpaid	Director/ Trustee	
Financial Conduct Authority	Paid	NED	
Transport for London	Paid	Board Member	
Government Commercial Office	Paid	Member, Remuneration Committee	

Juliette Scott

Name of company or organisation	Type of interest (eg Pay, fees, shareholding)	Position held	Other relevant information
Versus Arthritis	Unpaid	Trustee	
Spellins Consultant Services Limited	Shareholding	Director	

Michael Hearty

Name of company or organisation	Type of interest (eg Pay, fees, shareholding)	Position held	Other relevant information
Public Health England	Paid	Committee Member	
Hywel Dda University Health Board	Paid	Associate Member	
Financial Reporting Council	Paid	Independent Adviser	

Patricia Gallan

Name of company or organisation	Type of interest (eg Pay, fees, shareholding)	Position held	Other relevant information
Redthread Charity	Unpaid	Trustee	Charity No. 1051260
Drapers' Brookside Infant & Junior School	Unpaid	Chair of Governors	
Trade Remedies Authority	Paid	Non-Executive Director	Senior Independent Director

Paul Morton

Name of company or organisation	Type of interest (eg Pay, fees, shareholding)	Position held	Other relevant information
TaxAid (Charity)	Unpaid	Trustee & Treasurer	
Supervisory Board of the International Fiscal Association (Professional Association)	Unpaid	Member	
Fractal Labs/Untied	Fee	Chair of Oversight Committee	

Mervyn Walker (left during 2020-21)

Name of company or organisation	Type of interest (eg Pay, fees, shareholding)	Position held	Other relevant information
Wood Pension Trustee Limited	Fees	Chair of Trustees	
Lifesight Limited	Fees	Trustee Director	
Moorfields Eye Charity Limited	Unpaid	Chair of Trustees	
Royal Institution of Chartered Surveyors	Fees	Chair of Trustees	
University of Birmingham	Unpaid	Pro-Chancellor and Chair of Council	

HMRC Committee Non-Executive Directors

Elizabeth Fullerton-Rome

Name of company or organisation	Type of interest (eg Pay, fees, shareholding)	Position held	Other relevant information
Taxation Disciplinary Board	Fees	Non-Executive Director	
Great American International Insurance (UK) Ltd	Fees	Non-Executive Director	
Hampden Agencies Limited	Fees	Non-Executive Director	

Tom Taylor

Name of company or organisation	Type of interest (eg Pay, fees, shareholding)	Position held	Other relevant information
NHS Counter Fraud Authority	Fees	Chair	
Government Legal Department	Fees	Non-Executive Director	
Northern Ireland Government Department of Finance	Fees	Non-Executive Director	

Diane Herbert (left during 2020-21)

Name of company or organisation	Type of interest (eg Pay, fees, shareholding)	Position held	Other relevant information
Hertfordshire Partnership University Foundation Trust	Fees	Non-Executive Director	
The London Film School	Unpaid	Governor	
Mindshift Limited	Shareholding	Director	

On 14 April, the Cabinet Office commissioned Permanent Secretaries across government to undertake assurance that any outside employment held by Senior Civil Servants (SCS) does not present a conflict of interest. HMRC responded to this request by asking all SCS to immediately declare any actual or potential conflicts of interest. In response to the request we immediately reviewed our processes to ensure that there was appropriate central oversight.

In compliance with business appointment rules, HMRC is transparent in the advice given to individual applications for senior staff. The Audit and Risk Committee takes a paper on business appointment rules quarterly to consider and scrutinise HMRC's application of the rules.

Our conflict of interest policy

Within our policies on conduct, we have a 'conflict of interest' policy which is aligned to the Civil Service Management Code. This applies to all employees, as well as non-executive directors.

The policy explains what a conflict of interest is, and provides information on declaring, recording and managing these. In summary, a conflict of interest will arise in a situation where:

- personal interests, activities or relationships may, potentially or be perceived to interfere with business decisions
- may compromise the ability to remain fair and objective
- may result in a personal gain or advantage

Therefore, whether there is a conflict will be dependent on the situation and the role held by the individual. Individuals are responsible for notifying managers of any conflicts (actual, potential or perceived) and managers are responsible for recording these and the outcomes (for example, whether there is no concern, whether there is a conflict, and any mitigations).

In high risk areas, conflicts are recorded on a register, which is owned, maintained and kept at business level. HMRC Board members and sub-committee members are required to declare real and potential conflicts of interest on appointment and to notify of any arising during their term.

It is for the relevant manager or business area to determine whether there is in fact a conflict (actual, potential or perceived) and what mitigating action is to be taken. If the individual moves to another team or business area, they have to re-assess to understand whether a new notification needs to be made in relation to the new role.

+ Read advice regarding specific business appointments at:
www.gov.uk/government/collections/hmrc-business-appointment-rules-advice

HMRC's non-executive directors and board members (end of March 2021)

Dame Jayne-Anne Gadhia
Lead Non-Executive

Patricia Gallan
Committees: People and Nominations, Customer Experience, Professional Standards

Michael Hearty
Committees: Audit and Risk

Alice Maynard
Committees: People and Nominations, Professional Standards

Paul Morton
Committees: Customer Experience, Audit and Risk and Professional Standards

Juliette Scott
Committees: Customer Experience

Non-executive and board sub-committee members (end of March 2021)

Elizabeth Fullerton-Rome
Committees: Audit and Risk

Tom Taylor
Committee: Audit and Risk

HMRC's Executive Committee (end of March 2021)

Jim Harra
Commissioner of Revenue and Customs, Chief Executive and First Permanent Secretary, Principal Accounting Officer, and member of the board

Angela MacDonald
Commissioner of Revenue and Customs, Deputy Chief Executive and Second Permanent Secretary

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

Sophie Dean and Katherine Green
Director General Borders and Trade (Job share)

Alan Evans
General Counsel and Solicitor

Justin Holliday
Commissioner of Revenue and Customs, Chief Finance Officer, Tax Assurance Commissioner and member of the board

Myrtle Lloyd
Director General Customer Services

Daljit Rehal
Chief Digital Information Officer

Joanna Rowland
Director General Transformation Group

Jonathan Russell
Interim Chief Executive of the Valuation Office Agency

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

Esther Wallington
Chief People Officer

+ The information on this spread is correct at March 2021.
Further information about ExCom and board membership is available on **GOV.UK**

Table 6: Meeting attendance by executives and non-executives

		Board	Audit and Risk Committee	People and Nominations Committee	Customer Experience Committee	ExCom	ExCom (COVID-19)
Non-executive board members	**Date started or left role**						
Mervyn Walker[1]	To 31 Dec 2020	8 (8)	5(5)	3(3)	3(4)		
Dame Jayne-Anne Ghadia[2]	From 1 Jan 2021	3(3)					
Patricia Gallan		11 (11)		4(4)	4(4)		
Michael Hearty		11(11)	8(8)				
Alice Maynard		10(11)		4(4)	3(4)		
Paul Morton		11(11)	3(3)		2(4)		
Simon Ricketts[3]	To 28 Feb 2021	10(10)					
Juliette Scott		11(11)			4(4)		
Non-executives							
Elizabeth Fullerton-Rome		8(8)					
Diane Herbert[4]	To 31 Dec 2020		3(3)				
Tom Taylor		8(8)					
Executives							
Jim Harra		11(11)				23(23)	5(16)
Angela MacDonald[5]	From 1 Aug 2020	7(7)				22(23)	4(16)
Penny Ciniewicz						22(23)	11(16)
Sophie Dean/Katherine Green[6]						22(23)	11(16)
Mark Denney[7]	To 14 Sep 2020					10(13)	14(16)
Alan Evans						22(23)	15(16)
Justin Holliday		10(11)				22(23)	14(16)
Karl Khan[8]	To 28 Feb 2021					11(12)	
Myrtle Lloyd[9]	From 1 Mar 2021					1(2)	
Daljit Rehal[10]	From 14 Sep 2020					10(12)	
Joanna Rowland[11]	From 19 Nov 2020					13(14)	
Ruth Stanier						22(23)	15(16)
Jonathan Russell[12]	From 7 Sep 2020					8(14)	
Melissa Tatton[13]	To 6 Sep 2020					8(10)	15(15)
Esther Wallington						18(23)	12(16)

1 Mervyn Walker left HMRC on 31 December 2020
2 Dame Jayne-Anne Ghadia joined HMRC as Lead Non-Executive Director on 1 January 2021
3 Simon Ricketts left HMRC 28 February 2021
4 Diane Herbert left HMRC on 31 December 2020
5 Angela MacDonald was appointed as Deputy Chief Executive and Second Permanent Secretary on 1 August 2020
6 Sophie Dean and Katherine Green were appointed Commissioners of HMRC on 13 May 2021
7 Mark Denney left HMRC on 29 July 2021
8 Karl Khan was appointed Interim Director General Customer Services in August 2020 to 28 February 2021 when he left HMRC
9 Myrtle Lloyd joined HMRC as Director General Customer Services on 1 March 2021 and appointed Commissioner of HMRC on 13 May 2021
10 Daljit Rehal took over as CDIO from Mark Denney on 14 September 2020
11 Joanna Rowland became Director General of the newly formed Transformation Group on 19 November 2020 and appointed Commissioner of HMRC on 13 May 2021
12 Jonathan Russell became Interim Accounting Officer for the VOA on 7 September 2020 and was appointed as the VOA's new Chief Executive on 9 September 2021
13 Melissa Tatton left HMRC on 6 September 2020

Risk management and assurance

Our approach to risk management

Effective risk management is fundamental to the effective operation of the control framework. HMRC have a well-established culture of managing risks. In the Performance Analysis section, we provided an overview of some of the specific risks facing HMRC and how we are managing them due to their significance in delivering our strategic objectives, but there are many other risks which HMRC manages. This section outlines the approach we are taking to manage risks across HMRC.

There are 2 main types of risk that we manage:

1. **Strategic risks:** these are risks to the management of HMRC and the delivery of our strategic objectives. We manage these risks across all levels of HMRC, from decision making on individual cases through to delivering large-scale change and strategic policy-making. The Executive Committee, HMRC Board and the Audit and Risk Committee review these risks.
2. **Process risks:** these are risks to the efficient operation of our processes. We are enhancing our approach to effective process management to put in place controls to manage those risks and to obtain assurance that those controls are effective.

+ Read about how we mitigate our strategic risks, including those related to COVID-19, in the Performance Analysis section, starting on page 94.

HMRC's control framework

We continually take steps to improve the way we are managing risk so we can understand and improve the effectiveness of our controls and activities. To help us deliver our strategic objectives and manage both strategic and process risks, we take an integrated approach through our control framework which is based on the application of the '3 lines of defence' assurance model. The 3 lines of defence model seeks to outline the different roles people have and the types of activities you might see in the management of risks.

Figure 15: HMRC's three lines of defence

Line of Defence 1	Line of Defence 2	Line of Defence 3
Controls in place to mitigate risks to strategic objectives and business processes	Assure and report on the effectiveness of controls in Line of Defence 1	Independently assure control effectiveness, risk management and assurance processes

The control framework then brings together the tools and standards that allow us to manage our business better, make better decisions, stop things going wrong and make things easier for HMRC. It also makes sure that we are doing this in a safe environment with sensible, proportionate controls in place. The control framework covers:

- **governance:** ensuring that authorities and accountabilities are clear and that our success in operating the control framework is reflected in the annual governance statements
- **process management:** taking the necessary action to ensure our processes are defined and effective, efficient, easy for our customers to use, efficient and well-controlled
- **risk management:** identifying, assessing, managing and reporting the risks to the delivery of our business

- **controls:** embedding effective controls in our business processes to ensure HMRC's objectives are met and any risks reduced
- **management assurance:** assuring the controls in place are sufficient and operating as intended, and taking the necessary action to address any weaknesses
- **independent assurance:** internal and external audit to challenge or confirm the findings of our management assurance
- **data:** ensuring that the data on which our business relies is secure and accurate

The HMRC Control Board is responsible for managing the integration of these different activities. This is a formal sub-board of the Change Investment and Design Committee which previously reported to the Strategic Planning and Resourcing Committee. It is chaired by the Director of Finance Operations and is attended by the Directors of Risk Management, Internal Audit, Data, Customer Insight and Design, Head of Governance and the ExCom Secretariat as well as senior leaders from each Business Group. The Control Board also reports progress on improving the control framework to HMRC's Audit & Risk Committee.

Principal Accounting Officer's report

HMRC's Chief Executive, Jim Harra, has been appointed by HM Treasury as Principal Accounting Officer for HMRC. In this report, he sets out how our accounts are prepared and reviews the effectiveness of our governance, risk management and internal control. This report also contains the elements required for HMRC's Accounting Officer Systems Statement.

How we prepare the accounts

HMRC is responsible for collecting the majority of the UK's tax revenue, including Income Tax for the Scottish and Welsh governments, and its financial information is reported in 2 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 report 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) are consolidated into the Resource 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 of 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 to give a true and fair view of the state of affairs of HMRC and the departmental group and of the income and expenditure, Statement of Financial Position and cash flows of the departmental group for the financial year.

Principal Accounting Officer's responsibilities

HM Treasury has appointed me, as HMRC's Chief Executive, to be 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, I am required to comply with the requirements of the Government Financial Reporting Manual and in particular to:

- observe the accounts directions issued by HM Treasury, including the relevant accounting standards and disclosure requirements, applying suitable accounting policies on a consistent basis
- ensure that HMRC has in place appropriate and reliable systems and procedures to carry out the consolidation process

- make judgments and estimates on a reasonable basis, including those judgments 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
- prepare the accounts on a going concern basis

As Principal Accounting Officer, I confirm that this annual report and accounts is fair, balanced and understandable. I take personal responsibility for the annual report and accounts and the judgments required for determining that it is fair, balanced and understandable.

Accounting Officers for the Resource Accounts

For the financial year 2020 to 2021, I, Jim Harra was the Principal Accounting Officer.

From 1 April to 6 September 2020, Melissa Tatton, Chief Executive of the Valuation Office Agency, was an Additional Accounting Officer and was accountable for the parts of HMRC's accounts relating to specified lines of the Estimate and the associated assets, liabilities and cash flows. Jonathan Russell was appointed Interim Chief Executive of the Valuation Office Agency and Additional Interim Accounting Officer from 7 September 2020, after Melissa Tatton took up a secondment opportunity with another organisation. Jonathan Russell was appointed permanent Chief Executive on 9 September 2021. These appointments do not detract from my 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-O: Jim Harra, Chief Executive and Permanent Secretary
- Estimate sections B, J and K: Jonathan Russell, Interim 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 Accountability disclosures section on pages 194 to 196.

In addition to being the Accounting Officer for HMRC, I am also the Accounting Officer of RCDTS Ltd, a sponsored non-departmental public body. As Accounting Officer of HMRC I am responsible for ensuring that appropriate systems and controls are in place to ensure that any grants we make to our sponsored bodies are applied for the purposes intended. In addition, ensuring 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. As Accounting Officer of the sponsored body, I am accountable for the use, including the regularity and propriety, of the grants received and the other income and expenditure of the sponsored body.

My responsibilities as Accounting Officer - which include the propriety and regularity of the public finances for which I am answerable, keeping proper records and safeguarding the assets of the department or non-departmental public body for which I am responsible - are set out in Managing Public Money published by HM Treasury.

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 on page 260). No non-audit work was carried out by the auditors for HMRC. As far as I am aware, there is no relevant audit information of which the auditors are unaware. As the Accounting Officer, I have taken all the necessary steps to make myself aware of any relevant audit information and to establish that the auditors are aware of that information.

How we comply with the code of good practice for corporate governance in central government departments

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. The directors general are supported by their finance directors and finance business partners. They cascade delegations of the financial authorities within their business areas, at each stage setting the limits of financial authority and our policy requirements.

This Scheme of Delegations is supported by our financial control framework, which ensures that we adhere to financial control standards in all our financial processes. The HMRC Control Board (see page 122 for details) oversees the development and administration of the control standards, ensuring that financial risks are effectively and efficiently managed through proportionate risk-based controls. The effectiveness of the controls is subject to regular specialist financial control assurance review, and independent review by Internal Audit. The framework helps mitigate the risk of financial loss through error or fraud and helps ensure the integrity of our financial statements.

Ministerial directions

We were asked to deliver several key support schemes this year in response to the COVID-19 pandemic. As is the case with any new activity carried out by a department, I am required by Managing Public Money guidelines to ensure that the activity meets the 4 key expectations set out by Parliament:

- that the department has the legal power to undertake the activity
- that it complies with propriety expectations, and the activity will deliver the policy objective
- the activity delivers value for money for the Exchequer
- that the scheme is feasible, meaning that we can deliver it within the timeframe and to the design agreed

If an activity is unable to meet one of these expectations, I am required to seek a ministerial direction before I can proceed. In 2020 to 2021 there were 2 schemes where I sought ministerial directions - the Eat Out to Help Out Scheme, and the Job Retention Bonus. For both schemes, it proved difficult to establish counterfactual data on which to assess the value for money of the proposals. The efficiency of both measures was also uncertain. Given the acute urgency of the situation, there was insufficient time to gather further evidence and wider external opinions that might have enabled me, as Accounting Officer, to reach a conclusion that both schemes offered value for money. The Job Retention Bonus was not paid in February 2021 as originally planned, as the Coronavirus Job Retention Scheme was extended - initially until the end of March 2021, and subsequently until the end of September 2021.

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 136 to 155.

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
- our business planning process is supported by full transparency of our planning and delivery commitments via the outcome delivery plan and performance reporting
- we have 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
- we have a proven track record of managing the department's performance while 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
- we are ensuring that we are fully prepared for the next Spending Review, with multi-year investment and saving options already in development

Additional Accounting Officers

I receive assurance from HMRC's Additional Accounting Officers:

- Jonathan Russell has responsibility for Valuation Office Agency (VOA) administration (since 7 September 2020)
- Ruth Stanier had responsibility for the Scottish and Welsh rates of Income Tax until 4 October 2021, when Jonathan Athow assumed responsibility
- 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 pages 188 to 189. 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 our business.

National Insurance funds

There are 2 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 2 funds are carried out by other departments and agencies (for example, the Department for Work and Pensions and 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

We have developed a departmental framework including central guidance to underpin quality assurance of business-critical analytical models. We maintain a register of these models, consistent with the recommendations of the 2013 Macpherson review. Management and quality assurance of the analytical models is monitored via the register and the framework is promoted regularly, in order to improve take-up of the guidance among modelling teams. Each year, our Audit and Risk Committee considers the quality assurance of our business-critical models and need for any further actions.

+ Read the register of business-critical models at **www.gov.uk/government/publications/ review-of-quality-assurance-of-government-models**

Control framework

HMRC continues to develop and improve its controls environment, co-ordinating key elements into a central team which can provide better support to the business groups. We have formally defined our business processes and who is accountable for their successful delivery and have implemented standards for Process Owners to comply with. We continue to build capability in developing and reporting of controls. The successful delivery of the COVID-19 support schemes was significantly enabled by establishing and reporting on controls to manage the key risks. We are documenting the controls in our processes and improving controls capability in our change programmes. We are enhancing our approach to risk management and the tools that we use to strengthen the control framework. Our focus will turn to the improved integration of our assurance activity to ensure that controls are being operated effectively.

Internal Audit

The Director of Internal Audit's opinion to me, as Principal Accounting Officer, is limited assurance that HMRC has an adequate and effective framework for governance, risk management and internal control.

HMRC's risk exposure has remained high throughout 2020 to 2021, both operationally and in change delivery.

Risks are largely understood and the risk management framework adequate at business group level to support HMRC in dealing with these challenges. HMRC has responded positively to the opportunities identified for it to strengthen its corporate risk management processes, which remains a work in progress.

The significant impact of COVID-19 on HMRC priorities has meant that capability and capacity to manage risk and improve the control environment has been an ongoing challenge, with the Department demonstrating resilience, collaboration and teamwork in its mitigation. Overall risk exposure is unlikely to reduce in the short- to medium-term. Risks to technical sourcing, data protection, change management, borders and trade control arrangements, modernisation of IT systems and security, exiting from COVID-19 support schemes and post COVID-19 working arrangements demand strong governance, risk and control arrangements. Capacity and additional funding pressures have, and will, continue to be a limiting factor. Positively there has been significant risk assessment work undertaken to better understand long-term IT, UK GDPR and process and data issues, the control limitations in place and the effort required to update, repair and re-shape systems and controls.

Governance of the organisation remains largely effective, with learning from HMRC's agile COVID-19 response providing a positive legacy. Opportunities for HMRC to strengthen Board and senior committee arrangements, structures and accountabilities are being taken forward. Any significant governance issues identified in the course of our work were generally at operational or delivery levels, particularly where systems cross organisational boundaries and/or where accountabilities are unclear.

The results of our audits provide a similar pattern of assurance to last year, albeit with a 6% improvement to the percentage of audits providing an overall Substantial or Moderate assurance. We also report a 12% increase in audits receiving a positive opinion for control effectiveness, which is promising. However, whilst there are areas of good control, HMRC has some long-standing control issues that are significant and limit the opinion that can be provided.

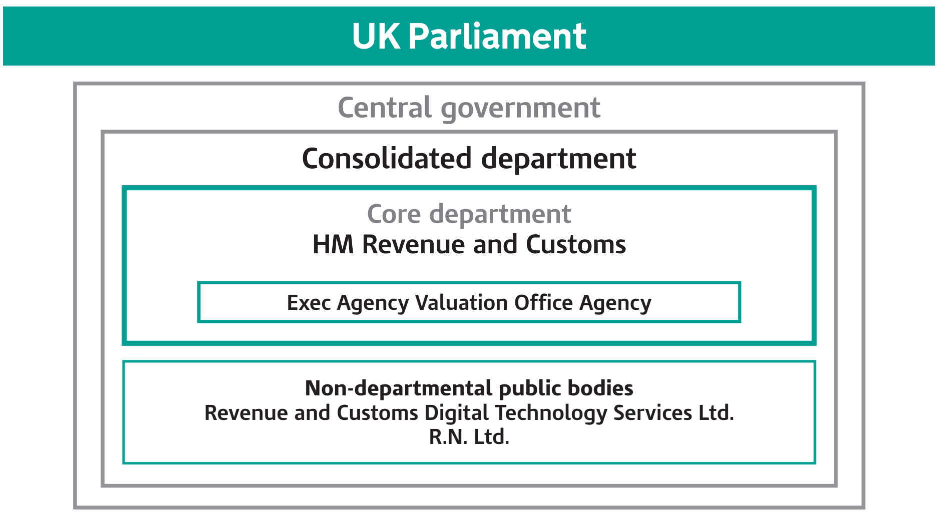
Notably, the top 10 control issues flagged in the 2019 to 2020 opinion remain largely a work in progress, with delivery often slow because they are either cross-cutting and/or legacy issues for which there are no easy fixes. Much of the IT estate, and therefore the control framework, is adversely impacted by long-standing issues, with a commensurate impact on control design and effectiveness. More positively, design and agreement of a process ownership model has seen good progress, though data ownership has not advanced sufficiently. Until these models and associated standards are fully embedded, HMRC does not have the clear accountabilities for process, controls and data that are a prerequisite to improving its control environment, and the effective application thereof. Through the work of the Control Board (see page 122 for details) 3 lines of defence is largely understood, although the second line of defence remains uncoordinated in parts, with the opportunity to improve its overall efficiency, coverage and reporting.

Our controls work on the main COVID-19 support schemes when set against scheme tolerance was in the main, positive, although there is increased risk exposure to external fraud and error through administering the schemes.

Accountability relationships with arm's length bodies

HMRC has 3 arm's length bodies: Valuation Office Agency (VOA) an executive agency of HMRC, Revenue and Customs Digital Technology Services Limited (RCDTS Ltd), and R.N. Limited. I am satisfied that each of these has systems in place which meet appropriate standards of governance, decision-making and financial management.

Figure 16: HMRC accountability system



Valuation Office Agency (VOA)

The 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 from HMRC through the Parliamentary supply process. It also recovers elements of its expenditure from other government departments where it has provided valuation services.

Performance monitoring	Jonathan Russell is a member of HMRC's Executive Committee (ExCom). He was appointed Interim CEO and Accounting Officer for the VOA on 7 September 2020 and was appointed as the VOA's new Chief Executive on 9 September 2021, following Melissa Tatton (also a commissioner of HMRC, who remained VOA Accounting Officer until 6 September 2020. Melissa Tatton took up a secondment opportunity with another organisation from 7 September 2020 to 31 March 2021, and she formally left VOA on 31 March 2021 when her secondment position was made permanent). 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 and ExCom sponsor, Justin Holliday. The team has a good understanding of the VOA and provides me with an update ahead of VOA Board meetings twice a month. I am content that our oversight is working well and our work to integrate corporate services will bring further benefits and efficiencies to VOA and HMRC. The chair of HMRC's Audit and Risk Committee (A&RC) attends 2 meetings of the VOA Audit and Risk Assurance Committee (ARAC) each year. The chair of the VOA ARAC attends one HMRC A&RC meeting annually. VOA Executive Committee members are part of HMRC's functional leadership teams in our Chief People Officer (CPO) and Chief Finance Officer (CFO) business areas. A member of HMRC's Chief Digital and Information Officer (CDIO) business area attends the VOA Executive Committee as a standing invitee. The VOA provides monthly financial statements consolidated into HMRC's accounts for HM Treasury returns and end-of-year statutory accounts, as well as statutory accounts audited by the National Audit Office.
Accountability for spending	Jonathan Russell was accountable to Parliament for the propriety and regularity of the public finance within his charge, meeting the requirements of Managing Public Money, HM Treasury and Cabinet Office guidance, Public Accounts Committee and other Parliamentary select committees or authorities. As Principal Accounting Officer, I am accountable for ensuring a high standard of financial management by strategic oversight of the VOA.

Revenue and Customs Digital Technology Services Limited (RCDTS Ltd)

RCDTS Ltd is a non-profit making company wholly controlled by and operated for HMRC which supplies the department with IT services. It is a separate legal entity with an arm's length relationship with HMRC. The RCDTS Ltd Board has 8 directors, all employed by HMRC.

RCDTS Ltd has received funding from HMRC in the form of a long-term repayable loan. There is a funding facility between HMRC and RCDTS Ltd for general working capital and investment purposes for supplying of IT services to HMRC. RCDTS Ltd invoices HMRC for the services it provides and is a non-profit making company, recharging all costs to HMRC (its only customer).

Performance monitoring	HMRC has a sponsor team to provide me with assurance as Accounting Officer of RCDTS Ltd. The team advises HMRC and ExCom, acting on our behalf in managing financial risk and return of RCDTS Ltd, challenging and supporting the board and RCDTS Ltd in achieving its objectives. At an operational level it ensures compliance with the Master Services Agreement and Framework Agreement.
Accountability for spending	HMRC Finance and Operations team produces and publishes RCDTS Ltd accounts. The team also maintains and monitors a control register for delivery of key operational processes, for example, delivering the balance sheet to the RCDTS Ltd Board, and submitting the VAT return. The team also monitors cash flow to ensure sufficient funds are held to meet working capital commitments.

R.N. Limited

R.N. Ltd is a private company limited by shares 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. RN Limited had 5 directors at 31 March 2021. 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 on the shareholding of R.N. Ltd.

There is a formal agreement between HMRC and R.N. Ltd and ExCom-level sponsorship from Justin Holliday. R.N. Ltd has no employees. HMRC's Finance and Operations team provides case work administration, accounts production and secretarial services. The running costs of R.N. Ltd are met by HMRC.

Performance monitoring	The R.N. Limited Board meets quarterly. All board meetings discuss strategy and monitor the success of R.N.'s strategies as well as any associated risks. The Finance Operations team monitors the risks and provides 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 £17.9 million. 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 R.N. Ltd, the HMRC Finance Operations team also keeps a register for R.N. Ltd where all controls are listed and monitored.

Other organisations

Entrust is an organisation that regulates the Landfill Communities Fund (a tax credit scheme enabling landfill operators to fund environmental bodies to undertake specified environmental projects). A levy on contributions to environmental bodies, set annually by HMRC and announced at Budget, funds Entrust. Entrust is not an arm's length body of HMRC but has a close relationship to HMRC similar to other bodies.

Accountability for major contracts and outsourced services

The scope of this section is limited to major contracts and outsourced services.

In financial year 2020 to 2021 HMRC had 3 grant schemes operated in accordance with Cabinet Office guidelines for grants in operation:

- COVID-19 grant activity as part of the government's response to the Coronavirus pandemic (the CJRS, SEISS and EOHO schemes),
- within Borders and Trade where grants are made to eligible applicants to help them with customs declarations, and
- to the charity sector who provide advice and assistance to vulnerable clients on their financial affairs (including tax affairs)

HMRC has a number of major contracts that are significant in ensuring that it can deliver its core services:

- we had a contract with Mapeley STEPS Contractor Limited (Mapeley) to provide accommodation and other services, valued approximately at £173 million, each year
- our IT services are provided through contracts with Capgemini, Fujitsu, Accenture and Kcom, valued approximately at £884 million in total, each year

Mapeley

The 20 year STEPS PFI Contract expired on 1 April 2021, a significant milestone in the department's estate history. During the contract term, full use has been made by the department of available vacation allowances, helping HMRC achieve substantial running cost savings and reducing its estates footprint (approximately 600 sites at start of contract making up two thirds of the HMRC Estate, and only 54 will be retained post contract across HM Government). With the expiry of the contract, the department has disposed of all but the most critical operational facilities, realising its vision for a transformed and modern fit for purpose estate. Robust management of the expiry and negotiations with Mapeley over 2019 and 2020, secured early agreement on expiry provisions ensuring a smooth transition. This included mitigating HMRC's exposure to post contract liabilities, provision of an indemnity bond from Mapeley and securing occupation in 36 sites (including 5 for VOA) to meet an ongoing business requirement or for a transitional period until all the regional centres are ready for occupation.

IT contracts

HMRC continues to deliver better value for money from the IT contracts by using well-established performance measures, which include benchmarking and increased use of wider competition in the IT market. Expanding our supplier base has allowed us to take better advantage of technical innovations and keep pace with technology trends. This approach supports our digital transformation and move to lower-cost and highly-resilient cloud data storage services.

Control challenges in financial year 2020 to 2021

Over the past year, we have actively managed the following issues 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.

The error and fraud overpayment rate has reduced from the high levels of 8.9% seen in financial year 2008 to 2009, hitting an all-time low of 4.4% in financial year 2014 to 2015. HMRC has achieved levels below 5%, the target set by ministers, in 6 of the 7 years between financial years 2013 to 2014 and 2019 to 2020. Ministers retained the target to restrict error and fraud to no more than 5% of entitlement for 2018 to 2019 and 2019 to 2020 but in line with other HMRC and government metrics they have not set an error and fraud target for 2020 to 2021.

The level of error and fraud will be impacted by the migration to Universal Credit and continued pressures on error and fraud compliance resourcing. HMRC reallocated staff to handle the impact of COVID-19 on its business, leading to a reduction in compliance activity; and it extended the automatic renewal of tax credits claims to cover all but the most high-risk claimants.

Error and fraud is estimated to have increased from 4.9% in 2018 to 2019 to 5.0% in 2019 to 2020, our most recent published results. HMRC's accounts have been qualified throughout this period. We expect the qualification of the accounts to continue as error and fraud will remain a significant issue until the closure of tax credits.

Research and development tax relief error and fraud

The Comptroller and Auditor General (C&AG) has extended his qualified opinion on HMRC's Resource Account, to include error and fraud in research and development tax reliefs. There has been a significant increase in the cost and take-up of these reliefs in recent years. The design of the reliefs means that some level of error and fraud is unavoidable. Whilst the schemes encourage legitimate claims, it potentially exposes HMRC to fraud.

2020 to 2021 is the second financial year where an estimate of this error and fraud has been prepared for the annual report and accounts. The overall estimate of the level of error and fraud is 3.6% of the estimated cost of the reliefs: 5.5% relates to the SME (Small and Medium Enterprises) scheme and 0.9% relates to the RDEC (Research and Development expenditure credit) scheme. The estimate is based on historic claim data, compliance results and Tax Gaps, and by its nature is uncertain.

We remain committed to tackling error and fraud in R&D tax reliefs.

+ Read more about tax reliefs on page 88

COVID-19 support schemes error and fraud

The Comptroller and Auditor General (C&AG) has qualified his opinion on HMRC's Resource Account to include error and fraud in the COVID-19 support schemes.

The risks presented in the schemes were opportunistic fraud, criminal attacks and genuine error in submissions and calculations. To mitigate these, we designed the schemes to prevent incorrect and fraudulent claims being accepted, promoted good compliance and stepped in when we thought something had gone wrong. As a result, we have stopped over 29,000 claims valued at approximately £347 million from being paid out incorrectly and committed around 1,200 full-time equivalent employees to post payment compliance activity, enabling us to ensure taxpayer money is used as intended.

Assessing the error and fraud levels in COVID-19 support schemes is a major programme for HMRC's analysts. Evidence gaps make provisional estimates uncertain so estimates are based on the best available information and will be superseded as we gather more complete data.

For the Coronavirus Job Retention Scheme (CJRS) we are conducting a random enquiry programme and gaining operational data from completed compliance interventions. For the Self-Employment Income Support Scheme (SEISS), we will expect to be able to refine the error and fraud estimates when the full year of 2020-21 Self Assessment data becomes available. This means that we aim to produce refined CJRS and SEISS estimates by summer 2022. Given that the Eat Out to Help Out Scheme was a short-term intervention which is now closed, we do not expect significant new data or information to become available and we are therefore not expecting to update the error and fraud estimates for this scheme.

+ Read more about error and fraud in the COVID-19 support schemes on page 71

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', which can be found at: **www.gov.uk/government/publications/corporate-governance-code-for-central-government-departments-2017**

The code focuses on governance arrangements for ministerial departments. 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, Commissioners for Revenue and Customs Act 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.

I am satisfied that the governance arrangements in place throughout 2020 to 2021 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 2020 to 2021.

Jim Harra
Accounting Officer
28 October 2021

Tax Assurance Commissioner's report

Foreword

I assumed the role of Tax Assurance Commissioner (TAC) in July 2020, which complements my continuing role as HMRC's Chief Financial Officer.

The role supports HMRC's ambition to build a trusted, modern tax administration system. It aims to provide confidence that the powers HMRC has at its disposal are used fairly, carefully and consistently helping to ensure that everyone pays the correct tax. A key aspect of this oversight remains that, alongside 2 other commissioners, I decide whether to accept or reject resolution proposals from taxpayers in HMRC's largest and most sensitive tax disputes. We also review a sample of smaller cases to scrutinise HMRC's wider dispute resolution processes. In my role as TAC I am committed to ensuring that HMRC tries to resolve issues in collaboration with customers, avoiding litigation where possible, in a fair and even-handed way. I am proud that HMRC has continued to do this throughout the unique circumstances and challenges of COVID-19, securing the tax that is needed to fund vital public services.

HMRC is committed to being transparent with customers. In February this year, we published, 'HMRC's implementation of powers, obligations and safeguards introduced since 2012'. It highlights areas for HMRC to continue building trust, including enhancing confidence in our dispute resolution governance, improving guidance and improving awareness of how we make decisions.

I have committed to being open about how we make decisions to apply the General Anti-Abuse Rule, Accelerated Payment Notices, Follower Notices and the Diverted Profits Tax. I want our customers to have confidence and trust in HMRC's decision-making. Our powers come with taxpayer rights and safeguards around their application. We take these safeguards very seriously.

HMRC has initiated a project to take forward the recommendation made by the Office of Tax Simplification to build confidence in statutory reviews. This demonstrates our on-going commitment to resolve disputes as quickly and cost-effectively as possible, in accordance with the law, our Litigation and Settlement Strategy and our 'Code of Governance for resolving tax disputes'.

This has been a challenging year for many of us due to COVID-19 and we recognise the challenges our customers have had. We have delivered government support to protect people's livelihoods and help businesses. We have supported our customers by implementing changes to our operations and processes. Where there were ongoing compliance checks we took a customer-first approach. We generally only opened a new enquiry when the customer could engage and resolve the enquiry. We gave customers the time to focus on more urgent priorities, whether that was keeping their business afloat or keeping the country safe and well.

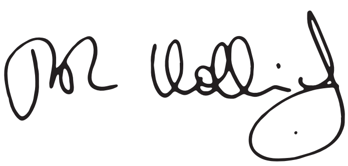
We have continued to resolve disputes. Our Alternative Dispute Resolution process became virtual and the President of the First-tier Tribunal issued a Statement, on 15 June 2020, making it clear that Alternative Dispute Resolution was available at any stage of litigation proceedings. Litigation has continued, working with Her Majesty's Courts and Tribunal Service to conduct hearings remotely.

We continue to offer additional support to those who need it and I am proud of the fact that we have improved over 1,000 of our compliance letters and factsheets, enhancing their language and tone, making them clearer and more helpful. We have been working closely with voluntary and community services to help raise awareness of tax obligations among harder-to-reach taxpayers, through specific support such as the expansion of HMRC's Extra Support Service, ensuring customers in vulnerable circumstances receive the extra help they need during enquiries. This extends to enhanced training for our Debt Management officers to identify and support vulnerable customers.

Our Tax Settlement Assurance Programme (TSAP) demonstrates that there is more to do to ensure that we consistently meet the expected governance and quality standards and I know that the senior leadership of HMRC is determined to do this. We will refine and improve the assurance programme to assess progress and quality, and customer experience will be reviewed through a new assurance programme testing our performance against our Compliance Professional Standards (CPS).

As the UK emerges from lockdown, we are fully resuming enquiries, still being mindful of customers' individual circumstances. We continue to encourage businesses and individuals to come forward and self-correct if they have made a mistake in their tax affairs and we will help them to resolve mistakes. We will continue to support taxpayers, directly or through a representative, wishing to settle their tax disputes, including exiting avoidance schemes.

I look forward to being able to give reassurance on how HMRC manages its disputes over the coming years helping, I hope, to build further confidence in the UK's tax administration and HMRC.



Justin Holliday
Tax Assurance Commissioner and Chief Finance Officer

Our approach to tax disputes

We are committed to improving our customer experience and the HMRC Charter defines the service and standard of behaviour that customers should expect when interacting with us. As set out in the Charter, we try to avoid disputes by supporting, and making it easy, for all taxpayers to comply with their obligations and pay the right amount of tax in accordance with the law. We do this in several ways, including designing well framed guidance and legislation and providing one-to-one support through online web chats, phone calls and correspondence.

Our compliance approach is to:

- promote compliance by designing internal 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

However, we know there will be occasions where customers disagree with us on the amount of tax that is due. We seek to resolve any dispute as quickly and cost-effectively as possible, in accordance with the law, our Litigation and Settlement Strategy and our 'Code of Governance for resolving tax disputes'. Where we cannot settle a dispute by agreement with the customer on the correct amount of tax that is due, the customer can apply to an independent tribunal.

We deal with fraud by using cost-effective civil fraud investigation procedures where necessary. We reserve our criminal investigation powers for severe cases of fraud where, for example, we need to send a strong deterrent message, or civil sanctions alone will not work.

We have complete discretion over whether to conduct a criminal investigation in any case, across a range of offences for which the Commissioners of HMRC have responsibility.

+ 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**
+ Read HMRC's Charter: **www.gov.uk/government/publications/hmrc-charter/the-hmrc-charter**

Our approach to tax disputes during the pandemic

During 2020 to 2021 our priority has been to deliver government support to protect people's livelihoods and help businesses get through this difficult time financially.

Where there were ongoing compliance checks we took a customer-first approach and worked or drew back from actively pursuing enquiries as circumstances dictated. We usually only opened a new inquiry into those badly affected by COVID-19, or those leading the fight against the virus, if we thought they could engage and resolve the enquiry. We gave customers the time to focus on more urgent priorities, whether keeping their business afloat or keeping the country safe and well.

This included giving our customers, who requested a review of an appealable decision, an additional 3 months from the normal deadline to ask for a review. HMRC also temporarily allowed extra time for customers to appeal against direct tax decisions (that were made to HMRC) by giving an extra 3 months to appeal, if the decision was dated 1 February 2020 or later. For appeals against indirect tax decisions (that were made to the Tribunal), HMRC did not object to late appeals made within 3 months of the normal deadline.

In some specific situations, we have still opened tax enquiries even if a customer was severely affected.
For example:

- where we suspected criminal activity, fraud or significant deliberate non-compliance, including avoidance
- where not doing so would have meant missing a deadline preventing us from ever collecting the unpaid tax
- where we were protecting their employees (for example, National Minimum Wage)
- for a mandatory check

We have been clear throughout the pandemic that if customers were unable to respond as a result of the outbreak, they would not be penalised for any delay, although interest would still apply on any unpaid tax.

As the UK gradually emerges from lockdown we will resume these enquiries, still being mindful of customers' individual circumstances. We continue to encourage businesses and individuals to come forward and self-correct if they have made a mistake in their tax affairs and we will help them to resolve it.

How we select cases with the greatest risk of non-compliance

Our Risk and Intelligence Service continually 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, carry out research into the hidden economy and explore taxpayer attitudes towards tax. We use this insight to identify and understand risks to the tax system and undertake enquiries into appropriate cases. Additionally, we randomly select a number of cases for compliance checks to measure compliance levels within our main customer population.

Our aims are to:

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

Powers and Safeguards Work Programme

We recognise that a healthy and effective tax system relies on trust. Taxpayers must be able to trust that their tax authority is fair, professional and respectful while ensuring all pay their share. To collect the tax revenue that pays for the UK's public services and benefits system, it is important that we have the necessary powers to ensure everyone fulfils their responsibilities. Equally, to maintain and build public trust, the exercise of any powers must be accompanied with appropriate oversight and statutory safeguards. These provide taxpayers with the means to seek redress and help to ensure that HMRC acts proportionately, taking account of different taxpayers' individual circumstances.

Building on the programme of work announced in the Financial Secretary to the Treasury's Written Ministerial Statement of 22 July 2019, we continued, through 2020 to 2021, to engage with taxpayers, voluntary organisations and the tax professional community to maintain and build public trust in the tax administration system. This underlined our continued commitment to provide an improved experience for taxpayers and support the government's vision for a trusted, modern tax administration system.

+ Read HMRC's Powers and Taxpayer Safeguards: written statement made by the Financial Secretary to the Treasury: **www.parliament.uk/business/publications/written-questions-answers-statements/written-statement/Lords/2019-07-22/HLWS1748/**

Powers and Safeguards Evaluation Report

On 4 February 2021 we published the report: 'Evaluation of HMRC's implementation of powers, obligations and safeguards introduced since 2012'. We worked collaboratively with representatives of taxpayers and agents to carry out this evaluation. The report contains 21 commitments to address the findings of the evaluation, broadly covering 3 themes:

1. Raising awareness of new obligations before powers are used, especially with harder to reach audiences.
2. Ensuring we continue to use powers professionally and with respect during compliance enquiries, building trust in HMRC's decisions.
3. Reassuring taxpayers that HMRC is being consistent and proportionate when taxpayers get it wrong, including when considering penalties and providing time to pay arrangements.

In many areas, the findings have underlined the importance of the changes we were already introducing to help build and maintain public trust in the tax system, including through the wider powers and safeguards programme established in 2019. However, this evaluation has also highlighted new opportunities for HMRC to build trust. These include: deepening engagement with voluntary and community services to help raise awareness of tax obligations among harder-to-reach taxpayers, steps to enhance public confidence in our governance and operations, and improving guidance so that the public can better understand how their circumstances could contribute to a reasonable excuse for failing to comply with a tax obligation. Delivery on the commitments is progressing well with the majority on track for delivery towards the end of the financial year (2021 to 2022).

+ Read the evaluation of HMRC's implementation of powers, obligations and safeguards at **www.gov.uk/government/publications/evaluation-of-hmrcs-implementation-of-powers-obligations-and-safeguards**

Increasing transparency

We aim to increase transparency and build public trust by publishing more data and information on the exercise of powers. We 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. Since September 2019, 14 new metrics have been published on GOV.UK on a quarterly basis. These include debt management, customs and compliance metrics such as the number of closed civil and criminal compliance checks, the total number of prosecutions and criminal sentences, and the outcomes of court decisions. As announced on 25 February 2021, we will be publishing the HMRC Evaluation Framework in 2021. The publication will outline HMRC's ambition for systematic evaluation, including the activities identified to achieve this and how it fits with wider government best practice guidance. It will set out our criteria for making decisions about undertaking evaluation, providing assurance and accountability that the department is maximising the impacts of its spending through appropriate decisions on evaluation. We continue to work with external stakeholders to identify what further data and information could be published.

Customer experience

Customer experience and professionalism are integral to our vision to be a trusted, modern tax and customs department.

Through our Compliance Customer Experience and Professionalism Programme we are working with stakeholders to address concerns about our customers' experience of compliance checks. We have introduced a new, consistent set of compliance professional standards for our compliance caseworkers, which sets out the customer experience and professionalism we consistently aspire to. We have improved over 1,000 of our compliance letters and factsheets, enhancing their language and tone and making them clearer and more helpful. We have used customer and agent insight to improve the way we communicate with customers when we open a compliance check - increasing transparency about why we are making a compliance check, what we expect from the customer and what the customer can expect from us. We are also signposting customers to how they can get help from HMRC if they need extra support.

We have undertaken customer testing of our external compliance guidance, to ensure we are setting out clearly what to expect at each stage of a compliance intervention. As a result, we are carrying out a programme of improvements to GOV.UK guidance and we have produced a series of new YouTube videos, co-created with input from external customer representatives. This includes one called: 'Help if you can't pay your tax bill', which explains how HMRC supports customers who are unable to pay a tax debt.

Regular feedback from our customers is key to guiding improvements. We have introduced an 'exit survey' to customers following a compliance check, testing their perception of our professionalism and our ability to help them get things right in the future.

+ View the 'Help if you can't pay your tax bill' video at: **www.youtube.com/playlist?list=PL8EDt1zh7G8UW_BpPdFICrYL5uiu**

Support for taxpayers who need extra help

Our Charter commits us to making sure we are aware of a customer's personal situation. This means we will listen to them and answer their questions clearly and concisely, taking account of their personal circumstances.

We continue to develop approaches to support customers who need extra help, in line with our Charter commitments, including for those customers who:

- are in vulnerable financial circumstances
- need extra help to resolve their affairs

We work closely with the debt advice sector to improve referral arrangements for customers in financial hardship, by signposting them to free independent advice from debt advice organisations. A new debt advice referral pilot in collaboration with the Money and Pensions Service went live in December 2020.

In 2020 to 2021 we supported approximately 24,000 tax credits customers in short-term financial hardship by introducing a new debt advice referral service, which will be expanded to cover self-employed customers. There are approximately 85,000 HMRC customers with debt problems that could benefit from 'Breathing Space', a statutory debt relief scheme, which went live in May 2021.

We have trained Debt Management officers to identify customers in financial hardship or vulnerable circumstances who they refer to our Extra Support Team for assistance. We are also exploring how to improve signposting debt advice on GOV.UK and other channels, aiming to do more to identify and address situations where customers may be in danger of getting into debt.

We also support customers in temporary hardship who need more time to pay their debt. In January 2021, we supported approximately 663,000 customers with Time to Pay arrangements to the value of around £4.0 billion.

Our Solicitor's Office and Legal Services (SOLS) have delivered bespoke learning to colleagues to support them in being empathetic and sensitive to customers' individual circumstances. The learning includes guidance and processes to support resolution of cases, including the use of discretion and support for un-represented customers. SOLS has increased the promotion of Alternative Disputes Resolution to try to resolve cases without the need to go on to a tribunal. All resolution of disputes are made in accordance with our published Litigation and Settlement Strategy.

Recognising the difficulties that many customers and their agents were experiencing as a result of the COVID-19 pandemic, we gave Self Assessment customers an extra month before charging late filing / late payment penalties in 2021. Customers who filed their Self Assessment tax return online by 28 February 2021 did not receive a late filing penalty, and those who paid their tax bill or set up a payment plan by 1 April were not charged a 5% late payment penalty.

+ Read more about our work to improve customer experience starting on page 54.

Governing the resolution of disputes

Within HMRC, most case resolution decisions are taken by case workers with the oversight of their managers and, where relevant, advice from specialists. In larger cases, proposed settlement decisions are considered by departmental governance boards and in the largest and most sensitive disputes, a panel of 3 HMRC commissioners, usually including the Tax Assurance Commissioner, assure the resolution of disputes.

Figure 17: HMRC high-level governance arrangements

In financial year 2020 to 2021, the commissioners considered risks referred from the Tax Disputes Resolution Board (TDRB), some of which were first considered by an International Issues Board such as the Transfer Pricing Board or Diverted Profits Board. Additionally, they considered a sample of cases from the Customer Compliance Group Dispute Resolution Board (CCG DRB) who made recommendations to commissioners in these cases. The governance boards comprise of senior officers from across HMRC, including lawyers and representatives from policy, technical and operational areas, independent of the case.

If the tax risk is greater than £5 million (non-large business customers) or £15 million (large business customers), it falls within the remit of CCG DRB. If the total tax risk on a customer exceeds £100 million, risks fall within the remit of the TDRB, which makes recommendations to the commissioners.

Two cases that had missed TDRB governance were identified during 2020 to 2021. We understand how the failures arose and have taken steps internally to reduce the chances of a similar error occurring. The 2 cases were compliant with our Litigation and Settlement Strategy.

Table 7: Commissioners: outcome of referrals

	2020-21	2019-20
Total number of meetings held (including via correspondence)	**15**	**15**
Total referrals to the commissioners	**40***	**55****
Reason for referrals		
£100m plus tax or £500m adjustment	26	42
Decisions on sensitive case or risk	1	3
Decisions on sample cases	10	10
Director referral	2	0
Direct re-referral following remittance for further work	1	0
Outcome of referral		
Taxpayer's position accepted	17	31
Taxpayer's position rejected	19	19
Taxpayer's position conditionally rejected	1	0
Taxpayer's position partially rejected	1	0
Remitted for further work	2	3

* Includes 1 sample case heard by CCG DRB in 2019 to 2020
** Includes 2 different re-referrals to TAC

Table 8: HMRC Commissioners: tax under consideration in decisions referred to commissioners

	2020-21	2019-20
Taxpayer's position accepted	2,405	3,133
Taxpayer's position rejected	4,330	3,586
Taxpayer's position conditionally rejected	243.8	0
Taxpayer's position partially rejected	15.6	0
Remitted	28.3	1,414

Table 9: Tax Dispute Resolution Board: outcome of referrals

		2020-21	2019-20
	Referrals to TDRB	**36**	**46**
Referred to commissioners	Taxpayer's position accepted	15	27
	Taxpayer's position rejected	16	14
	Taxpayer's position conditional accepted	0	2
	Taxpayer's position partially rejected	1	0
	Total referred to commissioners	**32***	**43**
Not referred	Remitted for further work	2	1
	Guidance provided	1	0
	Decision taken by TDRB under its remit*	1	2
	Total not referred to commissioners	**4**	**3**

* 3 TDRB 2020 to 2021 referrals will be considered by the Commissioners in 2021 to 2022

Table 10: The Customer Compliance Group Dispute Resolution Board: outcome of referrals

	2020-21	2019-20
Total referrals to CCG DRB	71	79
Taxpayer position accepted	29	23
Taxpayer position rejected	37	51
Board remitted for further work before the re-referral	4	5
Board provided advice and guidance - no decision sought	1	0

During 2020 to 2021, the commissioners accepted the CCG DRB's recommendation in 10 of the referrals, (1 was remitted by the commissioners for further work), and the commissioners accepted TDRB's recommendation in 27 of the referrals, remitted 1 case and conditionally rejected a case that TDRB recommended rejecting. There are a further 3 TDRB referrals from 2020 to 2021 that will be heard by commissioners in 2021 to 2022.

The commissioners noted that case teams continued to pay attention to establishing the taxpayer's behaviour leading to the risk. This ensured that penalties were being charged when appropriate. The commissioners thought the overall quality of cases presented was of a good standard.

International issues risk governance

In the 6 months between April and September 2020, HMRC international risk panels and boards provided operational support, advice and oversight during the working of a risk and governance during its resolution.

The Transfer Pricing Board (TPB) was supported by the Transfer Pricing Panel (TPP) which made decisions on transfer pricing enquiries that did not come within the TPB's remit. In some smaller cases, a single transfer pricing expert on the TPP considered the issue.

The Diverted Profits Board (DPB) looked at arrangements identified as potentially within the scope of the Diverted Profits Tax. The board comprised senior officials from a wide range of HMRC directorates.

Table 11: International Risk Panels and boards

No	April to September 2020	Oct 2019 to Mar 2020	April to September 2019
TPB resolution proposals considered	6	11	8
TPP resolution proposals considered	40	64	61
DPB meetings	7	7	7
DPB resolution proposals considered	7	16	15
DPB proposals deferred	2	3	4
DPB referrals via TDRB to commissioners	1	7	2

From October 2020, the settlement governance and operational oversight of both Transfer Pricing (TP) and Diverted Profits Tax (DPT) risks were streamlined. A new regional governance structure, that applies to all direct tax international risks relating to multinational enterprises, was introduced to provide support, advice and oversight during the working of a risk. Settlement governance is provided by the appropriate Dispute Resolution Board (DRB), aligning our approach to international risks with our approach for all other complex risks. Cases between October 2020 and March 2021 that were within the remit of the DRBs are included in the DRB case numbers above at table 9 and table 10.

Issues governance

We have governance processes in place to determine our approach to issues that affect multiple taxpayers in a consistent and even-handed manner. Policy teams refer issues to the Contentious Issues Panel (CIP) for non-avoidance issues or the Anti-Avoidance Board (AAB) for avoidance issues. Both these bodies comprise senior operational, legal and policy experts.

During 2020 to 2021:

- the CIP met 5 times and considered 5 issues (8 times and 13 issues in 2019 to 2020); they considered a variety of issues involving Income Tax, Corporation Tax, VAT, Landfill Tax, Excise Duty and Customs Duty
- the AAB met 9 times and considered 17 issues (10 times and 81 issues in 2019 to 2020)

No issues were referred to the commissioners from the CIP (one referral in 2019 to 2020).

The number of issues considered directly by AAB has fallen due to streamlining of the governance process although AAB continues to retain oversight of any decisions.

General Anti-Abuse Rule (GAAR)

The purpose of the GAAR is to discourage taxpayers from entering into abusive arrangements, and to deter the promotion and enabling of 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 are legally required to 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 or whether to apply penalties to enablers who facilitated the use of those arrangements. Courts must also take into account the panel's opinion if the tax arrangements are considered by them. The panel's opinions are published on GOV.UK to help taxpayers recognise abusive tax avoidance schemes.

In 2020 to 2021 the panel provided opinions in 2 cases (6 in financial year 2019 to 2020). 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.

To date, we have issued around 3,700 GAAR opinion notices (applying GAAR Advisory Panel opinions) to taxpayers who have used these arrangements. Taxpayers have the right to appeal against any adjustments made under the GAAR and any penalties that may be due if their case is settled under the GAAR.

+ Read more about the GAAR: **www.gov.uk/government/collections/tax-avoidance-general-anti-abuse-rule-gaar**

Ensuring a standard approach to penalties

We may charge taxpayers penalties if they provide documents that are inaccurate or do not comply with legislative requirements. In cases of inaccuracy, we charge penalties where we consider that the inaccuracy occurred because of the taxpayer's careless or deliberate behaviour. We have a number of steps in place to maintain consistency in penalty decisions.

Across each of our business areas there are controls in place to ensure that decisions are tested and authorised at the appropriate level, taking account of the value and complexity of the prospective penalty involved. Apart from the assurance provided by line managers, we also have networks of senior tax professionals in place who can support the caseworker through advice and assurance, as well as specific governance boards for the most complex cases.

For example, within our Fraud Investigation Service, where the taxpayer does not agree with a proposed penalty decision relating to deliberate non-compliance, it is reviewed by a national penalties team. For the very largest and most complex cases worked in Large Business, decisions are first assured by the Penalties Consistency Panel (PCP).

Cases the PCP considers for penalties include those:

- that are subject to determination by CCG Dispute Resolution Board (DRB) or Tax Assurance Commissioner (TAC)
- where the potential tax lost exceeds £10 million and a penalty might be charged in relation to the tax loss
- where deliberate inaccuracies are alleged
- involving Customs Civil Evasion Penalties

How we resolve tax disputes

The vast majority of tax disputes are resolved following collaborative work with customers and by agreement. However, where agreement is not possible, HMRC and customers have access to a number of tools to help resolve disputes.

The customer can ask for a statutory review of the decision and additionally appeal to an independent tribunal. It may also be possible in certain cases to use mediation through Alternative Dispute Resolution. As set out in our Charter, customers are entitled to have someone else deal with the matter on their behalf, such as an accountant, friend or a relative throughout the entire dispute process. However, we will only deal with them if they have been authorised by the customer to do so. To protect our customers, HMRC also works with professional bodies to set the standard expected of professional agents who support customers to meet their tax obligations. We can refuse to work with professional agents who fail to adhere to this standard. This is all set out in HMRC's Charter, along with details of how to make a complaint.

Whatever tool is used, we will try to resolve the dispute as quickly and cost-effectively as possible, but always in accordance with the law, our Litigation and Settlement Strategy (LSS) and our 'Code of Governance for resolving tax disputes'. HMRC's Litigation and Settlement Strategy is the framework within which HMRC resolves tax disputes through civil law processes and procedures in accordance with the law. There is no magic to the LSS. It supports HMRC to obtain the best practicable return for the Exchequer and to bear down on avoidance and evasion. It ensures that HMRC applies its limited resources to those risks where the overall revenue flows potentially involved justify doing so. The LSS ensures that HMRC does not generally concede disputes it is likely to win in litigation where the amounts involved in the case or more broadly would make litigation worthwhile. In essence, we will settle with a customer if in our judgement it is an outcome that could reasonably be expected at a tribunal. It applies irrespective of whether the dispute is resolved by agreement with the customer or through litigation.

Alternative Dispute Resolution

Alternative Dispute Resolution (ADR) is a flexible dispute resolution tool, which can help HMRC and the taxpayer resolve disputes (or reach key decision points) in a cost effective and efficient manner. Although available at any point of a compliance check or enquiry, most ADR applications are made once we have made a decision and the customer has appealed to the tribunal. The availability of ADR at any stage of litigation proceedings was highlighted in June 2020 in a Tribunal Practice Statement.

Taxpayers may apply online for ADR. Where our mediators have concerns about whether ADR will be effective, the case is referred to the appropriate governance panel for consideration. Where we agree to enter into ADR, an impartial HMRC mediator will work with the HMRC caseworker and the taxpayer to try to resolve the dispute.

Restrictions put in place due to COVID-19 meant face-to-face mediations had to cease. Since April 2020, all mediations have taken place through correspondence, telephone or video to avoid interruption in service.

The number of cases resolved through ADR is 78% which is a drop compared to the previous year (2019 to 2020) but is above the target of 75% and, despite the challenges that COVID-19 has brought, reflects the continued value and success of ADR.

In 2020 to 2021, there was a fall in online applications of 21.8%. The drop in applications reflects the slowing of some compliance activity, due to COVID-19, particularly in the first quarter of the year.

A further 228 cases were automatically rejected as HMRC had issued an appealable decision, but no appeal had been lodged at the Tribunal.

During Q4 of 2020 to 2021 there was only a 6% drop compared to the same pre-COVID-19 period in 2019 to 2020 although application numbers are increasing again.

Table 12: Alternative dispute referrals

	2020-21	2019-20
Total applications for ADR (either side can propose ADR)	834	1,066
Cases rejected by governance panels	163	224
Cases awaiting decision	44	14
Active cases	140	165
Cases resolved by agreement	172	318
Cases going to litigation	62	34
Cases resolved through ADR	78%	90%

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, with transparency and consistency. Changes were 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 ahead of the disguised remuneration loan charge coming into force on 5 April 2019. Following the Independent Loan Charge Review by Lord Morse, customers who wished to settle their use of disguised remuneration and not have to pay the loan charge were provided with additional time to consider the changes being implemented. Customers affected could submit their 2018 to 2019 Self Assessment return by 30 September 2020, without incurring a late filing penalty or being charged interest, provided they also paid by 30 September or agreed a payment arrangement. Those who were in the settlement process also had until this date to agree a settlement, to avoid declaring and paying the loan charge.

On 13 August 2020, we published the 'Disguised Remuneration Settlement Terms 2020' for taxpayers who have not settled under the November 2017 terms. We also published guidance to help taxpayers understand their obligations and options, and the support available from HMRC to help them conclude settlement of their disguised remuneration tax liabilities. The initial publication included settlement terms for liabilities not in scope of the loan charge. The terms were updated on 19 November 2020 to include all disguised remuneration liabilities including taxpayers who were subject to the loan charge.

Since Budget 2016, and by the end of March 2021, we have agreed around 19,700 settlements with employers and individuals, bringing into charge around £3.3 billion.

We continue to support taxpayers to resolve their use of disguised remuneration and other avoidance schemes and get out of avoidance for good, including helping those who need extra support and additional time to pay.

+ Read more about the Disguised Remuneration Settlement Terms:
www.gov.uk/government/publications/disguised-remuneration-settlement-terms-2020

Profit Diversion Compliance Facility

In January 2019, we launched the Profit Diversion Compliance Facility (PDCF) enabling multinationals that have used arrangements to divert profits from the UK to review the arrangements and put forward a report, complying with the facility guidance requirements, with proposals to settle any liabilities due. During 2020 to 2021 extra time to complete their PDCF disclosure reports was granted to a number of PDCF registrants due to the impact of COVID-19. A panel of HMRC senior tax specialists met in 2020 to 2021 to consider 23 disclosures under the PDCF.

+ Read more about the Profits Diversion Compliance Facility:
www.gov.uk/government/publications/hmrc-profit-diversion-compliance-facility

Reviews and Appeals

If a customer disputes an appealable tax decision, they can request a statutory review of the decision or appeal to the independent tax tribunal. As most reviews settle disputes, and reviews are a more cost-effective and quicker option than appeals, it can be more beneficial to customers to seek a review first. If a customer requests a review and does not agree with the outcome, they can still make an appeal to the tribunal. Reviews and appeals are dealt with by officers who are tax, legal or accountancy professionals working in our Solicitor's Office and Legal Services Group.

How we review decisions

The statutory review process provides an additional opportunity to resolve disputes without the need for tribunal proceedings. Review officers are technical specialists who are not involved in making the original decisions and so provide an objective and impartial review service. Review officers check whether the decision is in line with legislation and technical guidance, policy and practice. The review is also an opportunity to provide feedback internally to HMRC caseworkers and, thereby, improve decision making.

We carry out the review ensuring:

- a transparent review of decisions
- quality and consistency in our review conclusions
- even-handed dealing with taxpayers at review
- as many disputes as possible are resolved without tribunal proceedings

We have initiated a project to take forward the recommendation made by the Office of Tax Simplification to build further confidence in the impartiality of statutory reviews. Work has commenced on promoting statutory reviews to external stakeholders and canvassing their views. Research conducted by an external agent on our behalf concerning customer and agent experience of statutory reviews is also in hand.

The project is also looking at opportunities to improve on the communication of the review process and its benefits to our customers.

The figures reported below show a lower number of statutory reviews in 2020 to 2021 than the previous year, which is reflective of fewer decisions being issued by HMRC and consequently fewer disputes being raised as a result of COVID-19.

Table 13: Overview of outcomes of reviews

	2020-21	2019-20
Dealt with in the year	10,026	22,649
Original decision upheld	3,475	9,827
Varied	670	2,583
Cancelled	5,881	10,239
Percentage where original decision was upheld	35%	43%
Number closed where the taxpayer was not represented by an agent	8,133	15,849
Percentage closed where the taxpayer was not represented by an agent	81%	70%
Automated Penalty cases including default surcharge cases		
Dealt with in the year	6,876	14,572
Original decision upheld	1,122	4,580
Varied	255	1,836
Cancelled	5,499	8,156
Percentage where original decision was upheld	16%	31%
All other reviews		
Dealt with in the year	3,150	8,077
Original decision upheld	2,235	5,247
Varied	415	747
Cancelled	382	2,083
Percentage where original decision was upheld	75%	65%

Most statutory reviews are against automated penalties and surcharges such as late filing penalties for Income Tax Self Assessment (ITSA) returns or VAT default surcharges. The review system is often the first opportunity for the taxpayer to provide relevant evidence that they should not have to pay the penalty; in particular, that they have a 'reasonable excuse'. This means that it is inevitable that a significant proportion of reviews/appeals will result in decisions for the taxpayer, usually leading to a penalty being cancelled.

In 2020 to 2021, 81% of reviews were requested by unrepresented taxpayers. In 2019 to 2020, 70% of taxpayers were not represented. This was attributable to a high number of reviews in connection with an avoidance scheme where the taxpayers were professionally represented. The decrease in the upheld rate arose from an increase in those who were able to show they had a reasonable excuse resulting in a penalty charge being removed.

Appeals

Where a dispute cannot be settled by agreement, the taxpayer can appeal to the independent tax tribunal. All appeals are heard by the First-tier Tribunal (FTT). If either the taxpayer or HMRC are dissatisfied with the decision of the FTT then they can appeal to the Upper Tribunal (UT). Decisions made by the UT are appealable through the court system. The tribunals and courts are independent of HMRC and listen to both sides of the argument before making a decision.

In 2020 to 2021 the Tribunal notified us of 3,364 appeals, of which 13% of new appeals related to late payment or late filing penalties and surcharges. As with statutory reviews, the lower number of appeals, compared with the previous year, reflects fewer decisions being issued by HMRC.

In March 2020 the FTT initially cancelled all face-to-face hearings. Throughout the year, we have been working with Her Majesty's Courts and Tribunal Service to conduct hearings remotely by video or telephone. We have supplemented working from home and other remote working arrangements with dedicated video hearing presentation rooms for our staff across HMRC's estate that comply with safety and security requirements. Training and support were quickly put in place for all staff to manage the new working arrangements. We continue to support the use of remote hearings to determine appeals.

Overall hearing numbers have dropped while those new arrangements have been implemented. In 2020 to 2021 3,826 appeals were settled either by formal hearing or by agreement before the hearing.

There were 20,500 appeals in progress on 31 March 2021. Over 15,250 of the appeals to the FTT that are on hand were stood over. This is, generally, where we and the taxpayer have agreed to put the appeal on hold while 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 5,250 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 taxpayers and HMRC.

The success rate recorded in table 14 is calculated as the percentage of hearings where the decision is in our favour or substantive elements of our case succeeded.

The tax protected through litigation in the year was £9.8 billion (£107 billion in 2019 to 2020 - but this was because an appeal was decided in our favour which, if the taxpayer had been successful, could have resulted in us repaying approximately £100 billion to taxpayers). Tax protected is a measure of the tax at risk in litigation where HMRC has successfully defended its decisions. If a specific appeal is challenging an aspect of law that would have implications for a large number of cases then the tax protected figure will include an estimate of this wider tax at risk. Tax protected in any year is usually a reflection of a small number of cases that have a large amount of tax at stake.

HMRC's success rate for all decided appeals across all tribunals and courts was 86% (82% in 2019 to 2020).

Table 14: Data relating to decided appeals for 2020-21

	2020-21					2019-20				
	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	**1052**	**53**	**3**	**17**	**5**	**1,907**	**49**	**3**	**18**	**4**
Decision for HMRC	855	42	3	11	1	1,465	34	1	9	2
Decision where substantive elements of HMRC's case succeeded	50	2	0	3	1	119	3	1	0	0
Decision for customer	147	9	0	3	3	323	12	1	9	2
HMRC success rate	86%	83%	100%	82%	40%	83%	76%	67%	50%	50%

Included in the figures above were decisions issued in a total of 38 (33 in 2019 to 2020) cases involving or related to tax avoidance, with 35 (26 in 2019 to 2020) decided wholly or partially in HMRC's favour - protecting tax revenue of around £1.7 billion (£1.7 billion in 2019 to 2020).

Tax Settlement Assurance Programme

Since 2013, we have reviewed a small sample of settled civil compliance cases to test whether we have met our own case quality standards and governed decisions relating to disputes correctly, including testing adherence to internal processes such as customer service requirements. We do this as part of our overall assurance programme to help drive continuous improvement in our management of tax disputes.

We test to ensure the assurance process is effective in providing a current view. We have compared the results for 2 financial years 2020 to 2021 and, 2019 to 2020 and the results are shown below.

The managers of compliance caseworkers act as the first line of defence when it comes to assuring the quality of their teams' casework. Customer Compliance Group's (CCG) Assurance Team, a specialist team, independent of operational casework, then undertakes testing to ensure caseworkers and managers are correctly adhering to the relevant processes and governance.

In 2020 to 2021, 401 settled cases were reviewed, a reduction from the 604 cases reviewed in 2019 to 2020. This reduction is attributed to COVID-19 homeworking conditions and the need to reprioritise key deliverables. The cases reviewed still provide solid evidence of casework compliance activity across each CCG directorate and tax regime. Internal Audit has positively validated CCG's Assurance Team's methodology and results.

The 2020 to 2021 results are as follows:

- 36% of the cases reviewed met or exceeded our required governance and quality standards
- 54% fell short of our governance and quality standards, with no financial impact on the customer
- 10% fell short of our governance and quality standards with a financial impact. Of the 42 cases, 11 were identified where the taxpayer had paid too much tax and corrective actions have since been taken.

The following table provides a comparison of results across the 2 years.

Table 15: 2 Year Annual Comparison of TSAP Findings

Number of cases	2020-21	2019-20
	401*	604
Met or exceeded	36% (146 cases)	36% (217 cases)
Fell short	54% (215 cases)	54% (327 cases)
Fell short with a financial impact	10% (40 cases)	10% (60 cases)

* Only includes settlements up to September 2020

In addition to authorisations, a small number of the largest risks require governance at one of the dispute resolution boards (the remits of the DRBs are summarised in the relevant section of the TAC report). The Tax Settlement Assurance Programme monitors whether cases have been decided through the correct governance board, and where cases do not require a referral to a formal case governance board, ensure the settlement was authorised at the appropriate level.

The following table provides a comparison of results across the 2 years.

Table 16: 2 Year Annual Comparison of Governance and Authorisation

	2020-21	2019-20
Settlement authorised at appropriate level	87% (215 out of 248 cases)	90% (319 out of 356 cases)
Correct governance followed, where required	83% (10 out of 12 cases)	85% (23 out of 27 cases)

The themes that we quality assure often matter less to our customers than to HMRC, but nevertheless these results are disappointing, with no improvements evident in 2020 to 2021 from the previous year. To improve results and enhance the professionalism of our compliance casework, we launched in July 2020 a single set of Compliance Professional Standards (CPS), aligned to the HMRC Charter, and we are strengthening our controls and assurance activities. The CPS provide the focus for our training and for building capability, and we will use them to measure and evaluate the quality of our performance, including how responsive we are to our customers. Where shortcomings or gaps in performance are identified, through our assurance activity for example, we will use them to drive improvements to how we work with our customers.

Also, in 2021 to 2022 we are refocusing TSAP to enhance the assurance of our casework. The programme will continue to review settled civil compliance cases to test whether we have met our own standards, and will now:

- focus on the governance and customer impact aspects of compliance case working, which will provide a more detailed understanding of this area of our casework
- move to a bi-annual approach of testing cases settled in the last 6 months, which will retain a real time look but also allow time between review periods to address and respond to issues, as well as share best practice
- report outcomes at a theme level, rather than singular case outcomes, which will provide a balanced view of where we are doing well, and enable targeted improvement action across our casework operation
- review quality and customer experience elements, including testing adherence to the CPS, through improvements to our other assurance activities

Staff and remuneration report

This report provides details on our workforce performance measures and the costs of our staff and leadership team.

Our workforce has been a vital part of the UK's national resilience and crisis response capability during 2020 to 2021. We are proud of our people, whether they have been or are administering COVID-19 support schemes, helping traders get ready for the end of the UK's transition period with the EU, or keeping our core activities on track in the face of changing and challenging conditions.

Supporting our people's wellbeing

The pandemic highlighted the importance of wellbeing and we responded quickly to deliver policies and programmes aimed at making HMRC a better place to work. During 2020 to 2021 we increased measures to support the physical and mental health of our people. These included:

- enhancing mental health and wellbeing support service access through a new wellbeing app to support physical and mental health for colleagues working from home or in the office
- training an additional 69 colleagues as Mental Health Advocates
- a Winter Wellness campaign, including themed weeks, support, signposting and colleague-to-colleague sharing of stories and wellbeing tips
- delivering more than 1,000 COVID-19 workshops, including bespoke workshops for colleagues dealing with complex and sensitive calls from customers and offering confidential wellbeing and resilience workshops, facilitated by a psychotherapist, for colleagues working on COVID-19 support schemes
- introducing a new Occupational Health Service phone line for advice on COVID-19
- offering flu vaccinations to colleagues not eligible for the free NHS vaccination
- taking part in the Mind 'Workplace Wellbeing Index' for 2021
- supporting colleagues following the publication of the Public Health England COVID-19 Racial Disparity Report

Health and safety

The health, safety and wellbeing of our employees is paramount. Our managers and employees are supported by comprehensive health and safety arrangements and guidance, with access to in-house and third-party clinical professionals and advice. In response to the COVID-19 pandemic we took a number of actions, including:

- publishing an organisational COVID-19 secure risk assessment to enable most colleagues to work from home and ensure all our workplaces were COVID-19 secure
- developing a COVID-19 secure office risk assessment template, enabling completion of individual assessments for all HMRC buildings, and a COVID-19 serious incident protocol, allowing us to respond swiftly where suspected or confirmed COVID-19 cases were reported
- providing COVID-19 safe workplaces for colleagues who needed to continue working from the office. This included detailed processes and protocols for working safely, enhanced cleaning, employee reporting of potentially unsafe conditions or behaviours and contributions to the 'Smarter Working in a Modern Civil Service' suite of documents
- assuring our new regional centres followed strict COVID-19 protocols, including reviewing our process for building fabric changes to ensure they were applicable to our recently constructed buildings
- delivering more than 3,000 specialist chairs to employee homes and funding workstation equipment to enable home working
- developing and launching of new 'Display Screen Equipment - Using mobile devices safely' e-learning products, to support colleagues working in different environments, with more than 28,000 employees completing it by 31 March 2021
- streamlining our health and safety accident reporting process to provide detailed insight on COVID-19 and musculoskeletal and stress related incidents
- reviewing our mandatory health, safety and wellbeing learning products to ensure they are fit for purpose
- managing health and safety risks at the new inland border facilities, opened to support trade following the end of the UK's transition period with the EU

Health and safety incident reporting

Our people are encouraged to report all accidents or instances of work-related ill health, with reports going to directors to highlight trends and inform our health and safety performance.

We published refreshed guidance during 2020 to 2021 for reporting and investigating incidents. The number of all incidents reported reduced by 62.7% from last year (964, down from 2,586 in financial year 2019 to 2020).

Employers are required to report incidents in specific categories to the Health and Safety Executive, under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDOR). There was a decrease of 34% in 2020 to 2021 (25 RIDDOR incidents, compared to 38 in 2019 to 2020).

See table 17 for a full breakdown of these incident reports.

Table 17: Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013 (Northern Ireland 1997): reports to the Health and Safety Executive

	2020-21	2019-20
RIDDOR incidents		
Specified injuries to workers	0	10
Occupational diseases	2	0
Fatal injuries	0	0
Dangerous occurrences	0	4
Over three-day incapacitation of worker (Northern Ireland)	2	1
Over seven-day incapacitation of worker	21	22
Non-fatal accidents to non-workers	0	1
Total	**25**	**38**
Non-RIDDOR incidents		
Stress	498	799
Slips/trips/falls	31	343
Violence and verbal abuse	134	216
Environmental	20	249
Road traffic accident	22	205
Bite (animal/insect)	3	25
Burns	6	100
Collision with a moving/fixed object	37	178
Cut	11	71
Manual handling	3	38
Exposure to hazardous substances	0	16
Asbestos, lead, ionising radiation	12	32
Noise[1]	11	24
Electrical	13	37
Musculoskeletal	131	114
Other[2]	32	139
Total	**964**	**2,586**

1 The Acoustic category has been renamed Noise.

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

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. The AWDL for the financial year 2020 to 2021 was 5.78, this was a decrease on the annual days lost for the financial year 2019 to 2020 which was 7.48.

Equality, diversity and inclusion

Our vision, values, strategic objectives and HMRC Charter describe the type of organisation we want to be - one that treats customers and colleagues fairly, protects society from harm and makes HMRC a great place to work. We ask every colleague to live our values every day, in every decision they make.

Our published equality objectives describe how we will continue making HMRC a more inclusive, respectful and representative organisation by: ensuring our processes are fair, supporting colleagues and future leaders to develop the knowledge and behaviours we expect, strengthening inclusion frameworks across the department, and communicating our expectations and challenges. We are improving the quality and transparency of our colleague diversity data and gathering qualitative insight to inform our evidence-based approach.

+ Read our equality objectives for 2020 to 2024 at:
www.gov.uk/government/publications/hmrc-equality-objectives-2020-to-2024/hmrc-equality-objectives-2020-to-2024

Equality, diversity and inclusion highlights

We have:

- achieved recognition as one of the top 50 employers in the 2020 Social Mobility Employer Index
- achieved leader status in the government's Disability Confident Employer scheme
- developed an award-winning inclusive design guide to help us achieve accessible and inclusive workspaces
- increased the transparency of our diversity information, for colleagues across HMRC to use to inform decision-making and target and measure improvements
- continued to involve our 9 staff diversity networks and consultation groups in providing information and support to colleagues, feedback on policies and processes and insight into the employee experience
- continued to benefit from our ExCom Diversity Champions visibly demonstrating our commitment to equality, diversity and inclusion activities at the highest level
- developed national and local programmes of work to build an inclusive and respectful culture, a representative workforce, to challenge unacceptable behaviour in the workplace and support the next generation of HMRC leaders

Diversity data

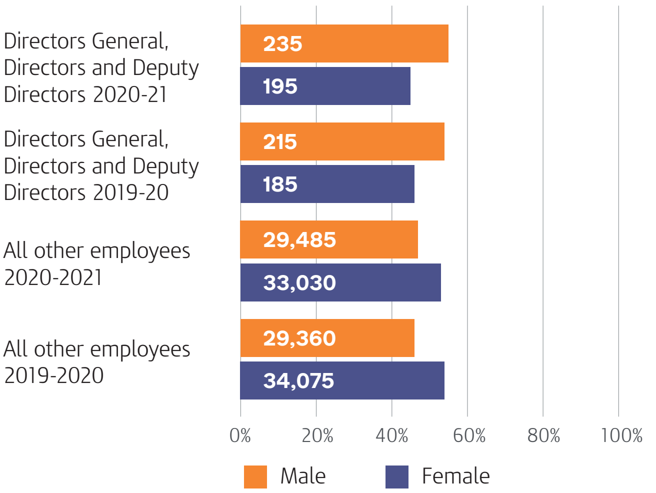
We publish data on gender, ethnicity, disability and sexual orientation internally and externally in our annual report on compliance with the public sector equality duties, alongside information on how we are making HMRC a great place to work by becoming more inclusive, respectful and representative.

Our report on our compliance with the public sector equality duties 2020 to 2021 will provide further detail on staff composition of underrepresented groups over time, including at a senior management level, as well as the steps we are taking to overcome identified barriers and improve the diversity and inclusiveness of our workforce.

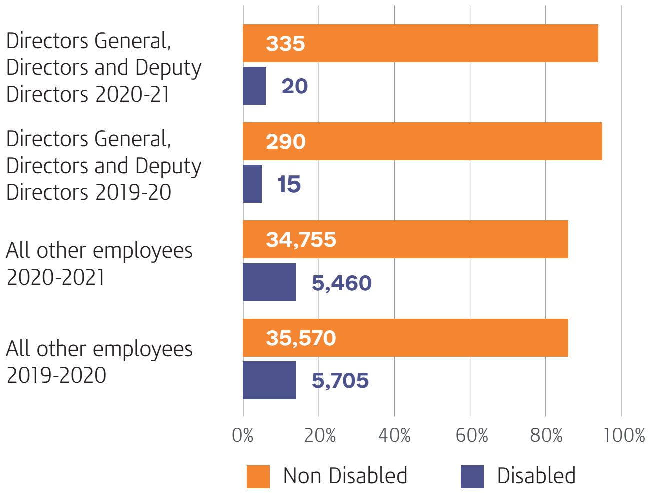
+ Read our latest public sector equality duties report at: **www.gov.uk/government/collections/equality-and-diversity#equality-act-2010**

Figure 18: Diversity characteristic figures and percentages

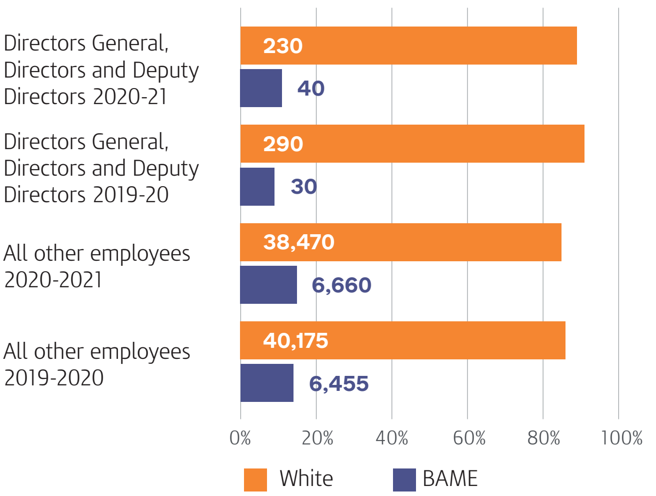
Male and female employees



Declared disability status of employees

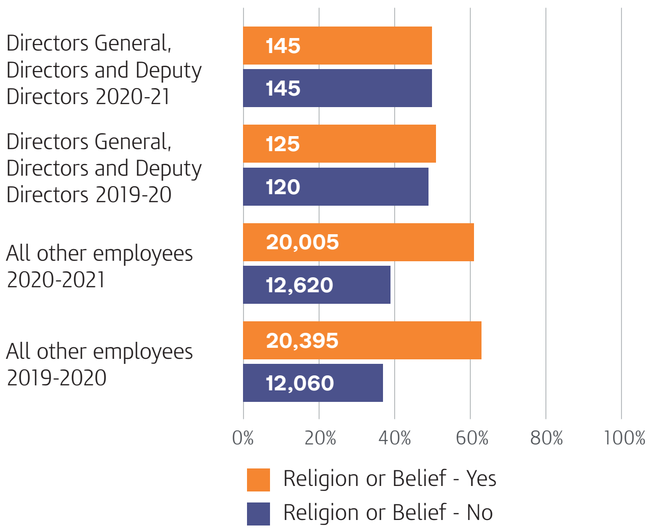


Declared ethnicity category of employees

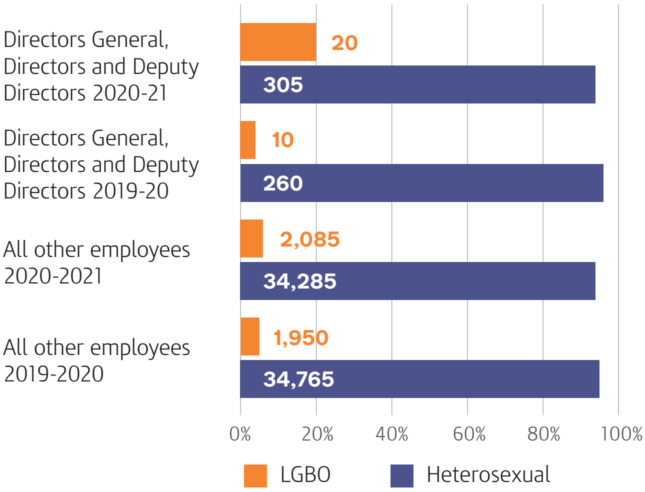


'BAME' = 'Black, Asian & Minority Ethnic' groups. It is an aggregate category that includes colleagues who declared their ethnicity as Black, Asian, Chinese or mixed ethnic background. White ethnic minority backgrounds are not included in this data category.

Declared religion belief status of employees



Declared sexual orientation category of employees



'LGBO' = 'Lesbian, Gay, Bisexual and Other'. It is an aggregated category that includes people who declared their sexual orientation as gay man, gay woman/lesbian, bisexual or 'other'.

N.B. Workforce diversity characteristics other than sex are voluntarily reported by colleagues and the declaration rate varies by characteristic. Data reported below exclude colleagues who have not declared diversity information.

Directors general are grade SCS3, directors and deputy directors are grades SCS2 and SCS1. Our diversity characteristic figures and percentages are calculated using headcount figures. Due to different reporting methods, the total reported here for SCS may not correspond with the detail published elsewhere.

Gender pay gap

In 2019 to 2020 we reduced our mean gender pay gap to 4.4% (from 7.2%) and our median gender pay gap to 5.9% (from 9.3% in 2018 to 2019). We are led by insight and increasingly use diversity data to inform our decision making and action plans. Our pay gap is related to the distribution of women through our workforce. Increasing the representation of women in senior roles has reduced our gap.

While our gender pay gap is considerably smaller than the 2020 UK average gender pay gap of 15.5%, we remain committed to reducing it further, through continuous improvement of our policies and processes and talent development.

+ Read our latest gender pay gap report at: **www.gov.uk/government/publications/hmrc-and-valuation-office-agency-gender-pay-gap-report-and-data-2020/hmrc-and-valuation-office-agency-gender-pay-gap-report-and-data-2020**

Our approach to whistleblowing

We remain committed to ensuring the highest standards of conduct in all we do. Our whistleblowing policy and guidance supports people who wish to raise a concern if they suspect wrongdoing. The way we manage whistleblowing is monitored by our Executive Committee and Audit and Risk Committee, and we continue to provide summary data to the Public Accounts Committee and the Cabinet Office.

In the financial year 2020 to 2021, 15 relevant whistleblowing concerns were raised under our policy, a significantly lower number to previous years (47 received in 2019 to 2020, an increase in one previously reported). The reduction in whistleblowing concerns may be as a result of changes in our lives and workplaces as a result of COVID-19, as we have also seen a reduction in the number of grievances raised in this period. Of the 15 cases raised, we investigated and closed 13 in the same financial year. We also concluded 23 cases which had been raised in financial year 2019 to 2020, and 2 cases that were raised in financial year 2018 to 2019.

At the start of the year, we set an ambition to develop a stronger 'speak up' culture following Laura Whyte's independent Respect at Work review (see pages 79 to 80), which said we could do more to create a safer environment. We continue to do everything possible to support whistleblowers and progress cases quickly. We have data that enables us to identify trends. We have taken a number of steps to improve our approach, including:

- improving the quality and accessibility of our intranet guidance and internal communication on whistleblowing, including publishing a new 'How do I report a concern?' intranet page in February 2021
- developing a network of key stakeholders, focusing on a collaborative 'communications' approach to speaking up
- participating in the cross-government 'Speak up' week, liaising with other government departments and participating in Cabinet Office whistleblowing events, to share expertise and best practice
- holding a training event for nominated officers to support whistleblowing and quarterly dial-ins for them to share best practice

Staff numbers

HMRC's departmental group - including Revenue and Customs Digital Technology Services Ltd (RCDTS Ltd) and the Valuation Office Agency (VOA) - had 61,860 full-time equivalent (FTE) employees at the end of financial year 2020 to 2021. This included 57,785 in HMRC, 768 in RCDTS Ltd and 3,307 in VOA.

COVID-19 and UK transition redeployments

During 2020 to 2021 HMRC redeployed a significant number of FTE employees to deliver the government's response to the COVID-19 pandemic, including the Coronavirus Job Retention Scheme, Self-Employment Income Support Scheme and Eat Out to Help Out Scheme, along with a number of easements and pausing debt collection activities.

Most people stayed within their own business group, switching focus from their usual core activity to COVID-19 activity, but in the early phases of the pandemic, we redeployed compliance officers to provide additional telephony support. By March 2021 all compliance officers had returned to compliance activity. The number of employees deployed on COVID-19 activity fluctuated throughout the financial year to match both demand and new schemes becoming operational - reaching a peak of 9,066 in May 2020 and falling to 4,206 by March 2021.

The majority were redeployed to support customer services activities, working at grades AA - EO, in line with the level of activity being undertaken. There were no external redeployments to support the delivery of COVID-19 activity within other government departments.

By the end of 2020 to 2021, we had 8,100 FTE employees funded to support the UK's transition from the EU. These included 1,350 FTE contractors and temporary employees who were directly recruited to support UK transition work.

Recruitment: This year we recruited 6,122 full-time equivalent roles to ensure we have the skills we need in our key strategic locations. This included 5,721 in HMRC, 76 in RCDTS Ltd and 323 in VOA. We recruited 525 FTE from other government departments. Our recruitment this year included additional resources to support the impact of COVID-19 and our transition as we exited the EU.

Leavers and exits: In 2020 to 2021, 3,573 (turnover 5.6%) full-time equivalent employees left HMRC's departmental group through natural wastage, where they chose to resign or retire, which includes transfers to other government departments. This included 3,363 (turnover 5.8%) in HMRC, 49 (turnover 6.3%) in RCDTS Ltd and 170 (turnover 5.8%) in VOA.

As our colleagues move to regional centres, and we begin to share accommodation and work more closely with other government departments, we are expecting to see transfers to those other departments increase. The Civil Service encourages the development of careers and pooling of knowledge and talent across departments.

In the financial year 2020 to 2021, we forecast 2,839 people would leave under voluntary or compulsory exit schemes as part of the office closures programme. However, our response to the pandemic showed us we were able to work more flexibly, and this enabled us to offer new opportunities to some people, reducing our overall exits by 490.

The above figures are based on 692 leaving in 2020 to 2021 funded from 2019 to 2020 (682 voluntary redundancies and 10 compulsory redundancies), 1,863 leaving in 2020 to 2021 funded from 2020 to 2021 (all voluntary redundancies) and 266 leaving in 2021 to 2022 funded from 2019 to 2020 (70 voluntary redundancies) and 2020 to 2021 (129 voluntary redundancies and 67 compulsory redundancies).

There were 918 people who submitted flexible working requests, 503 accepted offers (either designated homeworking or flexible working arrangements) and 427 withdrew their requests, with one person still to decide.

Average number of persons employed[1]

Table 18: Average number of full-time equivalent persons employed

	Permanently employed staff		Others		2020-21 Number	2019-20 Number
	Operational	Capital[2]	Operational	Capital[2]	Total	Total
Core department	56,835	658	234	-	57,727	58,454
Valuation Office Agency	3,040	-	191	-	3,231	3,282
Revenue and Customs Digital Technology Services Limited[3]	190	585	21	113	909	915
Departmental group total	**60,065**	**1,243**	**446**	**113**	**61,867**	**62,651**

1 This section has been subject to external audit.
2 Capital relates to staff building capital assets.
3 The value published in 2019 to 2020 omitted the disclosure of 9 staff.

Our workforce across the UK

We employ thousands of people across the UK, with new regional centres in cities like Edinburgh, Glasgow, Cardiff and Belfast providing high quality jobs with excellent long-term career prospects. The percentage of our workforce based in Northern Ireland and Wales will not change as a result of our locations programme.

Northern Ireland

3%

Head count: c2,000

This is consistent with Northern Ireland having 3% of the UK population.

Scotland

12%

Head count: c7,700

Scotland has 12% of HMRC's total workforce, significantly higher than the 8% of the UK's population who live in Scotland.

Wales

7%

Head count: c4,100

This is significantly higher than the 5% of the UK's population who live in Wales.

+ For more information on devolution and the Union, please go to page 92
+ For more information on our locations programme, please go to page 84

Strategic workforce planning

We developed a strategic workforce planning model which focuses on the skills and capabilities we need to deliver our objectives.

While our short to medium term planning continues, we had to pause our strategic approach as we moved our people promptly to other work areas in response to COVID-19. After this work has stabilised, we plan to develop a case study to fully test the benefits of our workforce planning model. We will review our current processes to streamline our approach to workforce planning. We are segmenting our people into standardised job families, which we will use to gather data on skills and capability, so we can develop strong succession plans and career pathways.

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.

Table 19: The costs of persons employed during the year

			2020-21	2019-20
	£m	£m	£m	£m
	Permanently employed staff	Others	Total	Total
Wages and salaries	2,038.0	26.9	2,064.9	1,961.7
Social security costs[2]	198.8	1.0	199.8	194.1
Other pension costs	508.3	2.9	511.2	500.6
Sub-total	**2,745.2**	**30.7**	**2,775.9**	**2,656.4**
Less recoveries in respect of outward secondments	(2.5)	-	(2.5)	(2.6)
Total net costs	**2,742.7**	**30.7**	**2,773.4**	**2,653.8**

[2] Social security costs include the Apprenticeship Levy which is £9.9 million for 2020 to 2021 (2019 to 2020: £9.8 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[3].

Table 20: Reconciliation to staff costs in the Resource Account

	2020-21	2019-20
	£m	£m
	Total	Total
Total net costs	**2,773.4**	**2,653.8**
Recoveries in respect of outward secondments	2.5	2.6
Less net costs charged to capital budgets	(38.8)	(30.2)
Sub-total	**2,737.1**	**2,626.2**
Travel, subsistence and hospitality	13.3	66.7
Recruitment and training	23.1	30.8
Early severance schemes	4.8	11.6
Staff and related costs in Consolidated Statement of Comprehensive Net Expenditure (page 210)	**2,778.3**	**2,735.3**

[1] This section has been subject to external audit.

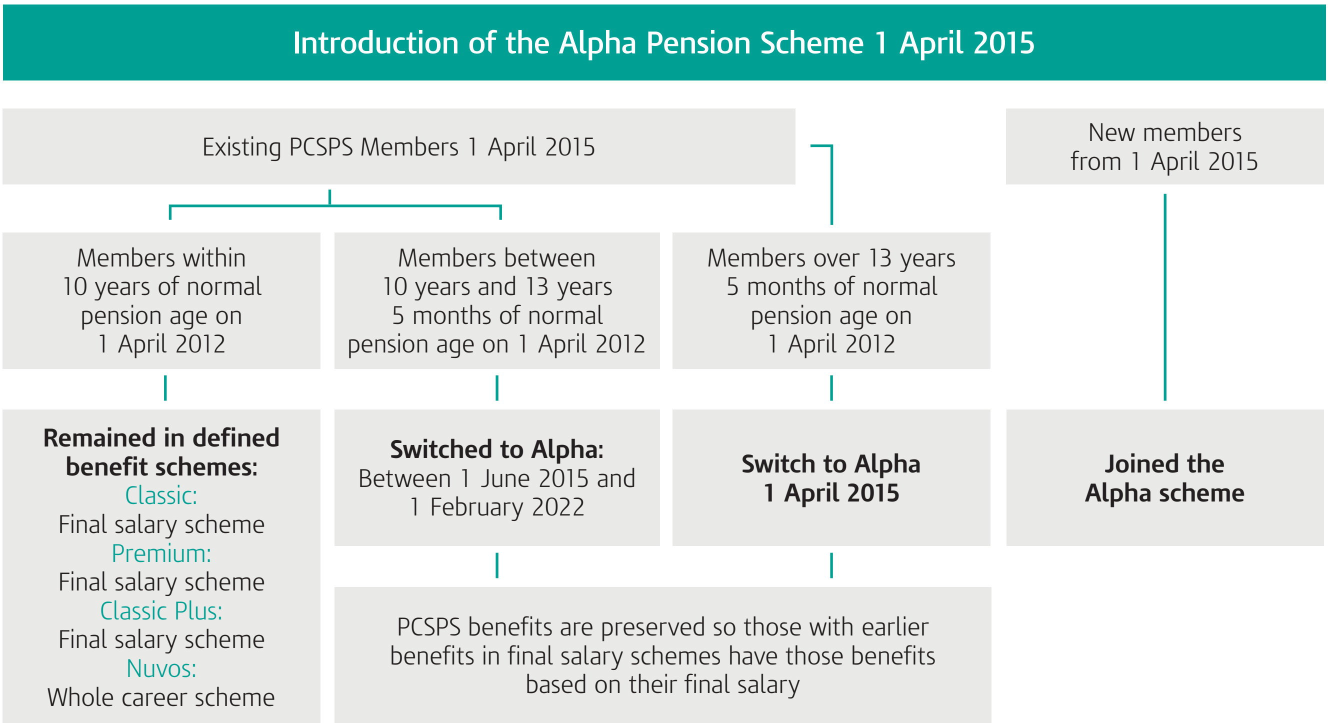
[3] Capital spend reflects time spent building capital assets.

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:

Figure 19: Movement of Civil Service Pension Scheme members since introduction of Alpha Pension Scheme



Following the Court of Appeal judgment in December 2018, the government has been working to fix the discrimination identified in the policy of transitional protection that was part of the 2015 reforms to public service pension schemes.

A public service pension schemes consultation opened on 16 July 2020 and closed on 11 October 2020. The consultation explained how the government's 2 proposed options for removing discrimination between scheme members would work and set out proposals for moving all active members into the reformed schemes after this period. Members who have joined 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. Our share of underlying assets and liabilities are not identifiable.

The scheme actuary usually reviews contributions every 4 years, following a full scheme valuation. The scheme was last valued as at 31 March 2016. The current valuation has been delayed by HM Treasury which directed that the cost control mechanism should be paused. You can find details in the resource accounts of the Cabinet Office: civil superannuation.

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.

Table 21: 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 financial year 2020 to 2021, employers' contributions of £505,278,255 were payable to PCSPS and CSOPS (2019 to 2020: £494,695,745) at one of 4 rates in the range 26.6% to 30.3% of pensionable earnings, based on salary bands. Contribution rates are set to meet the cost of benefits accruing for 2020 to 2021, to be paid when the member retires and not benefits paid in 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 2020 to 2021, employers' contributions of £2,997,022 (2019 to 2020: £2,690,070) were payable for partnership stakeholder pensions. Employer contributions of £123,804 (2019 to 2020: £111,002) were payable to the PCSPS for centrally-provided risk benefit cover.

53 individuals (2019 to 2020 58 individuals) retired early on ill-health grounds, the total additional accrued pension liabilities in the year amounted to £223,794 (2019 to 2020: £254,739).

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

+ Read more about Civil Service pension arrangements at **www.civilservicepensionscheme.org.uk**

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 financial year 2020 to 2021 were £619,864 (2019 to 2020: £634,499).

+ Read full information about VOA employee contributions in the VOA annual report and accounts: **www.gov.uk/government/organisations/valuation-office-agency**

Revenue and Customs Digital Technology Services Ltd

Revenue and Customs Digital Technology Services Ltd has a contract-based defined contribution pension scheme, administered by Aviva plc and overseen by RCDTS Ltd Board. Contributions into this scheme for 2020 to 2021 were £2,300,991 (2019 to 2020: £2,128,159). A number of RCDTS Ltd people have contractual rights to the Principal Civil Service Pension Scheme under Fair Deal policy. RCDTS Ltd has Admitted Bodies status into the scheme, managed by the Scheme Management Executive in Cabinet Office. Contributions into this scheme for 2020 to 2021 were £456,943 (2019 to 2020: £411,496).

+ Read details of the salary and pension benefits for members of HMRC's Executive Committee in the Remuneration report for senior civil servants, starting on page 174

Exit packages[1]

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service compensation scheme, a statutory scheme under the Superannuation Act 1972. Exit costs are accounted for in full in the year in which the obligation becomes binding on HMRC. 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 include departures of members of the Local Government pension scheme. Their compensation arrangements are outside the scope of the Civil Service compensation scheme. The cost of 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.

+ Read full details about Valuation Office Agency (VOA) staff exit packages in the VOA annual report and accounts: **www.gov.uk/government/organisations/valuation-office-agency**

Table 22: Exit packages 2020-21[2]

Exit package cost band	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band	
	2020-21	2019-20	2020-21	2019-20	2020-21	2019-20
<£10,000	2	7	75	73	77	80
£10,000 - £25,000	62	48	642	383	704	431
£25,000 - £50,000	3	3	819	570	822	573
£50,000 - £100,000	–	–	452	205	452	205
£100,000+	–	–	63	9	63	9
Total number of exit packages	**67**	**58**	**2,051**	**1,240**	**2,118**	**1,298**
Of which:						
Core Department and Agency	67	58	2,051	1,240	2,118	1,298
Revenue and Customs Digital Technology Services Limited	–	–	–	–	–	–
Total number of exit packages	**67**	**58**	**2,051**	**1,240**	**2,118**	**1,298**
Total resource cost (£000s)	**976**	**853**	**80,696**	**42,079**	**81,672**	**42,932**
Of which:						
Core Department and Agency	976	853	80,696	42,079	81,672	42,932
Revenue and Customs Digital Technology Services Limited	–	–	–	–	–	–
Total resource cost (£000s)	**976**	**853**	**80,696**	**42,079**	**81,672**	**42,932**

1 These disclosures have been subject to external audit.

2 The prior year figures in the 2019 to 2020 published account showed other departures agreed as 1,276 with a total resource cost of £44,467 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.

People off-payroll

Reforms to legislation on intermediaries (IR35) in 2017 changed the rules for people working off-payroll in the public sector, moving the obligation to determine tax status from the contractor to the engager. We continue to comply with these rules, determining the employment status of our contractors and conveying these views to our suppliers. Details of our contractors, including those from the Valuation Office Agency (VOA) and Revenue and Customs Digital Technology Services Limited (RCDTS) are provided in Tables 23 and 24.

The off-payroll appointments reported in Table 23 below exclude those paid less than £245 a day. Formerly, they also excluded those of less than 6 months' duration. However, HM Treasury guidance this year means that appointments of any duration should be included in Table 23, as well as Table 24, resulting in an increase over previous years in the numbers of appointments reported.

Our compliance with the off-payroll legislation is demonstrated in the figures reported in Table 24, which shows that we have determined the IR35 status of all the relevant off-payroll workers engaged during the year and that a significant number were reassessed during the year for continued compliance/assurance purposes.

Table 23: Temporary off-payroll worker engagements as at 31 March 2021[1]

	HMRC	RCDTS	VOA
Number of existing engagements as of 31 March 2021	**338**	**45**	**2**
Of which:			
Number that have existed for less than one year at time of reporting	256	44	2
Number that have existed for between one and two years at time of reporting	46	1	–
Number that have existed for between two and three years at time of reporting	28	–	–
Number that have existed for between three and four years at time of reporting	4	–	–
Number that have existed for four or more years at time of reporting[2]	4	–	–

Table 24: All temporary off-payroll workers engaged at any point during the year ended 31 March 2021[1]

	HMRC	RCDTS	VOA
Number of off-payroll workers engaged during the year ended 31 March 2021[3]	**403**	**60**	**5**
Of which:			
Number determined as in-scope of IR35	15	2	5
Number determined as out-of-scope of IR35[3]	388	58	–
Number of engagements reassessed for compliance or assurance purposes during the year	230	57	1
Of which: Number of engagements that saw a change to IR35 status following review	–	–	–
Number of engagements where the status was disputed under provisions in the off-payroll legislation	–	–	–
Of which: Number of engagements that saw a change to IR35 status following review	–	–	–

1 Includes all off-payroll engagements, of whatever duration and regardless of whether affected by the off-payroll rules.

2 Relates to individuals with specialist IT skills, not available in-house or on the open market, who are supporting critical business activity as part of our UK transition work supporting the movement of goods at the border.

3 Follows last year policy footnote to include engagements through umbrella companies.

Table 25: Board members and/or senior officials with significant financial responsibility, between 1 April 2020 and 31 March 2021

	HMRC	VOA
No. of off-payroll engagements of board members, and/or, senior officials with significant financial responsibility, during the financial year.	1	0
Total no. of such individuals, including both on payroll and off-payroll engagements.	98	7

Contractor vetting

Maintaining the right sized workforce, including our suppliers, and particularly this year the ancillary personnel to deliver the UK's transition from the EU, as well as the COVID-19 pandemic services, added pressure to HMRC's personnel and supplier security processes.

All personnel, including suppliers, must undergo appropriate screening and ongoing personnel security procedures. Risk management and audit work identified some vulnerabilities in controls, with associated weaknesses in accountability and governance.

A dedicated and specialised programme is subsequently underway to improve the internal control framework which in parallel with government-wide vetting reform and enhanced strategic risk mitigation, is delivering immediate and sustainable longer-term improvements to the way HMRC approaches and manages people risk.

Consultancy and temporary employees

We use professional service providers to help with specialist work - including consultancy, contingent labour (temporary workers), legal advice, translation, interpretation and research services. We limit the use of these to times when we do not have the necessary skills internally, or where we require an independent external expert opinion on a complex issue.

External advisers provide us with specialist expertise to help with delivering strategic objectives and major programmes through consultancy contracting frameworks. We also use temporary workers to deploy specialist expertise quickly, drive change and deliver increased efficiency through our managed service provider agreement.

Expenditure on consultancy continues to be controlled robustly via commercial governance procedures, but increased from £1.1 million in financial year 2019 to 2020 to £8.6 million in financial year 2020 to 2021, equating to 0.75% of our annual expenditure on goods and services. This should not be viewed as a trend, but is in light of the end of the UK's transition period with the EU, COVID-19 and the major Technology Sourcing programme agenda we are currently undertaking.

Table 26: Consultancy and contingent labour expenditure in accordance with HM Treasury definitions

	2020-21		2019-20	
	Consultancy	Contingent Labour	Consultancy	Contingent Labour
	£m	£m	£m	£m
HMRC	7.5	82.0	1.1	34.3
VOA	1.1	0.5	–	1.5
RCDTS	–	16.1	–	17.2

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 them. We recognise 2 unions for collective bargaining and staff representation. These are the Public and Commercial Services Union (PCS) and the Association of Revenue and Customs (ARC, a specialist section of the FDA specifically for HMRC). VOA recognises Prospect and the Public and Commercial Services Union (PCS). The arrangements follow principles in the Trade Union and Labour Relations (Consolidation) Act 1992 and codes of Practice issued by the Advisory, Conciliation and Arbitration Service (ACAS) under that legislation.

Table 27: Total number of employees who were relevant union officials during 2020-21

HMRC		VOA	
PCS	1,061	PCS	6
ARC	67	Prospect	4
Total	1,128	Total	10
Full-time equivalent employees	1,043.34	Full-time equivalent employees	9.90

Table 28: Percentage of time spent on facility time

Percentage of time	Number of employees	
	HMRC	VOA
0%	349	0
1-50%	770	8
51-99%	7	2
100%	2	0

For 2020 to 2021, facility time was managed within the Civil Service guidelines of 0.1%.

Due to the challenging nature of the past year, brought about by the COVID-19 pandemic and pay and contract reform, 9 trade union representatives from ARC and PCS have spent more than 50% of their time on trade union duties and some activities. Out of these 9 representatives, the 2 trade union presidents have acted in a 100% trade union role.

This exception to the Cabinet Office framework was agreed to support the critical and continuous role of the trade unions in working collaboratively with HMRC both on the impact of COVID-19, and in the negotiation and implementation of pay and contract reform. VOA granted extra facility time for 2 trade union representatives due to increased demands in relation to COVID-19.

We have reviewed facility time on a regular and individual basis and extended it only where the needs of the business required the level of trade union engagement to continue.

All exceptions to the 50% limit for trade union duties and activities were agreed and signed off by Jim Harra in his role as HMRC First Permanent Secretary.

Table 29: Percentage of paybill spent

	HMRC	VOA	Total
Paybill 2020-2021	£2,467,809,728[2]	£149,121,038	£2,616,930,766
0.1% of paybill	£2,467,810	£149,121	£2,616,931
The total cost of facility time	£2,024,161	£112,300	£2,136,461
Percentage of the total paybill spent on facility time, calculated as (total cost of facility time / total pay) x 100	0.08%	0.08%	0.08%

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

2 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.

In accordance with the Cabinet Office's facility time framework, these figures include all paid time off for union work, comprising general representative duties, limited departmental activities, 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 2020 to 2021, 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 by 30 September 2021: **www.gov.uk/government/publications/trade-union-facility-time**

Remuneration report for senior civil servants

This report 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) comprises senior leaders employed across government, with a common framework of terms and conditions. SCS pay and conditions are not delegated to individual departments. Our SCS performance management system is governed by the Cabinet Office. Recommendations on SCS pay are provided by the independent Review Body on Senior Salaries in an annual report to the Prime Minister. The government responds to its recommendations, and the Cabinet Office sets out the approach departments must follow in SCS pay guidance. 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 and 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 delivery of their 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

As of the 31 March 2021 we have 515 SCS employees. The total number of SCS posts (as opposed to individual employees) was 529.

Table 30: HMRC and VOA Senior Civil Service employee and post numbers[1]

	HMRC	VOA	Total
SCS employee numbers	493	22	515
SCS posts	508	21	529

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

Table 31: HMRC Senior Civil Service employee numbers comparison

Grade	Number at 31 March 2021	Number at 31 March 2020	Percentage change
Permanent Secretary	2	1	100% increase[2]
SCS3	10	9	11% increase
SCS2	62	64	3% decrease
SCS1	399	364	10% increase[3]
On loan/secondment	20	20	0%
Totals	**493**	**458**	**8% increase**

2 The Second Permanent Secretary SCS4 role is not a new role but an existing one. When employee figures were provided as of the 31 March 2020 this position was vacant but has subsequently been filled thereby accounting for the 100% increase.

3 The number of SCS1 roles in HMRC increased by 10% during this period. This was largely due to the exceptional circumstances arising out of the government's COVID-19-related support schemes and the ongoing work in support of UK Transition. Without these additional roles, HMRC's SCS1 population would have increased by 4%.

SCS structure and recruitment

There are 3 levels of senior civil servant below the posts of Permanent Secretary: 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 and wider Civil Service.

A total of 83 HMRC and VOA SCS posts were advertised last year, resulting in appointments of talented individuals from outside the Civil Service and appointments through level moves and promotion into and within SCS from HMRC and across the Civil Service.

Remuneration committee

Our Remuneration Committee, which represents 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. It signs off overall departmental performance group allocations for deputy directors and directors.

The performance of deputy directors and directors is moderated by directors general and for the latter, also by the remuneration committee. Performance of directors general is moderated by permanent secretaries with advice from an independent observer; with performance and award arrangements for permanent secretaries managed by Cabinet Office.

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.

+ Read the fundamental review of the SCS pay framework at: **www.gov.uk/government/publications/government-evidence-to-the-senior-salaries-review-body-on-the-pay-of-the-senior-civil-service**

As an initial step, Cabinet Office pay award guidance for 2020 to 2021 included increased pay flexibilities for the pay award, due on 1 April 2020 which was funded from 2% of the SCS basic paybill:

- uplifts to the minimum salaries of all SCS pay ranges at a cost of 0.1%
- 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 0.9% of the SCS basic paybill

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 £6,000 (SCS1), £9,000 (SCS2) and £12,000 (SCS3) were paid to 409 'Top' performers due on 1 April 2021, for performance from April 2020 to March 2021
- in-year awards ranging from £250 to £5,000 were paid to 203 SCS members based on performance from April 2020 to March 2021

Awards that are above and beyond the control limit of £17,500 limit are agreed in non-standard contracts, in line with the HM Treasury 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 standard policy for SCS notice periods and termination payments 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. 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: **https://civilservicecommission.independent.gov.uk/civil-service-recruitment**

Executive members hold open-ended appointments, 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 compensation payments were made to those in the remuneration report during 2020 to 2021.

Executive Committee (ExCom) and non-executive board members remuneration and pension benefits

The following table provides 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.

Details are shown for each individual, including those who have held more than one role in the year, by their current or last held role. Where service on ExCom has included more than one role, the title and full-year equivalent of the latest role is disclosed.

Pension figures show pension earned in PCSPS or CSOPS (Alpha) as appropriate. Where the official has benefits in both PCSPS and Alpha the figure is the combined value of benefits in the 2 schemes - but note part of the pension may be payable from different ages. 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.

Table 32: 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 (to the nearest £000)		Total (£000)	
Senior officials	2020-21	2019-20	2020-21	2019-20	2020-21	2019-20	2020-21	2019-20	2020-21	2019-20
Jim Harra Chief Executive and Permanent Secretary (from 1 Oct 2019), member of ExCom from 16 Apr 2012	180-185	165-170	15-20	–	–	200	–	–	200-205	165-170
Angela MacDonald Second Permanent Secretary (from 1 Aug 2020), member of ExCom from 7 Aug 2017	150-155	160-165	10-15	10-15	-	200	57	54	215-220	230-235
Penny Ciniewicz Director General Customer Compliance (from 4 Sep 2017), member of ExCom from 20 Jul 2015	140-145	135-140	–	–	–	100	59	47	200-205	185-190
Sophie Dean Director General Borders and Trade, member of ExCom from 2 Dec 2019	85-90[2]	25-30[2] (80-85)	5-10	–	–	–	102	31	200-205	55-60
Katherine Green Director General Borders and Trade, member of ExCom from 2 Dec 2019	85-90[2]	25-30[2] (80-85)	5-10	–	–	100	114	34	210-215	60-65
Alan Evans General Counsel and Solicitor, member of ExCom from 1 Jan 2019	140-145	135-140	–	–	–	300	63	272	200-205	410-415
Justin Holliday[3] Chief Finance Officer, member of ExCom from 9 Mar 2015	165-170	165-170	0-5	–	–	400	85	80	250-255	245-250
Myrtle Lloyd Director General Customer Services, member of ExCom from 22 Feb 2021	10-15 (125-130)	–	–	–	–	–	5	–	15-20	–
Joanna Rowland Director General Transformation (from 16 Nov 2020); Director General COVID-19 Response Unit (Interim) from 7 Aug 2020 to 15 Nov 2020[4]	80-85 (125-130)	–	10-15	–	–	–	33	–	130-135	–
Daljit Rehal Chief Digital and Information Officer, member of ExCom from 14 Sep 2020	105-110 (200-205)	–	–	–	–	–	42	–	150-155	–
Jonathan Russell Chief Executive of the Valuation Office Agency (Interim), member of ExCom from 7 Sep 2020	70-75 (120-125)	–	5-10	–	–	–	–	–	80-85	–
Ruth Stanier Director General Customer Strategy and Tax Design, member of ExCom from 18 Jul 2018	135-140	135-140	–	10-15	–	300	56	140	190-195	290-295
Esther Wallington Chief People Officer, member of ExCom from 1 Dec 2016	120-125[5]	125-130[5]	–	–	–	200	48	49	170-175	170-175
Mark Denney[6] Chief Digital and Information Officer (Interim), member of ExCom from 11 Nov 2019 to 14 Sep 2020	245-250 (525-530)	210-215 (525-530)	–	–	–	100	–	–	245-250	210-215
Karl Khan Director General Customer Services (Interim), member of ExCom from 3 Aug 2020 to 28 Feb 2021	70-75 (125-130)	–	5-10	–	–	–	59	–	140-145	–
Melissa Tatton[3] Chief Executive of Valuation Office Agency from 4 Sep 2017 to 6 Sep 2020; Director General COVID-19 Response Unit to 6 Aug 2020	65-70 (145-150)	140-145	10-15	10-15	–	200	25	55	100-105	210-215

Pension Scheme	Accrued annual pension at pension age and related lump sum (£000) as at 31 March 2021[7]	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 2021[7]	as at 31 March 2020[8]	Real increase	Employer contribution to partnership pension account (to the nearest £100)
Partnership Pension Account from 1 Nov 2018	–	–	–	–	–	27,100
Alpha	30-35	2.5-5	428	372	30	
Alpha	45-50 (Lump sum 115-120)	2.5-5 (Lump sum 0-2.5)	984	908	40	
Alpha	25-30	5-7.5	417	328[9]	71	
Alpha	25-30 (Lump sum 55-60)	5-7.5 (Lump sum 10-12.5)	446	353	76	
Alpha	65-70	2-5.5	1,173	1,080	41	
Alpha	75-80	2.5-5	1,210	1,111	52	
Alpha	35-40	0-2.5	557	554	2	
Alpha	15-20	0-2.5	196	167	15	
Alpha	0-5	2.5-5	35	–	26	
Partnership Pension Account	–	–	–	–	–	12,700
Alpha	55-60	2.5-5	895	830	31	
Alpha	30-35	2.5-5	342	300	22	
	–	–	–	–	–	
Alpha	35-40 (Lump sum 70-75)	2.5-5 (Lump sum 2.5-5)	686	617	45	
Alpha	55-60 (Lump sum 120-125)	0-2.5 (Lump sum 0-2.5)	1,068	1,047[10]	15	

1 This section has been subject to external audit.

2 The full-time equivalent salary is £125,000-£130,000 (2019 to 2020 £115,000-£120,000). Sophie Dean and Katherine Green job share, working part-time hours (0.7 FTE each).

3 Justin Holliday also assumed the role of Tax Assurance Commissioner from Melissa Tatton on 4 August 2020.

4 COVID-19 Response Unit role was subsumed into Transformation from 16 Nov 2020.

5 The full-time equivalent salary is £135,000-£140,000 (2019 to 2020: £135,000-£140,000). Esther works part-time hours 0.9 FTE.

6 Mark Denney was engaged on a temporary basis through the Crown Commercial Service public sector resourcing framework.

7 Unless stated otherwise, values reported are as at 31 March 2021 or the date the individual ceased to be a member of ExCom where earlier.

8 Unless stated otherwise, values reported are as at 31 March 2020 or the day before the individual was appointed to ExCom where later.

9 The prior year CETV figure has been recalculated due to Alpha Added Pension contributions.

10 The prior year CETV figure has been recalculated due to revision to adjustment factors used in the calculation.

Explanatory notes for tables 32 and 33

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 that it is subject to UK taxation.

Bonus payments

Bonus payments are paid while serving on ExCom for exceptional work in 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 HMRC and treated 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 transfer of pension rights. The value of pension benefits can vary year to year due to factors which include the date an individual joined or left, an individual receiving a higher pay increase in one year to another.

Cash equivalent transfer values

The Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV payment is made by a pension scheme (or arrangement) when a member leaves a scheme and chooses to transfer the pension benefit they have accrued in that scheme to secure pension benefits in another pension scheme (or arrangement).

The value shown relates to the benefits the individual has accrued because of their membership of the pension scheme, not just their service in a senior capacity. CETVs are calculated 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.

Non-executive board members single total figure of remuneration

The fees of the external appointees, which include any other allowance that is subject to UK taxation, are detailed below. Non-executive board members are appointed for a fixed term of usually 3 years.

Table 33: Non-executive board members single total figure of remuneration[1]

	Fees (full year equivalent) (£000)		Benefits in kind (to the nearest £100)		Total (£000)	
Non-executive director	2020-21	2019-20	2020-21	2019-20	2020-21	2019-20
Dame Jayne-Anne Gadhia (Lead non-executive and Chair of the Board) 1 Jan 2021 - 31 Dec 2023	5-10 (25-30)	–	–	–	5-10	–
Patricia Gallan 15 Jul 2019 - 14 Jul 2022	15-20	10-15 (15-20)	–	100	15-20	10-15
Michael Hearty 15 Jul 2019 - 14 Jul 2022	20-25	20-25 (25-30)	–	100	20-25	20-25
Alice Maynard[2] 1 Jul 2016 - 30 Jun 2022	25-30	40-45	–	200	25-30	40-45
Paul Morton 15 Jul 2019 - 14 Jul 2022	15-20	10-15 (15-20)	–	100	15-20	10-15
Juliette Scott 21 Nov 2017 - 22 Nov 2023	20-25	20-25	–	100	20-25	20-25
Mervyn Walker (Lead non-executive and Chair of the Board) 1 Sep 2014-31 Dec 2020	15-20 (20-25)	20-25	–	300	15-20	25-30
Simon Ricketts 1 Sep 2014 - 28 Feb 2021	15-20 (15-20)	20-25	–	100	15-20	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.

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. Table 34a reflects the inclusion of Mark Denney who was engaged as interim Chief Digital Information Officer on a temporary fee-paid basis, through the public sector resourcing framework in November 2019. We appointed a permanent Chief Digital Information Officer in September 2020 under Civil Service recruitment rules. Table 34b shows the position as it would be without the temporary appointment of Mark Denney to provide an alternate view of the fair pay ratio.

Table 34a: Fair pay disclosure

	2020-21	2019-20
Highest paid director	£525,000-£530,000	£525,000-£530,000
Highest band of staff remuneration	£200,000-£205,000	£180,000-£185,000
Median Total remuneration	£27,565	£25,917
Lowest band of staff remuneration	£19,500-£20,000	£18,000-£18,500
Ratio	**19.1**	**20.4**

Table 34b: Fair pay disclosure (for comparative purposes only)

	2020-21	2019-20
Highest paid director	£200,000-£205,000	£235,000-£240,000
Highest band of staff remuneration	£200,000-£205,000	£180,000-£185,000
Median Total remuneration	£27,565	£25,917
Lowest band of staff remuneration	£19,500-£20,000	£18,000-£18,500
Ratio	**7.3**	**9.2**

In both 2020 to 2021 and 2019 to 2020, no employees received remuneration in excess of the highest-paid director.

The increase in the median remuneration for 2020 to 2021 largely results from Pay and Contract Reform. In Table 34b, this, together with a reduction in the highest paid director remuneration in 2020 to 2021, has contributed to the decrease in the ratio.

[1] This section has been subject to external audit.

Jim Harra
Accounting Officer
28 October 2021


HM REVENUE
& CUSTOMS

Public, stakeholder and Parliamentary accountability

As a government department, we are accountable to customers, stakeholders and external scrutiny bodies. We take our responsibility seriously as it's all part of the way we administer tax and payments and work to build public trust.

Recommendations made by external scrutiny bodies

We monitor implementation of recommendations by external scrutiny bodies. The bulk of these for HMRC are made by the National Audit Office, Public Accounts Committee, Treasury Select Committee and Infrastructure Projects Authority.

A central part of the monitoring process is review by the Audit and Risk Committee. Our Chief Executive presents a report to each committee meeting, updating it on the status of recommendations and whether any are overdue. The committee reviews progress and can call responsible directors general 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.

Last year we implemented 86 significant and 49 routine recommendations. A full breakdown is set out below.

Table 35: Significant recommendations made by external scrutiny bodies in 2020-21

External body making recommendation: SIGNIFICANT	Opening balance[1]	New	Closed	Closing balance[2]
Parliamentary and National Audit Office reports	0	0	0	0
NAO[3] Audit recommendations	1	0	1[4]	0
Infrastructure and projects Authority	9	89	85	13
Others[5]	0	0	0	0
Total	**10**	**89**	**86**	**13**

Table 36: Routine recommendations made by external scrutiny bodies in 2020-21

External body making recommendation: ROUTINE	Opening balance[1]	New	Closed	Closing balance[2]
Parliamentary and National Audit Office reports	26	63	25[6]	64
NAO[3] Audit recommendations	3	47	3[4]	47
Infrastructure Projects Authority	4	18	18	4
Others[5]	6	5	3	8
Total	**39**	**133**	**49**	**123**

1 Balance at 1 April 2020.
2 Balance at 31 March 2021.
3 Section 2 audit recommendations and management letter recommendations.
4 These are the recommendations that we consider to be closed; confirmation remains pending from the NAO.
5 Investigatory Powers Commissioner's Office (IPCO), Information Commissioner's Office, Office for Statistics Regulation.
6 Figure includes NAO recommendations that HMRC considers closed, confirmation remains pending from the NAO.

Responding to external opinion

This year we had to re-evaluate how we connect with stakeholders to meet our own and their needs during the COVID-19 pandemic. We retained tried and tested activities with organisations and individuals representing customers (consumer champions, trade unions, bodies representing tax agents, business representative organisations, voluntary and community sector organisations, campaigners and more) but continue to refine the ways we tailor them in a highly virtual world.

We meet our customers and stakeholders in a diverse range of settings, from board-level meetings, forums and roundtables to conferences, consultations and other events. This allows for regular, detailed dialogue to take place between HMRC and our external stakeholders. We also monitor our stakeholders and undertake regular qualitative and quantitative research with customers and stakeholders, allowing us to respond to problems quickly and track changes over time.

Regular forums

We increased the frequency of stakeholder consultative forums, where we regularly work face to face or virtually with groups interested in our policy areas, sharing information and listening to their feedback. This ensures that government is not making policy decisions in isolation, but with expert input from groups with a wide range of perspectives.

Engaging with senior leaders

We increased our engagement this year through roundtable events and one-on-one meetings with senior leaders to strengthen relationships with key stakeholders. We also supported stakeholder events by arranging for senior leaders and spokespeople to speak at their member events. This enabled us to improve our awareness of stakeholder concerns, share our plans and messages, and provide opportunities for us to consult with stakeholders on our approach, while building advocacy among them.

Regular stakeholder communication

With a necessary shift to fast-paced delivery, we delivered an increased schedule of regular stakeholder communications, moving our Stakeholder Digest from monthly publication to a weekly update, to provide stakeholders with the most up to date information from HMRC and other government departments, who we worked closely with in these uncertain times.

Workshops, webinars and other events

We continue to attend external workshops, webinars and trade events to broaden the number of our customers we hear from and provide better access for stakeholders to hear from policy officials.

Engaging with Parliamentarians

We continue to engage regularly with Parliamentarians to help them deal with tax-related enquiries from constituents, and we have adapted our processes to be as digital as possible. While we had to pause our popular drop-in surgeries aimed at resolving HMRC-related cases that MPs would bring in on behalf of any constituents, we promoted a similar service via email, liaising between MPs and our MP hotlines in order to continue to be accessible and get answers to MPs as quickly as possible.

We have continued to provide:

- presentations and resource packs showing the support HMRC offers MPs and their staff
- regular email digests to MPs and their staff, briefing them on the latest policy issues and explaining where they and their constitutions can get advice

Anti-bribery and anti-corruption

HMRC takes a zero-tolerance approach to fraud, bribery and corruption. This is set out in our 'Counter internal fraud, bribery and corruption' policy. This is supplemented with a fraud response plan and strategy, which describe HMRC's response to bribery and corruption threats. HMRC's Chief Finance Officer has day-to-day accountability for the policy, which applies to all our employees, suppliers, contractors and business partners.

Human rights

We have procedures in place to ensure that all our policies and legislation are compliant with the requirements of the Human Rights Act 1998. Our approach is to understand our customers and their needs, treat everyone with respect, recognise that we have privileged access to information (and need to protect that information), and behave professionally with integrity. As part of this, we promote mutual respect and the dignity of the individual.

Sharing our data with others

We collect and process substantial volumes of data as we administer the UK tax system. We share our data, as appropriate, with other public bodies within a strict legal framework. Sharing data helps the government to deliver policies more effectively, such as combating welfare system fraud, recovering public debt and setting the right level of state benefits. Sharing information also helps to inform the design and roll-out of new policies to benefit the public and demonstrate transparency through Official Statistics.

We thoroughly respect and safeguard the confidentiality of data whenever we share it. The way we handle and share data is governed by the Commissioners for Revenue and Customs Act 2005, the Data Protection Act 2018 and the UK General Data Protection Regulation (UK GDPR). We adhere to the Information Commissioner's Office guidance and best practice, and have governance controls to ensure that legality, proportionality and security for new data are checked and approved. We consider known UK GDPR risks (see page 82) and effectively manage any risks associated with data disclosed to other departments or organisations. We also review existing data shares and the accompanying Memorandum of Understanding regularly, to ensure the information remains accurate and up to date.

In 2020 to 2021, we shared HMRC data with a range of departments and devolved administrations, including the Department for Business Energy and Industrial Strategy, the Department for Work and Pensions (DWP), the Office for National Statistics (ONS), the Northern Ireland Department for the Economy and indirectly with local authorities to support the UK's pandemic response. We shared data on individuals from the Coronavirus Job Retention Scheme and Self-Employment Income Support Scheme with DWP, to assist DWP in meeting their business needs and improving public service. Our rapid response to ONS requests provided confidence to their official measures of the UK's economy and Gross Domestic Product in the first part of the economic downturn.

As part of the transition period, following the UK's exit from the EU, we shared information relating to trade which helped the government plan for the UK's future relationship with the EU. We shared 'bulk' data with the Cabinet Office for development of the Border Operation Centre, analysing the flow of individuals, goods and trade at UK borders before the end of the transition period and to support broader capability for long-term development of a world class border. We also shared data on consenting high value traders with Cabinet Office to assist business readiness after the end of the transition period.

Our focus during the pandemic remained on sharing data to support public services and government's immediate responses and support for individuals and businesses. Local and national lockdowns forced HMRC Datalab, our secure research facility, to close from spring to winter 2020, and its research was put on hold. The HMRC Datalab allows external researchers - including academics, other government departments (OGDs) and commercial research groups commissioned by OGDs - to access de-identified HMRC data in a government accredited secure environment. Research projects undertaken must demonstrate contribution to HMRC functions and long-term benefit for HMRC in order to be approved. By mid-November, HMRC Datalab reopened in a COVID-19-secure way, to support access to data and continuing work on previously paused research projects.

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. We have seen a number of instances of unauthorised disclosure during 2020 to 2021, which we have reported to the ICO. We have learnt lessons from these incidents and used these to review and strengthen HMRC's customer identity and authentication processes. Protecting customer data is important to us and we monitor our processes continually to prevent recurrences. In addition, HMRC is delivering enhanced data security, governance and reporting across the department.

Table 37: Summary of protected personal data-related incidents reported to the Information Commissioner's Office, 2020-21

Date of incident	Nature of incident	Nature of data involved	Number of people potentially affected	Notification steps
16.01.2020	Personal information used to make changes to customer records on HMRC systems without authorisation[1]	Basic personal identifiers e.g. name, contact details	326	Impacted customers informed
26.03.2020	An office move resulted in a locked pedestal being forced open and the personal content subsequently lost[1]	Basic personal identifiers e.g. name, contact details, racial or ethnic origin, religious or philosophical beliefs, historic papers	1	Impacted customer already aware
21.04.2020	A customer made a SARs request for information, however the response also included details of his former partner	Basic personal identifiers e.g. name, contact details	2	Impacted ex-partner informed
26.06.2020	Personal information used to make changes to customer records on HMRC systems without authorisation	Basic personal identifiers e.g. name, contact details	1,023	Impacted customers informed
29.06.2020	Personal information used to make changes to customer records on HMRC systems without authorisation	Basic personal identifiers e.g. name, contact details	3	Impacted customers informed
21.07.2020	Personal information used to make changes to customer records on HMRC systems without authorisation	Basic personal identifiers e.g. name, contact details	712	Impacted customers informed
09.09.2020	Personal information used to make changes to customer records on HMRC systems without authorisation	Basic personal identifiers e.g. name, contact details	137	Impacted customers informed
24.09.2020	Personal information used to make changes to customer records on HMRC systems without authorisation	Basic personal identifiers e.g. name, contact details	226	Impacted customers identified
28.09.2020	Single piece of correspondence attached to multiple letters and sent to one customer	Further investigation confirmed no personal data included. Data limited to company names	9	Not applicable. No personal data
05.10.2020	Personal information used to make changes to customer records on HMRC systems without authorisation	Initially thought to be basic personal identifiers e.g. name, contact details. However further investigation found no evidence of any impact to customers	48	Incident did not meet the threshold for communicating it to the customers

09.12.2020	Personal information used to make changes to customer records on HMRC systems without authorisation	Initially thought to be basic personal identifiers e.g. name, contact details, economic and financial data e.g. credit card numbers, bank details. However further investigation highlighted that only minimal customer data was involved	160	Incident did not meet the threshold for communicating it to the customers
15.12.2020	Personal information used to make changes to customer records on HMRC systems without authorisation	Basic personal identifiers e.g. name, contact details, economic and financial data e.g. credit card numbers, bank details	42	Impacted customers informed
08.01.2021	Bank statements returned to customer but did not arrive. Arrived late due to Royal Mail COVID hotspot area	No data disclosed. Package successfully arrived after incident reported to ICO	0	Contact initially came from the customer. However no personal data disclosed
03.03.2021	Personal information used to make changes to customer records on HMRC systems without authorisation	Basic personal identifiers e.g. name, contact details	309	Impacted customers are being informed
09.03.2021	Personal information used to make changes to customer records on HMRC systems without authorisation	Basic personal identifiers e.g. name, contact details	13	Impacted customers informed
11.03.2021	In contravention of HMRC policy, employee accessed internal system to locate estranged wife and children	Basic personal identifiers e.g. name, contact details	4	Impacted customers informed
22.03.2021	HMRC returned bank statements for a customer to another unrelated customer	Basic personal identifiers e.g. name, contact details, economic and financial data e.g. credit card numbers, bank details	2	Impacted customers informed

[1] The first two incidents occurred in 2019-20, however notification to the ICO took place in 2020-21, hence their inclusion in this table.

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 financial year 2019 to 2020 are shown in brackets.

Table 38: Summary of other protected personal data-related incidents in 2020-21

Category	Nature of incident	Total
i	Loss of inadequately-protected electronic equipment, devices or paper documents from secured government premises	0 (0)
ii	Loss of inadequately-protected electronic equipment, devices or paper documents from outside secured government premises	0 (1)
iii	Insecure disposal of inadequately-protected electronic equipment, devices or paper documents	2 (1)
iv	Unauthorised disclosure	10 (7)
v	Other	0 (6)

Statement on information risk

The number of centrally-managed security incidents impacting on protected personal data in HMRC reduced from 15 to 12 in financial year 2020 to 2021. The number of customers potentially affected by these centrally-managed incidents was 8,737 (2019 to 2020: 3,616). The figures quoted for the number of customers affected can change over time, as new information becomes available as a result of further enquiries and ongoing security incident investigations.

+ For more information on how we manage our data, please go to pages 82 to 83

Jim Harra
Accounting Officer
28 October 2021

Parliamentary Accountability

Consolidated Statement of Outturn Against Parliamentary Supply

In addition to the primary statements prepared under International Financial Reporting Standards (IFRS), the Government Financial Reporting Manual requires us to prepare a Statement of Outturn against Parliamentary Supply (SOPS) and supporting notes.

The SOPS and related notes are subject to audit, as detailed in the Certificate and Report of the Comptroller and Auditor General to the House of Commons.

The SOPS is a key accountability statement that shows, in detail, how an entity has spent against their Supply Estimate. Supply is the monetary provision (for resource and capital purposes) and cash (drawn primarily from the Consolidated Fund), that Parliament gives statutory authority for entities to utilise. The Estimate details supply and is voted on by Parliament at the start of the financial year.

Should an entity exceed the limits set by their Supply Estimate, called control limits, their accounts will receive a qualified opinion.

The format of the SOPS mirrors the Supply Estimates, published on gov.uk, to enable comparability between what Parliament approves and the final outturn.

The SOPS contain a summary table, detailing performance against the control limits that Parliament have voted on, cash spent (budgets are compiled on an accruals basis and so outturn will not exactly tie to cash spent) and administration.

The supporting notes detail the following: outturn by Estimate line, providing a more detailed breakdown (note 1); a reconciliation of outturn to net operating expenditure in Consolidated Statement of Comprehensive Net Expenditure (CSoCNE), to tie the SOPS to the financial statements (note 2); a reconciliation of outturn to net cash requirement (note 3); and an analysis of income payable to the Consolidated Fund (note 4).

The figures in the areas highlighted within figure 39 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 39: Budget structure and expenditure outturn (£m)

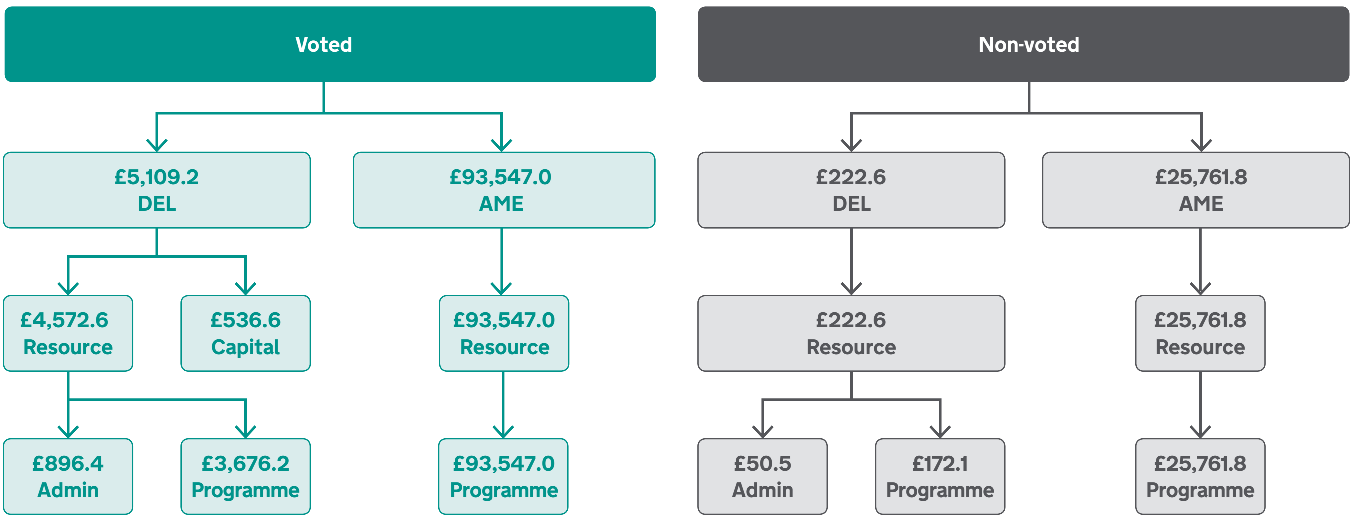


Table 40: Summary of Resource and Capital outturn

								2020-21 £000	2019-20 £000
		Estimate			Outturn				
	SOPS note	Voted	Non-voted	Total	Voted	Non-voted	Total	Voted variance: saving	Total Outturn
Departmental Expenditure Limit									
- Resource	1.1	4,740,784	220,675	4,961,459	4,572,642	222,649	4,795,291	168,142	4,287,343
- Capital	1.2	563,734	–	563,734	536,576	–	536,576	27,158	335,028
Annually Managed Expenditure									
- Resource	1.1	134,563,536	30,562,234	165,125,770	93,547,034	25,761,795	119,308,829	41,016,502	40,621,704
- Capital	1.2	10	–	10	4	–	4	6	10
Total budget		**139,868,064**	**30,782,909**	**170,650,973**	**98,656,256**	**25,984,444**	**124,640,700**	**41,211,808**	**45,244,085**
Non-budget									
- Resource	1.1	1	–	1	–	–	–	1	–
Total		**139,868,065**	**30,782,909**	**170,650,974**	**98,656,256**	**25,984,444**	**124,640,700**	**41,211,809**	**45,244,085**
Of which:									
Total Resource	1.1	139,304,321	30,782,909	170,087,230	98,119,676	25,984,444	124,104,120	41,184,645	44,909,047
Total Capital	1.2	563,744	–	563,744	536,580	–	536,580	27,164	335,038
Total		**139,868,065**	**30,782,909**	**170,650,974**	**98,656,256**	**25,984,444**	**124,640,700**	**41,211,809**	**45,244,085**

	SOPS note	Estimate	Outturn	2020-21 £000 Variance: saving	2019-20 £000 Outturn
Net Cash Requirement	3	**139,590,709**	**96,085,805**	**43,504,904**	**16,257,704**

	Estimate	Outturn	Variance: saving	Outturn
Administration costs	**1,110,118**	**946,960**	**163,158**	**821,040**

The department has Prior Period adjustments (PPAs) resulting from retaining excess income over and above HMRC's Resource Departmental Expenditure Limit Income Control Total in 2019 to 2020. It is proper to seek parliamentary authority for the provision that should have been sought previously. In 2020 to 2021, the following such PPAs have been made, which have been included within voted Supply in the Estimate.

PPA Description	Resource/Capital	Departmental Expenditure Limit/Annually Managed Expenditure	£000
Excess income retained 2019-20	Resource	Departmental Expenditure Limit	5,980

Explanations of material variances between the Estimate and outturn are provided in SOPS note 1 on page 193. A reconciliation of total resource outturn to the Statement of Comprehensive Net Expenditure is provided in SOPS note 2 on page 198.

Notes to the Statement of Outturn against Parliamentary Supply

SOPS 1. Outturn detail, by Estimate Line

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 COVID-19 support scheme payments, also 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 and B 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 Departmental Expenditure Limit (DEL) and Annually Managed Expenditure (AME), voted and non-voted, against the limits set by Parliament for each line of the Estimate. SOPS 1.1 (table 41) provides analysis of resource expenditure and SOPS 1.2 (table 42) 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 resource outturn by Estimate line

Table 41: Analysis of resource outturn by Estimate line

										2020-21 £000	2019-20 £000
	Estimate	Outturn									
		Administration			Programme			Outturn	Variance:		Outturn
	Net Total	Gross	Income	Net	Gross	Income	Net	Net Total	saving/ (excess)		Total
Spending in Departmental Expenditure Limit											
Voted:											
A HMRC administration	4,477,697	990,468	(94,044)	896,424	3,598,289	(159,390)	3,438,899	4,335,323	142,374		3,813,617
B VOA administration	158,237	–	–	–	176,239	(35,139)	141,100	141,100	17,137		164,797
C Utilised provisions	104,850	–	–	–	96,219	–	96,219	96,219	8,631		54,597
Total voted	4,740,784	990,468	(94,044)	896,424	3,870,747	(194,529)	3,676,218	4,572,642	168,142		4,033,011
Non-voted:											
D National Insurance Fund	220,675	50,536	–	50,536	172,113	–	172,113	222,649	(1,974)		254,332
Total non-voted	220,675	50,536	–	50,536	172,113	–	172,113	222,649	(1,974)		254,332
Total spending in Departmental Expenditure Limit	**4,961,459**	**1,041,004**	**(94,044)**	**946,960**	**4,042,860**	**(194,529)**	**3,848,331**	**4,795,291**	**166,168**		**4,287,343**
Spending in Annually Managed Expenditure											
Voted:											
E Child Benefit	11,887,329	–	–	–	11,541,713	–	11,541,713	11,541,713	345,616		11,487,105
F Tax Free Childcare	252,252	–	–	–	253,047	–	253,047	253,047	(795)		245,524
G Providing payments in lieu of tax relief to certain bodies	140,065	–	–	–	140,071	–	140,071	140,071	(6)		116,035
H Lifetime ISA	463,300	–	–	–	346,120	–	346,120	346,120	117,180		225,808
I HMRC administration	65,000	–	–	–	52,212	–	52,212	52,212	12,788		82,016
J VOA payments of Local Authority rates	93,460	–	–	–	80,181	(4,535)	75,646	75,646	17,814		83,886
K VOA administration	2,000	–	–	–	1,184	–	1,184	1,184	816		1,523
L Utilised provisions	(104,870)	–	–	–	(96,223)	–	(96,223)	(96,223)	(8,647)		(54,607)
M COVID-19	121,765,000	–	–	–	81,233,264	–	81,233,264	81,233,264	40,531,736		–
Total voted	134,563,536	–	–	–	93,551,569	(4,535)	93,547,034	93,547,034	41,016,502		12,187,290

										2020-21 £000	2019-20 £000
	Estimate	Outturn									
		Administration			Programme			Outturn	Variance:		Outturn
	Net Total	Gross	Income	Net	Gross	Income	Net	Net Total	saving/ (excess)		Total
Non-voted:											
N Personal tax credits	18,331,274	–	–	–	15,063,222	–	15,063,222	15,063,222	3,268,052		18,331,274
O Other reliefs and allowances	12,230,960	–	–	–	10,698,573	–	10,698,573	10,698,573	1,532,387		10,103,140
Total non-voted	30,562,234	–	–	–	25,761,795	–	25,761,795	25,761,795	4,800,439		28,434,414
Total spending in Annually Managed Expenditure	**165,125,770**	**–**	**–**	**–**	**119,313,364**	**(4,535)**	**119,308,829**	**119,308,829**	**45,816,941**		**40,621,704**
Non-budget spending											
Voted:											
P Prior Period Adjustment	1	–	–	–	–	–	–	–	1		–
Total non-budget spending	1	–	–	–	–	–	–	–	1		–
Total voted	139,304,321	990,468	(94,044)	896,424	97,422,316	(199,064)	97,223,252	98,119,676	41,184,645		16,220,301
Total non-voted	30,782,909	50,536	–	50,536	25,933,908	–	25,933,908	25,984,444	4,798,465		28,688,746
Total	**170,087,230**	**1,041,004**	**(94,044)**	**946,960**	**123,356,224**	**(199,064)**	**123,157,160**	**124,104,120**	**45,983,110**		**44,909,047**

i Full information about VOA payments of Local Authority rates can be found at:
www.voa.gov.uk

SOPS 1.2 Analysis of capital outturn by Estimate line

Table 42: Analysis of capital outturn by Estimate line

					2020-21 £000	2019-20 £000
	Estimate	Outturn		Outturn	Variance: saving/ (excess)	Outturn
	Net Total	Gross	Income	Net Total		Total
Spending in Departmental Expenditure Limit						
Voted:						
A HMRC administration	554,759	670,133	(140,303)	529,830	24,929	328,666
B VOA administration	8,975	7,567	(821)	6,746	2,229	6,362
C Utilised provisions	–	–	–	–	–	–
Total voted	563,734	677,700	(141,124)	536,576	27,158	335,028
Non-voted:						
D National Insurance Fund	–	–	–	–	–	–
Total non-voted	–	–	–	–	–	–
Total spending in Departmental Expenditure Limit	**563,734**	**677,700**	**(141,124)**	**536,576**	**27,158**	**335,028**
Spending in Annually Managed Expenditure						
Voted:						
E Child Benefit	10	4	–	4	6	10
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	–	–	–	–	–	–
M COVID-19	–	–	–	–	–	–
Total voted	10	4	–	4	6	10
Non-voted:						
N Personal tax credits[1]	–	325,634	(325,634)	–	–	–
O Other reliefs and allowances	–	–	–	–	–	–
Total non-voted	–	325,634	(325,634)	–	–	–
Total spending in Annually Managed Expenditure	**10**	**325,638**	**(325,634)**	**4**	**6**	**10**
Total voted	563,744	677,704	(141,124)	536,580	27,164	335,038
Total non-voted	–	325,634	(325,634)	–	–	–
Total	**563,744**	**1,003,338**	**(466,758)**	**536,580**	**27,164**	**335,038**

1 The transfer of personal tax credit receivables balance to the Department for Work and Pensions results in Capital Grant in Kind entries that net to nil.

The total resource outturn for the year was £124,104.1 million, £45,983.1 million (27%) below the Estimate. The total capital outturn for the year was £536.6 million, £27.2 million (5%) below the Estimate. Explanations of material variances between the Estimate and outturn are provided below.

Resource Annually Managed Expenditure (AME)

H Lifetime ISA - Outturn was £117.2 million (25%) less than the Estimate. Take up of the policy has still not achieved anticipated levels due to the pandemic's effects on individual's saving's decisions.

I HMRC administration - Outturn was £12.8 million (20%) less than the Estimate. Provisions for the HMRC Locations Programme and new legal cases in the latter part of the year were less than anticipated in the Estimate.

J VOA Payments of Local Authority rates - Outturn was £17.8 million (19%) less than the Estimate. This was as a result of payments to local authorities on behalf of accredited Commonwealth and foreign countries and certain international organisations being lower than budget.

K VOA administration – Outturn was £0.8 million (41%) less than the Estimate. This related to the pension asset which is revalued each year and should ultimately decrease (i.e. as employees on the particular scheme leave the Agency). However, the value is defined by the actuary's valuation and therefore outside of our ability to control.

M COVID-19 – Outturn was £40,531.7 million (33%) less than the Estimate. The Estimate for the COVID-19 schemes were based on the OBR forecast throughout the year that were available at the time of the Supplementary Estimate.

N Personal tax credits - Outturn was £3,268.1 million (18%) less than the Estimate. The Estimate was reduced by £13.2 billion at the Supplementary Estimate to account for the migration of tax credit cases to DWP. This revised budget of £18.3 billion included a contingency of 20% (c. £3.6 billion) due to the uncertainty around COVID-19. We ensured that the Estimate was aligned to the 2019 to 2020 outturn of £18.3 billion to ensure sufficient cover.

O Other reliefs and allowances – Outturn was £1,532.4 million (13%) less than the Estimate. This relates to less than expected Research and Development tax relief and creative tax reliefs expenditure this year due to COVID-19.

SOPS 2. Reconciliation of outturn to net operating expenditure

As noted in the introduction to the SOPS, outturn and the Estimates are compiled against the budgeting framework, which is similar to, but different from, IFRS. Therefore, this reconciliation bridges the resource outturn to net operating expenditure, linking the SOPS to the financial statements. These are detailed and explained below.

Table 43: Reconciliation of net resource outturn to net operating expenditure

		Reference	2020-21 £000 Outturn	2019-20 £000 Outturn
Statement of Parliamentary Supply: Total resource outturn				
Departmental Expenditure Limit		SOPS 1.1	4,795,291	4,287,343
Annually Managed Expenditure		SOPS 1.1	119,308,829	40,621,704
			124,104,120	**44,909,047**
Excluded from SOPS total resource outturn:				
Expenditure:	Transfer of personal tax credits receivables to DWP	SOPS 1.2	325,634	605,125
	Non-current assets donated via a grant	SOPS 1.2	–	626
	Capital element of grants to customs intermediaries and traders		–	5,656
	Child Trust Fund	SOPS 1.2	4	10
	Non-current asset costs outside of budgeting		16,871	17,312
Income:	Developer contribution received to purchase non-current assets		(126,140)	(71,671)
	Payable to the Consolidated Fund	SOPS 4	(1,837)	(991)
			214,532	**556,067**
Excluded from CSoCNE net operating expenditure:				
Expenditure:	Service concession arrangements liability repayment		(21,182)	(17,292)
			(21,182)	**(17,292)**
Consolidated Statement of Comprehensive Net Expenditure: Net operating expenditure		Page 247	**124,297,470**	**45,447,822**

Explanation of additions and deductions

Transfer of personal tax credits receivables to Department for Work and Pensions (DWP)

The receivable balance relating to customers who have made a valid claim to Universal Credit, now administered by DWP.

Non-current assets donated via a grant

The value of non-current assets donated by way of a Capital Grant in Kind as a result of property lease arrangements.

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 Private Finance Initiative (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 SOPS, 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.

Table 44: Reconciliation of net resource outturn to net cash requirement

	SOPS note	Estimate £000	Outturn £000	Outturn compared to Estimate: saving/excess £000
Resource outturn	1.1	170,087,230	124,104,120	45,983,110
Capital outturn	1.2	563,744	536,580	27,164
Remove arms length bodies resource and capital		–	(324)	324
Accruals to cash adjustments:				
Remove non-cash items:				
Depreciation and amortisation		(381,608)	(308,008)	(73,600)
New provisions and adjustments to existing provisions		(67,000)	(48,152)	(18,848)
Other non-cash items		(3,907)	(21,402)	17,495
Reflect movement in working balances:				
Capital grant in kind:				
Transfer of personal tax credit receivables to DWP		–	325,634	(325,634)
Increase/(decrease) in inventories		–	(189)	189
Increase/(decrease) in receivables		40,000	(103,758)	143,758
(Increase)/decrease in payables		30,290	(3,178,350)	3,208,640
Use of provisions		104,870	96,223	8,647
Prior Period Adjustments		(1)	–	(1)
Other adjustments:				
Remove non-voted budget items:				
Funded outside the Vote		(30,782,909)	(25,339,647)	(5,443,262)
Finance lease liability repayment		–	8,380	(8,380)
Other		–	14,698	(14,698)
Net cash requirement		**139,590,709**	**96,085,805**	**43,504,904**

The net cash requirement outturn for 2020 to 2021 was £96,085.8 million, £43,504.9 million (31%) below the Estimate.

Explanations of material variances between the Estimate and outturn are provided below.

Other non-cash items - Outturn was £17.5 million (448%) over the Estimate. This is the result of loss on disposal of £13.0 million and loss on revaluation of £3.8 million not having been reflected in the Estimate.

Receivables - Outturn was £143.8 million (359%) less than the Estimate. This is primarily the result of the increase in the personal tax credit receivable during the year being less than the receivable transferred to DWP during 2020 to 2021.

Payables - Outturn was £3,208.6 million (10,593%) more than the Estimate. This is the result of the Estimate not fully reflecting the 31 March 2021 COVID-19 payables position, given the uncertainty of this at the time of compiling the Supplementary Estimate.

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.

Table 45: Analysis of income payable to the Consolidated Fund

		Outturn 2020-21		Outturn 2019-20	
			£000		£000
	Reference	Accruals	Cash basis	Accruals	Cash basis
Income outside the ambit of the Estimate	SOPS 2	1,837	1,837	991	**991**
Excess cash surrenderable to the Consolidated Fund		–	–	–	-
Total amount payable to the Consolidated Fund	Page 250 (in CSoCTE)	**1,837**	**1,837**	**991**	**991**

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 pages 220 to 244.

Losses and special payments

These losses and special payments relate to the running of the departmental group. Full details on revenue losses can be found in HMRC's Trust Statement, see pages 234 to 235.

Losses statement[1]

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.

Table 46: Losses

	2020-21				2019-20			
	Core department and agency		Departmental group		Core department and agency		Departmental group	
	cases	£m	cases	£m	cases	£m	cases	£m
COVID-19 support schemes:								
Coronavirus Job Retention Scheme remissions and write-offs	1,058	8.7	1,058	8.7	–	–	–	–
Self-Employment Income Support Scheme remissions and write-offs	15,877	14.1	15,877	14.1	–	–	–	–
Eat Out to Help Out remissions and write-offs	7	–	7	–	–	–	–	–
Personal tax credits remissions[2]	583,812	30.2	583,812	30.2	933,527	81.2	933,527	81.2
Personal tax credits write-offs[2]	18,735	22.9	18,735	22.9	17,087	18.5	17,087	18.5
Child Benefit remissions and write-offs	17,635	4.3	17,635	4.3	22,906	14.2	22,906	14.2
Exchange rate losses	26	2.1	26	2.1	98	1.5	98	1.5
Others	1,776	(0.2)	1,776	(0.2)	3,696	0.2	3,696	0.2
Total	**638,926**	**82.1**	**638,926**	**82.1**	**977,314**	**115.6**	**977,314**	**115.6**

In 2020 to 2021, the first year of COVID-19 support schemes operating, £22.8 million of debt in respect of the COVID-19 support schemes was remitted/written-off as uncollectable. For further information see the Resource Accounts on pages 264 to 265 (note 4.1).

In 2020 to 2021 £53.1 million of personal tax credit debt was remitted/written-off as it was uncollectable (2019 to 2020 £99.7 million). For further information see the Resource Accounts on pages 267 to 270 (notes 5.1.1 and 5.1.2).

In 2020 to 2021 the department remitted £4.3 million of Child Benefit debt that was uncollectable (2019 to 2020 £14.2 million).

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.
2 Comparatives have been restated following review of composition and a further 1,577 cases have been included.

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.

Table 47: Special Payments

	2020-21				2019-20			
	Core department and agency		Departmental group		Core department and agency		Departmental group	
	cases	£m	cases	£m	cases	£m	cases	£m
Payments and accruals	13,198	2.8	13,198	2.8	18,369	3.8	18,369	3.8

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 2020 to 2021, we made 6 payments totalling £103,500 (2019 to 2020: 19 payments totalling £515,370) in respect of severance cases. The highest payment was £28,000 (2019 to 2020: £100,000) and the lowest payment was £4,500 (2019 to 2020: £5,500). The average payment was £17,250 (2019 to 2020: £27,125).

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. This includes services hosted by HMRC on behalf of other government departments as HMRC has the required infrastructure. In accordance with HM Treasury guidance in 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 and 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 £213.2 million and as this figure is not material to the accounts the department no longer publish a separate income note.

Table 48: Analysis of income where full cost exceeds £1 million

			2020-21 £m			2019-20 £m
	Income	Full cost	Surplus/ (deficit)	Income	Full cost	Surplus/ (deficit)
Fees and charges raised by the Valuation Office Agency (VOA)						
District valuer services	14.5	15.3	(0.8)	16.0	16.2	(0.2)
Business rates and Council Tax	9.7	10.2	(0.5)	9.7	9.8	(0.1)
Local housing allowance and fair rents	8.5	9.0	(0.5)	8.6	8.7	(0.1)
Fees and charges raised by the core department[2]						
Memorandum of Terms of Occupation[3]	69.4	69.4	–	68.1	68.1	–
National Minimum Wage	25.1	25.5	(0.4)	26.1	25.9	0.2
Anti-money laundering supervision	22.8	19.9	2.9	16.4	16.2	0.2
Collection of student loans	11.7	11.7	–	13.0	13.1	(0.1)
UK Border Agency	11.5	11.5	–	11.5	11.5	–
Tax Free Childcare	9.5	7.7	1.8	9.8	9.3	0.5
Government Banking Service	6.4	4.4	2.0	5.2	4.3	0.9
Administration of Statutory Sick Pay Rebate[4]	5.8	5.8	–	–	–	–
Scottish Student Loans	2.0	2.0	–	–	–	–
Immigration Data Sharing	1.4	1.4	–	1.5	1.5	–
Statutory parental bereavement pay	0.5	0.5	–	1.5	1.5	–
Single Tier Pension Reform	–	–	–	1.6	1.6	–
For devolved administrations						
Scotland Act implementation[5]	0.7	0.7	–	1.5	1.5	–
Wales Act implementation[6]	0.6	0.6	–	1.8	1.8	–
Total	**200.1**	**195.6**	**4.5**	**192.3**	**191.0**	**1.3**

1 This section has been subject to external audit.
2 The DWP Welfare Reform Agenda has been removed from the table because the full cost is below £1 million. The 2019 to 2020 totals have been restated.
3 Memorandum of Terms of Occupation (MoTO). MoTO is when there is an agreement between 2 or more Crown Bodies which allows for them to share the costs of occupying a building or part of a building. The income and full cost shown above is where HMRC is the major occupier of a building and has recharged the costs to other Crown Bodies who also occupy the buildings.
4 This relates to the recovery of costs associated with administering the Coronavirus Statutory Sick Pay Rebate (SSPR) scheme on behalf of the DWP, since launch in May 2020.
5 The Scotland Act 2012 and Scotland Act 2016 gave the Scottish Parliament powers over rates of income tax which have applied from 2016 to 2017 onwards. This tax is accounted for within HMRC's Trust Statement, see page 243. HMRC has incurred costs which are included in the Resource Accounts.
6 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 to 2020 onwards. 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.

Table 49: Indemnities

	1 April 2020 £m	Increase in year £m	Liabilities crystallised in year £m	Obligation expired in year £m	31 March 2021 £m	Amount reported to Parliament by departmental minute £m
Indemnities	6.4	3.7	–	(0.2)	9.9	–

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.

Other parliamentary disclosures

In November 2019, a novel strain of coronavirus was detected and spread rapidly leading the World Health Organization to declare a pandemic on 11 March 2020. The pandemic caused significant economic disruption for the 2020 to 2021 reporting period.

The ongoing disruption caused by the pandemic has created significant economic uncertainty, and this uncertainty is expected to continue throughout 2021. No unquantifiable contingent liability existed on 31 March 2021 in respect of the pandemic.

Jim Harra
Accounting Officer

28 October 2021

Our accounts

HMRC's Trust Statement and Resource Accounts for financial year **2020** to **2021**

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 2021 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. The financial reporting framework that has been applied in their preparation is applicable law and International Accounting Standards as interpreted by HM Treasury's Government Financial Reporting Manual.

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 2021 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), applicable law 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 report.

Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2019. I have also elected to apply the ethical standards relevant to listed entities. I am independent of HM Revenue & Customs in accordance with the ethical requirements that are relevant to my audit of 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

In auditing the financial statements, I have concluded that HM Revenue & Customs' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on HM Revenue & Customs' ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

My responsibilities and the responsibilities of the Accounting Officer with respect to going concern are described in the relevant sections of this report.

The going concern basis of accounting for HM Revenue & Customs is adopted in consideration of the requirements set out in HM Treasury's Government Reporting Manual, which require entities to adopt the going concern basis of accounting in the preparation of the financial statements where it anticipated that the services which they provide will continue into the future.

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. The Principal Accounting Officer is responsible for the other information. My opinion on the financial statements does not cover the other information and except to the extent otherwise explicitly stated in my report, 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 I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. 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 'Performance Overview, Performance Analysis 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.

Responsibilities of the Accounting Officer for the financial statements

As explained more fully in the Principal Accounting Officer's responsibilities, the Principal Accounting Officer is responsible for:

- the preparation of the financial statements in accordance with the applicable financial reporting framework and for being satisfied that they give a true and fair view;
- internal controls as the Accounting Officer determines is necessary to enable the preparation of financial statement to be free from material misstatement, whether due to fraud or error;
- assessing HM Revenue & Customs' ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Accounting Officer anticipates that the services provided by HM Revenue & Customs will not continue to be provided in the future.

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.

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report that includes my opinion. 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.

I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of non-compliance with laws and regulation, including fraud.

My procedures included the following:

- Inquiring of management, HM Revenue & Customs head of internal audit and those charged with governance, including obtaining and reviewing supporting documentation relating to HM Revenue & Customs policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations including HM Revenue & Customs' controls relating to the Exchequer and Audit Act 1921, Commissioners for Revenue and Customs Act 2005, Managing Public Money and the Finance Act 2020.
- discussing among the engagement team how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, I identified potential for fraud in the following areas: revenue recognition, posting of unusual journals, accounting for estimates and regularity of repayments;

- obtaining an understanding of HM Revenue & Customs' framework of authority as well as other legal and regulatory frameworks that HM Revenue & Customs operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of HM Revenue & Customs. The key laws and regulations I considered in this context included the Exchequer and Audit Act 1921, Commissioners for Revenue and Customs Act 2005, Finance Act 2020, Managing Public Money and relevant tax legislation;
- specific risk assessments performed in respect of significant risks relating to non-compliance with laws and regulations and fraud, including: risk-based sampling of manual journals to identify those presenting higher risk of fraud; evaluation of HM Revenue & Customs' approach to material estimates presented within the accounts including Self Assessment accrued revenue receivable, Corporation Tax accrued revenue receivable and the oil and gas decommissioning provision; and
- evaluating how the COVID-19 pandemic affected HM Revenue & Customs control environment and identifying the impact on significant accounting estimates.

In addition to the above, my procedures to respond to identified risks included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the Audit & Risk Committee and in-house legal counsel concerning actual and potential litigation and claims;
- reading minutes of meetings of those charged with governance and the Board;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business;
- reviewing the processes, verifying the data used and the appropriateness of the assumptions and judgements applied for material estimates presented within the accounts including Self Assessment accrued revenue receivable, Corporation Tax accrued revenue receivable and the oil and gas decommissioning provision; and
- testing of tax repayments to ensure that payments are regular and that, where relevant, HM Revenue & Customs has obtained licences from HM Treasury to allow it to collect tax revenue from entities which are sanctioned.

I also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and significant component audit teams and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

A further description of my responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of my report.

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.

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.

Gareth Davies
Comptroller and Auditor General
1 November 2021

National Audit Office
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The Resource Accounts: Certificate and Report 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 HM Revenue and Customs and of its Departmental group for the year ended 31 March 2021 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 2020. 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. The financial reporting framework that has been applied in their preparation is applicable law and International Accounting Standards as interpreted by HM Treasury's Government Financial Reporting Manual.

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 2021 and the Department's net operating cost and Departmental Group's net operating cost for the year then ended; and
- 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 matters described in the basis for qualified opinion on regularity section, in all material respects:

- the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2021 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

Error and fraud in the COVID-19 support schemes

Note 4.1 to the Resource Accounts records expenditure incurred in 2020-21 on the COVID-19 support schemes of £81.2 billion. The COVID-19 support schemes and related expenditure comprises: the Coronavirus Job Retention Scheme (£60.7 billion); the Self-Employment Income Support Scheme (£19.7 billion); and Eat Out to Help Out (£840 million). Where error and fraud result in overpayments and underpayments, the transactions do not conform with the relevant primary legislation and HM Treasury directions issued thereunder specifying entitlement and calculation criteria, and the expenditure is irregular. At Note 4.2 the Department has estimated the most likely level of error and fraud present in the COVID-19 support schemes as:

- Coronavirus Job Retention Scheme - £5,279 million (8.7% of related expenditure)
- Self-Employment Income Support Scheme - £493 million (2.5% of related expenditure)
- Eat out to Help Out - £71 million (8.5% of related expenditure)

Error and fraud in Personal Tax Credits

Note 5.1.1 to the Resource Accounts record Personal Tax Credits expenditure of £15.1 billion in 2020-21. Where error and fraud results 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 2020-21 will not be available until June 2022. Therefore, the estimates of error and fraud in 2019-20 at Note 5.1.3 are the most up to date indication available of the level of error and fraud in Personal Tax Credits expenditure for 2020-21.

For 2019-20, the mid-point of the Department's estimates, which are based on the latest available data for 2019-20, are:

- overpayments of £880 million (5.0% of related expenditure); and
- underpayments of £150 million (0.85% of related expenditure).

Error and fraud in Corporation Tax research and development reliefs

Note 5.1.4 to the Resource Accounts records Corporation Tax research and development reliefs expenditure of £9.3 billion in 2020-21. Where error and fraud result in overpayments, the transactions do not conform with the relevant primary legislation specifying entitlement and calculation criteria, and the expenditure is irregular. Using the evidence available from existing risk-based compliance activity, at Note 5.1.5 the Department has estimated the level of error and fraud from overpayments that it expects is present within Corporation Tax research and development reliefs expenditure as £336 million (3.6% of related expenditure).

I consider the levels of error and fraud arising from overpayments and underpayments in these areas of expenditure to be material to my opinion on the accounts. I have, therefore, qualified my opinion on the regularity of expenditure in respect of COVID-19 support schemes, Personal Tax Credits and Corporation Tax research and development reliefs 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 these areas of expenditure which do not conform with the relevant authorities.

My report, which follows on pages 218 to 219, provides further details on the basis for my qualified audit opinion on regularity.

Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) applicable law 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 2019. I am independent of the HM Revenue & 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

In auditing the financial statements, I have concluded that HM Revenue & Customs' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on HM Revenue & Customs' ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

My responsibilities and the responsibilities of the Accounting Officer with respect to going concern are described in the relevant sections of this certificate.

The going concern basis of accounting for HM Revenue & Customs is adopted in consideration of the requirements set out in HM Treasury's Government Reporting Manual, which require entities to adopt the going concern basis of accounting in the preparation of the financial statements where it is anticipated that the services which they provide will continue into the future.

Other information

The other information comprises information included in the annual report, but does not include the parts of the 'Our accountability' report described in that report as having been audited, the financial statements and my auditor's report thereon. The Accounting Officer is responsible for the other information. My opinion on the financial statements does not cover the other information and except to the extent otherwise explicitly stated in my certificate, 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 I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. 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 based on the work undertaken in the course of the audit:

- 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; and
- the information given in the 'Performance overview', 'Performance analysis' and '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

In the light of the knowledge and understanding of HM Revenue & Customs and its environment obtained in the course of the audit, I have not identified material misstatements in the 'Performance overview', 'Performance analysis' and 'Our accountability' reports. 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
- certain disclosures of remuneration specified by HM Treasury's Government Financial Reporting Manual are not made; 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.

Responsibilities of the Accounting Officer for the financial statements

As explained more fully in the Foreword and Principal Accounting Officer's Responsibilities, the Accounting Officer is responsible for:

- the preparation of the financial statements in accordance with the applicable financial reporting framework and for being satisfied that they give a true and fair view;
- internal controls as the Accounting Officer determines is necessary to enable the preparation of financial statement to be free from material misstatement, whether due to fraud or error; and
- assessing HM Revenue & Customs' ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Accounting Officer anticipates that the services provided by HM Revenue & Customs will not continue to be provided in the future.

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.

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a certificate that includes my opinion. 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.

I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of non-compliance with laws and regulation, including fraud.

My procedures included the following:

- Inquiring of management, HM Revenue & Customs' head of internal audit and those charged with governance, including obtaining and reviewing supporting documentation relating to HM Revenue & Customs' policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations including the Department and Departmental Group's controls relating to the: Government Resources and Accounts Act 2000; Managing Public Money; and the Supply and Appropriation (Main Estimates) Act 2020.
- discussing among the engagement team and relevant internal specialists from the Error and Fraud Practice regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, I identified the potential for fraud in the following areas: the posting of unusual journals; reporting of significant accounting estimates; and expenditure incurred in respect of Personal Tax Credits, Corporation Tax research and development reliefs expenditure and the COVID-19 support schemes.
- obtaining an understanding of the Department and Departmental Group's framework of authority as well as other legal and regulatory frameworks that the Department and Department Group operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the Department and Departmental Group. The key laws and regulations I considered in this context included the Government Resources and Accounts Act 2000, Managing Public Money, Supply and Appropriation (Main Estimates) Act 2020, employment legislation and relevant tax legislation.
- specific risk assessments in respect of significant audit risks relating to non-compliance with laws and regulations and fraud, reviewing the implementation of the new Child Benefit system; reviewing HM Revenue & Customs' approach to reporting material estimates, including those in respect of error and fraud in Personal Tax Credits, Corporation Tax research and development reliefs expenditure, Child Benefit and the COVID-19 support schemes.

- obtaining an understanding of how the COVID-19 pandemic affected HM Revenue & Custom's control environment and considering the impact on significant accounting estimates.

In addition to the above, my procedures to respond to identified risks included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the Audit & Risk Committee and in-house legal counsel concerning actual and potential litigation and claims;
- reading minutes of meetings of those charged with governance and the Board;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business; and
- reviewing the processes, verifying the data used and the considering the appropriateness of the assumptions and judgements applied for material estimates presented within the accounts including the Department's estimates of error and fraud in: Personal Tax Credits; Corporation Tax research and development reliefs; and the COVID-19 support schemes.

I also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and component audit teams and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

A further description of my responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of my certificate.

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.

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.

The Report of the Comptroller & Auditor General to the House of Commons

Introduction

HM Revenue & Customs is the lead government department responsible for the collection of the UK's taxes and the customs authority. It has a vital purpose to collect the money that pays for the UK's public services and help families and individuals with targeted financial support, such as through the tax credits system. During 2020-21, the Department has also supported businesses and individuals affected by the pandemic through its role in administering the COVID-19 support schemes. The net cost of providing these services is reported in HM Revenue & Customs' Resource Accounts.

Error and fraud in Personal Tax Credits, Corporation Tax research and development reliefs and the COVID-19 support schemes

I have prepared a Report on HM Revenue & Customs' 2020-21 Accounts, under Section 2 of the Exchequer and Audit Departments Act 1921, on page R1. This includes further information on the qualification of my audit opinion on the regularity of Personal Tax Credits, Corporation Tax research and development reliefs and the COVID-19 support schemes as follows:

- COVID-19 support schemes - paragraphs X to X on pages X to X.
- Personal Tax Credits - paragraphs X to X on pages X to X.
- Corporation Tax research and development reliefs - paragraphs X to X on pages X to X.

Gareth Davies
Comptroller and Auditor General
1 November 2021

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Trust Statement

Statement of Revenue, Other Income and Expenditure

For the year ended 31 March	Note	2021 £bn	2020 £bn
Taxes and duties			
Income tax	2.1	192.0	194.2
Value Added Tax	2.2	122.1	137.4
Corporation Tax	2.3	53.7	53.0
Hydrocarbon oils duties	2.4	21.3	27.4
Stamp taxes	2.5	12.6	15.4
Alcohol duties	2.6	12.1	11.9
Capital Gains Tax	2.7	12.0	10.0
Tobacco duties	2.8	9.8	9.7
Insurance Premium Tax	2.9	6.1	6.5
Other taxes and duties	2.10	21.7	25.2
Total taxes and duties		**463.4**	**490.7**
Other revenue and income			
National Insurance Contributions	3.1	141.5	141.9
Student Loan recoveries	3.3	2.9	2.7
Fines and penalties	3.4	1.0	1.4
Total other revenue and income		**145.4**	**146.0**
Total revenue		**608.8**	**636.7**
Less expenditure			
Impairment charges	4.4	(6.8)	(6.6)
Provisions in-year expenditure movement	7.1	(0.1)	(2.0)
Total expenditure		**(6.9)**	**(8.6)**
Less disbursements			
National Insurance Contributions paid and payable to the National Insurance Funds and National Health Services	3.1	(141.0)	(141.0)
Appropriation of revenue to Resource Account	3.2	(25.1)	(25.0)
Student Loan recoveries paid and payable to the Department for Education	3.3	(2.9)	(2.7)
Taxation paid to the Isle of Man	3.5	(0.3)	(0.2)
Total disbursements		**(169.3)**	**(168.9)**
Total expenditure and disbursements		**(176.2)**	**(177.5)**
Net revenue for the Consolidated Fund		**432.6**	**459.2**

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

The notes at pages 223 to 247 form part of this statement.

Statement of Financial Position

As at 31 March	Note	2021 £bn	2020 £bn
Non-current assets			
Receivables falling due after one year	4.1	1.7	1.5
Current assets			
Receivables	4.1	48.9	26.3
Accrued revenue receivable	4.1	93.0	99.6
Total current assets		**141.9**	**125.9**
Total assets		**143.6**	**127.4**
Current liabilities			
Payables	5	21.5	17.8
Accrued revenue payable	5	37.3	35.8
Deferred revenue	5	2.2	3.2
Cash and cash equivalents	5.1	1.6	1.4
Total current liabilities		**62.6**	**58.2**
Assets less current liabilities		**81.0**	**69.2**
Non-current liabilities			
Provision for liabilities	7	12.9	14.3
Total assets less total liabilities		**68.1**	**54.9**
Balance on Consolidated Fund Account	8	**68.1**	**54.9**

Jim Harra
Accounting Officer

28 October 2021

The notes at pages 223 to 247 form part of this statement.

Statement of Cash Flows

For the year ended 31 March	2021 £bn	2020 £bn
Net revenue for the Consolidated Fund	432.6	459.2
(Increase)/decrease in non-cash assets	(16.2)	9.4
Increase/(decrease) in non-cash current liabilities	4.2	–
Increase/(decrease) in provision for liabilities	(1.4)	1.3
Adjustment for 2019-20 opening balance correction	–	(6.6)
Net cash flow from operating activities	**419.2**	**463.3**
Less: Cash paid to the Consolidated Fund	(419.4)	(463.2)
Increase/(decrease) in cash and cash equivalents in this period	**(0.2)**	**0.1**
Net funds as at 1 April (opening cash and cash equivalents balance)	(1.4)	(1.5)
Net funds as at 31 March (closing cash and cash equivalents balance)	**(1.6)**	**(1.4)**

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 2020 to 2021 Financial Reporting Manual (FReM) issued by HM Treasury
- International Financial Reporting Standards (IFRS) 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 2020 to 2021. 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 taxation due to the Isle of Man (note 3.5), revenue losses (note 4.3), and Certificates of Tax Deposit (note 9), 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 the 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 instalments and Capital Gains Tax reported via Self Assessment are accounted for on a partial accruals basis, as not enough information is known to reliably accrue for the revenue, hence there is no accrued revenue receivable estimate in the Statement of Financial Position for these elements.

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 as per the FReM, which is in accordance with International Financial Reporting Standard 15 with adaptations applied, as taxes and duties arise from statute and not a contract.

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 material taxes and duties are described in note 2 below. Note 4 provides an explanation of accrued revenue receivable, note 5 provides an explanation of accrued revenue payable, note 6 describes the circumstances and approaches used where revenue estimation is needed. Revenues are deemed to accrue evenly over the period for which they are due.

The tax gap is not recognised in the Trust Statement, in accordance with the requirements of the FReM. The tax gap is the difference between the amount of tax that should, in theory, be paid to HMRC (the theoretical liability), and what is actually paid. 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 arises for a number of reasons. Some taxpayers make simple errors in calculating the tax that they owe, despite their best efforts, while others don't take enough care when they submit their returns. Legal interpretation, evasion, avoidance and criminal attacks on the tax system also result in a tax gap.

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 the certainty of revenue flow to HMRC is probable.

Further information on tax gap can be found in the section 'Performance analysis', 'The UK's tax gap' (page 51).

Further accounting policies are explained under the relevant notes (starting at note 2).

1.4 External factors impacting on the 2020 to 2021 Trust Statement

1.4.1 COVID-19

The World Health Organization (WHO) announced the Coronavirus (COVID-19) pandemic on 11 March 2020. This Trust Statement reflects the impacts of COVID-19 on the 2020 to 2021 financial year, in particular on tax revenues. For further information see 'Collecting revenue and managing compliance' on pages 38 and 53.

Due to the nature of tax legislation and our associated systems, some tax revenues and other items are subject to estimation. Judgements have been made to reflect COVID-19 impacts in our estimation modelling and provisions held on the Statement of Financial Position at the year end. For more information on our estimation disclosures, see impairment of receivables and accrued revenue receivables (ARR) (note 4.2), Self Assessment ARR (note 6.2), Corporation Tax ARR (note 6.3), Value Added Tax ARR (note 6.4), provision for liabilities and contingent liabilities (note 7) and devolved taxes (note 13).

2. Accounting policies and analysis

2.1 Income tax

For the year ended 31 March	2021 £bn	2020 £bn
Pay As You Earn and other income tax	163.7	161.0
Self Assessment	27.8	32.9
Simple Assessment	0.5	0.3
Total	**192.0**	**194.2**

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. See note 6.2 for further information.

As part of the government announcement in March 2020, the government funded up to 80% of employees' wages as part of the Coronavirus Job Retention Scheme (CJRS) and provided grants for up to 80% of the average monthly trading profits for self-employed individuals as part of the Self-Employment Income Support Scheme (SEISS). These government funded amounts are subject to income tax. SEISS grants will be taxed as income for the year in which they are received. For further information see note 4 in the Resource Accounts.

COVID-19 support payments are liable to income tax if the recipient was not entitled to the amount in accordance with the scheme under which the payment was made. The amount chargeable is the amount the recipient is not entitled to.

Given the significance of the Scottish and Welsh income tax arrangements a full disclosure note appears at note 13.

2.2 Value Added Tax

For the year ended 31 March	2021 £bn	2020 £bn
Gross revenue	215.1	230.4
Less: revenue repayable	(93.0)	(93.0)
Net revenue	**122.1**	**137.4**

The taxable event for Value Added Tax (VAT) is the supply of goods and services that attract VAT 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.

Postponed import VAT was introduced from 1 January 2021, which improves cash flow for UK VAT registered traders as they can declare and recover import VAT on their VAT returns, rather than paying import VAT upfront when goods are imported and recovering later. This is available for goods imported into:

- Great Britain from anywhere outside of the UK
- Northern Ireland from anywhere outside the UK and European Union (EU)

UK VAT Mini One Stop Shop (MOSS) has now been withdrawn as part of UK Transition. For sales made on or after 1 January 2021, taxpayers will not be able to use the UK's VAT MOSS service to declare sales and pay VAT due in

EU member states. The final return for the UK's VAT MOSS system was the period ending 31 December 2020. Return amendments can be made up to 31 December 2021.

2.3 Corporation Tax

For the year ended 31 March	2021 £bn	2020 £bn
Total	**53.7**	**53.0**

The taxable event for Corporation Tax (CT) is the earning of assessable profit during the taxation period by the taxpayer. The nature of CT legislation and our associated systems mean that accrued revenue is required to be estimated, as tax returns reporting taxpayer liabilities, reliefs or associated tax payments are not filed until after the Trust Statement has been published. See note 6.3 for further information.

CT is accounted for on a partial accrual basis, as agreed with HM Treasury, because not enough information is known to reliably accrue for the revenue for smaller companies that do not pay by instalments hence there is no accrued revenue receivable estimate in the Statement of Financial Position for these smaller companies. For further information, please see note 1.2.

Estimated corporation tax reliefs (CTR) are reported in the Resource Accounts. As per the FReM, £9.8 billion (£7.0 billion in 2019 to 2020) is recorded in the Trust Statement as revenue received to offset the CTR expenditure incurred by the Trust Statement, and as a disbursement to Resource Accounts. For further information see note 5.1.4 in the Resource Accounts.

COVID-19 support payments are liable to CT if the recipient is a company and was not entitled to the amount in accordance with the scheme under which the payment was made. The amount chargeable is the amount the recipient is not entitled to.

2.4 Hydrocarbon oils duties

For the year ended 31 March	2021 £bn	2020 £bn
Total	**21.3**	**27.4**

The taxable event for Hydrocarbon oils duty is the date of production, date of import or movement of relevant goods out of a duty suspended regime (a regime where, under UK legislation, certain goods benefit from a temporary suspension or reduction of import duties).

2.5 Stamp taxes

For the year ended 31 March	2021 £bn	2020 £bn
Stamp Duty Land Tax	8.9	11.4
Stamp Duty Reserve Tax	2.9	2.9
Stamp Duty	0.7	1.0
Annual Tax on Enveloped Dwellings	0.1	0.1
Total	**12.6**	**15.4**

The taxable event for Stamp Duty Land Tax is the purchase of property.

The taxable event for Stamp Duty and Stamp Duty Reserve Tax is the purchase of shares. HMRC can only record Stamp Duty when a stamp is presented to HMRC and hence the duty is recognised on a cash basis. For further information, please see note 1.2.

The taxable event for Annual Tax on Enveloped Dwellings (ATED) is a company owning a UK residential property valued at £500,000 or more during a chargeable period. 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	2021 £bn	2020 £bn
Wine, cider and perry	4.9	4.5
Spirits	4.1	3.9
Beer	3.1	3.5
Total	**12.1**	**11.9**

The taxable event for alcohol duties is the date of production, date of import or movement of relevant goods out of a duty suspended regime (a regime where, under UK legislation, certain goods benefit from a temporary suspension or reduction of import duties).

2.7 Capital Gains Tax

For the year ended 31 March	2021 £bn	2020 £bn
Total	**12.0**	**10.0**

The taxable event for Capital Gains Tax (CGT) is the disposal of a chargeable asset leading to a taxable gain. From 6 April 2020, disposals of UK residential property or land need to be reported within 30 days with any CGT due also payable by this date.

CGT receipts for UK residents are reported in the Trust Statement on a partial accrual basis and repayments are reported on a cash basis in the period the repayment is made. For further information, please see note 1.2.

2.8 Tobacco

For the year ended 31 March	2021 £bn	2020 £bn
Cigarettes	7.4	7.9
Hand-rolling tobacco	2.2	1.7
Cigars	0.1	0.1
Tobacco for heating and other	0.1	–
Total	**9.8**	**9.7**

The taxable event for tobacco duties is the date of production, date of import or movement of relevant goods out of a duty suspended regime (a regime where, under UK legislation, certain goods benefit from a temporary suspension or reduction of import duties).

2.9 Insurance Premium Tax

For the year ended 31 March	2021 £bn	2020 £bn
Total	**6.1**	**6.5**

The taxable event for Insurance Premium Tax (IPT) is the receipt or entitlement to receive a premium under a taxable insurance contract.

2.10 Other taxes and duties

For the year ended 31 March	Note	2021 £bn	2020 £bn
Inheritance Tax		5.6	5.1
Customs Duties	2.10.1	3.2	3.3
Betting and gaming duties		2.9	3.0
Apprenticeship Levy		2.9	2.7
Climate Change Levy		2.0	2.0
Bank Levy		1.9	2.3
Bank Surcharge		0.9	1.7
Landfill Tax		0.6	0.6
Digital Services Tax	2.10.2	0.5	–
Aggregates Levy		0.4	0.4
Air Passenger Duty		0.3	3.7
Soft Drinks Industry Levy		0.3	0.3
Diverted Profits Tax		0.2	–
Petroleum Revenue Tax		–	0.1
Total		**21.7**	**25.2**

New taxes and duties introduced in this financial year, and changes to existing taxes and duties are detailed further below:

2.10.1 Customs Duties

On 31 January 2020 the United Kingdom (UK) left the European Union (EU), and the Withdrawal Agreement came into effect. Following the end of the transition period at 11.00pm on 31 December 2020, the UK operates a full, external border as a sovereign nation. This means controls are placed on the movement of goods between Great Britain (GB) and the EU.

These controls are being implemented in stages. Currently, if certain conditions are met, traders importing goods into GB from the EU can delay submitting supplementary declarations by up to 175 days. As at 31 March 2021, declarations may not have been received for the period 1 January 2021 to 31 March 2021 and therefore, an estimate of £27 million has been included within Custom Duties.

For further information see “Supporting the UK’s international trade” on pages 74 and 77.

2.10.2 Digital Services Tax

Digital Services Tax (DST) was introduced on 1 April 2020 and applies to large multi-national enterprises that provide a social media service, search engine or an online marketplace to UK users. These businesses will be liable to pay DST at a rate of 2% of revenues from these digital activities when the group's worldwide revenues are more than £500 million and more than £25 million of that revenue is derived from UK users. The taxable event for DST is the earning of assessable profit during the taxation period by the taxpayer.

The nature of DST legislation means that accrued revenue is required to be estimated, as tax returns reporting taxpayer liabilities or associated tax payments are not filed until after the Trust Statement has been published.

3. Other revenue, income and disbursements

3.1 National Insurance Contributions

For the year ended 31 March	2021 £bn	2020 £bn
National Insurance Fund Great Britain (NIF GB)	112.1	112.1
National Insurance Fund Northern Ireland (NIF NI)	2.3	2.3
National Health Services (NHS)	27.1	27.5
Total National Insurance Contributions (NICs)	**141.5**	**141.9**
Less: NIC expenditure	(0.5)	(0.9)
NICs due to NIF and NHS	**141.0**	**141.0**

National Insurance Contributions (NICs) are collected by HMRC on behalf of the National Insurance Funds (NIF) of Great Britain and Northern Ireland and the National Health Services (NHS) for England, Wales, Scotland and Northern Ireland. They are payable to the NIF and the NHS when received and not when accrued.

National insurance classes 1A and 1B receipts are recognised on a cash basis in the accounting period in which the contributions are allocated. For further information on National insurance classes 1A and 1B, see note 1.2 "Accounting Convention" on page 223 in the Trust Statement.

As part of the government announcement in March 2020, the government funded up to 80% of employees' wages as part of the Coronavirus Job Retention Scheme (CJRS) and provided grants for up to 80% of the average monthly trading profits for self-employed individuals as part of the Self-Employment Income Support Scheme (SEISS). These government funded amounts are subject to NICs. For further information see note 4 in the Resource Accounts.

3.2 Appropriation of revenue to the Resource Accounts

For the year ended 31 March	2021 £bn	2020 £bn
Personal tax credits	15.3	18.0
Corporation tax reliefs	9.8	7.0
Total Appropriation of revenue to Resource Accounts	**25.1**	**25.0**

The recognition of personal tax credits (PTC) and corporation tax reliefs (CTR) is accounted for in the Resource Accounts.

The Trust Statement is responsible for the payment of PTC and CTR through the tax collection and repayment process. As per the FReM, funding of these amounts is recorded in the Trust Statement as revenue received and as a disbursement to Resource Accounts.

For further information on personal tax credits and corporation tax reliefs, see note 5.1.1 and 5.1.4 respectively, on page 267 and page 271 in the Resource Accounts.

Please see the Resource Accounts, Consolidated Statement of Changes in Taxpayers' Equity, page 250.

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.

3.5 Taxation due to the Isle of Man

Under the Isle of Man Act 1979, a revenue sharing arrangement exists between the UK and the Isle of Man (IoM). Detail of the revenue sharing arrangement was agreed on 24 March 2020, superseding all previous agreements. Certain tax revenue streams, known as 'common duties' are pooled and then shared on an agreed basis. The IoM is entitled to the share of common duties collected in the UK and the IoM that are attributable to goods consumed and services supplied in the island. If the IoM agreed share is greater than revenues collected and retained by the IoM, this results in the UK making payment to the IoM to ensure the IoM receives the correct share. This is shown as a disbursement. Where the IoM collects and retains more than agreed under the sharing arrangement, the IoM makes payment to the UK. This is shown as other revenue and income.

For the period ended 31 March 2021 payments to the IoM totalled £284 million (£245 million net payments in 2019 to 2020).

4. Receivables, accrued revenue receivable and impairment charges

4.1 Receivables and accrued revenue receivable (ARR)

	Receivables as at 31 March 2021 £bn	Accrued revenue receivable as at 31 March 2021 £bn	Total as at 31 March 2021 £bn	Total as at 31 March 2020 £bn
Non-current assets				
Receivables due after one year:				
Inheritance Tax	1.7	–	1.7	1.5
Non-current assets after impairment	**1.7**	**–**	**1.7**	**1.5**
Current assets				
Receivables and ARR due within one year:				
Income tax	9.6	29.7	39.3	42.1
Value Added Tax	33.0	37.2	70.2	49.4
Corporation Tax	5.9	5.7	11.6	9.9
National Insurance Contributions	6.4	13.7	20.1	19.4
Other taxes and duties	8.7	8.2	16.9	16.5
Current assets before impairment	**63.6**	**94.5**	**158.1**	**137.3**
Less impairment (note 4.2)	(14.7)	(1.5)	(16.2)	(11.4)
Total current assets after impairment	**48.9**	**93.0**	**141.9**	**125.9**
Total assets before impairment	**65.3**	**94.5**	**159.8**	**138.8**
Less impairment (note 4.2)	(14.7)	(1.5)	(16.2)	(11.4)
Total assets after impairment	**50.6**	**93.0**	**143.6**	**127.4**

4.1.1 Receivables

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. Further information on receivables can be found in the section 'Performance analysis', 'Receivables' (page 44).

The increase in receivables is largely due to the COVID-19 deferral policy for VAT (£22.1 billion), announced by the Government in March 2020, which allowed taxpayers to defer VAT payments due between 20 March 2020 and 30 June 2020 until 31 March 2021, with the option to pay in instalments up to February 2022.

4.1.2 Accrued revenue receivable

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 (SA) and Corporation Tax (CT), the department has estimated ARR. Further information on significant estimates can be found in note 6 (page 236).

HMRC has a number of taxpayer liabilities which have been postponed pending finalisation of enquiries. These items arise predominantly under income tax 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, is recognised in the accounts. As a result, an amount of £1.2 billion (£1.2 billion in 2019 to 2020) has been included in ARR.

4.2 Impairment of receivables and ARR

	Receivables as at 31 March 2021 £bn	Accrued revenue receivable as at 31 March 2021 £bn	Total as at 31 March 2021 £bn	Total as at 31 March 2020 £bn
Balance as at 1 April	9.4	2.0	11.4	8.9
Increase/(decrease) in impairment	5.3	(0.5)	4.8	2.5
Balance as at 31 March	**14.7**	**1.5**	**16.2**	**11.4**

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 historical trends of collection rates, losses, discharges, amendments and cancellations.

The department assesses the collectability of amounts due that are considered individually significant and the remainder are placed into groups of similar receivables and ARR, based on risk, and assessed collectively.

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 losses model set out in IFRS 9.

HMRC has considered how the adverse economic conditions due to COVID-19 affect HMRC receivables and collection rates in-line with IFRS 9. The impairments calculation has been assessed to identify the key impacts due to COVID-19, which are explained further in notes 4.2.1 and 4.2.2.

The 2020 to 2021 total impairment rate is 10.1%[1], compared to a rate of 12.1% used in the 2008 to 2009 accounts, following the global recession. The lower impairment rate for 2020 to 2021 is supported given the level of government support provided by the COVID-19 support schemes and the expectation that the economy is expected to recover quicker compared to the global recession, where Gross Domestic Product (GDP) took 5 years to recover to pre-recession size.

Several external publications have been reviewed including economic forecasts published by HM Treasury in May 2021 and a Bank of England report published in June 2021. These included independent forecasts for 2021 and 2022 suggesting growth in GDP of 6.5% and 5.6% respectively and suggest individuals were more equipped for this recession than the global recession.

Based on this analysis of internal information and a review of external publications, HMRC have concluded that the average impairment rates used are reasonable and represent expected credit losses.

1 Total impairment divided by total receivables and ARR before impairment

4.2.1 Deferral policy

Receivables have increased significantly as a result of the COVID-19 deferral policy for VAT which allows taxpayers to pay later than usual. The deferral policy has reduced amounts received and amounts written off (revenue losses) for VAT, both of which impact the collection rates used in our impairments calculation.

VAT deferrals are individually significant to the impairments calculation and HMRC have considered these separately when calculating the overall impairment value. This has been impaired based on the estimated value for taxpayer non-payment, as published in the OBR's Economic and Fiscal Outlook in November 2020, and this estimate was revised in June 2021 following the uptake of the VAT instalment payment scheme.

HMRC continues to monitor and analyse the VAT deferral position since 31 March 2021, including amounts paid and amounts that taxpayers have committed to pay by instalments. HMRC have concluded that this analysis supports the non-payment assumptions used for VAT deferrals.

The impact of VAT deferrals has also been removed from the historic collection rate calculations that are applied to other categories of receivables.

4.2.2 Collection rates

Due to the implications of COVID-19 on HMRC collection rates, the last 12 months are not considered a good basis for estimating future collection rates. Therefore, multi-year averages have been used in our calculation based on historic impairments rates from the past 4 years, excluding the past 12 months. HMRC have then considered the reasonableness of these average impairment rates by reviewing tax receipts since 31 March 2021, comparing this to the previous year.

4.2.3 Sensitivity Analysis

There are several key assumptions that underpin this estimate, including the non-payment assumption for VAT deferrals and the impairment rates applied to significant receivables balances.

Sensitivity analysis has been produced to demonstrate the overall impact of changes to these key assumptions and the results are shown in the table below.

HMRC have reviewed historic rates for these assumptions where available, together with information since 31 March 2021 and have concluded that the impact of changes in key assumptions are unlikely to exceed the percentages within the table below. However, this is less certain than normal given the range of impacts that COVID-19 has had on tax collection rates.

The receivables impairment rate is 22.5%[1] . This comprises of 10.4% impairment for deferrals and 28.7% impairment for non-deferred receivables (25.2% in 2019 to 2020). The ARR impairment rate is 1.6%[2] (2.0% for 2019 to 2020).

Potential impact on impairments

Impairment rate change	Increase £bn	Decrease £bn
Receivables impairment rate (+/-5%)	3.3	(3.3)
ARR impairment rate (+/-2%)	1.9	(1.9)

1 Receivables impairment divided by total receivables before impairment

2 ARR impairment divided by ARR before impairment

4.3 Revenue losses

	Remissions 31 March 2021 £m	Write-offs 31 March 2021 £m	Total 31 March 2021 £m	Remissions 31 March 2020 £m	Write-offs 31 March 2020 £m	Total 31 March 2020 £m
Income tax	240	271	511	324	526	850
Value Added Tax	16	698	714	12	1,777	1,789
Corporation Tax	11	154	165	4	309	313
National Insurance Contributions	24	253	277	27	311	338
Fines and penalties	137	130	267	162	502	664
Other remissions and write-offs	17	11	28	17	113	130
Total revenue losses	**445**	**1,517**	**1,962**	**546**	**3,538**	**4,084**

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.

The decrease in revenue losses is due to the reduction in individual and corporate insolvencies. The reduction in insolvencies is partly driven by government measures to financially support individuals and businesses during the COVID-19 pandemic, and introducing temporary restrictions on the use of statutory and certain winding up petitions. Also, operational restrictions caused by the pandemic reduced the amount of HMRC compliance activity, leading to a reduction in losses.

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.

Fines and penalties losses relating to National Insurance Contributions (NICs) are accounted for as NICs revenue losses.

Further information on losses can be found in the section 'Performance analysis', 'Tax losses' (page 46)

Revenue losses – cases more than £10 million

For the period ended 31 March 2021, there were 9 cases (23 cases in 2019 to 2020) where the loss exceeded £10 million, totalling £320 million (£634 million in 2019 to 2020). Details are shown below:-

There were 6 write-offs (19 cases in 2019 to 2020) relating to Insolvency, totalling £126 million (£391 million in 2019 to 2020).

There was one bulk write-off for PAYE of £18 million relating to 130,000 customers where it was identified the debt was 5 years or older. These liabilities were considered as being uncollectable due to being outside statutory time limits to pursue.

There was one bulk remission for Self Assessment penalties of £162 million (£186 million in 2019 to 2020) relating to 60,440 cases (65,504 cases in 2019 to 2020), 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 one bulk remission case of £14 million relating to VAT and Excise Assessments where the traders have no identifiable assets and therefore recovery action is not possible.

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	2021 £bn	2020 £bn
Increase/(decrease) in impairment of receivables and ARR	4.2	4.8	2.5
Revenue losses	4.3	2.0	4.1
Total impairment charges		**6.8**	**6.6**

5. Payables, accrued revenue payable and deferred revenue

	Payables as at 31 March 2021 £bn	Accrued revenue payable as at 31 March 2021 £bn	Deferred revenue as at 31 March 2021 £bn	Total as at 31 March 2021 £bn	Total as at 31 March 2020 £bn
Income tax	1.7	3.3	–	5.0	5.2
Value Added Tax	3.7	14.9	–	18.6	16.2
Corporation Tax	9.4	1.5	0.3	11.2	10.8
National Insurance Funds and the NHS	1.0	17.5	–	18.5	17.9
Other revenue payables	2.4	0.1	1.9	4.4	3.9
Other payables	0.1	–	–	0.1	-
Payments on account	3.2	–	–	3.2	2.8
Current liabilities before cash and cash equivalents	**21.5**	**37.3**	**2.2**	**61.0**	**56.8**
Cash and cash equivalents	1.6	–	–	1.6	1.4
Total current liabilities	**23.1**	**37.3**	**2.2**	**62.6**	**58.2**

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. 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 estimation. This note considers the significant revenue estimates. There are separate estimation disclosures on impairment of receivables and ARR (note 4.2), provision for liabilities and contingent liabilities (note 7) and devolved taxes (note 13).

Tax forecasting models are used to produce the revenue estimates, and these are based on a combination of projections including 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.

Due to the nature of tax legislation, the most difficult taxes to estimate are Corporation Tax and Self Assessment income tax.

Estimates have been made to support the ARR and 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 take into consideration the economic assumptions prepared for the March 2021 Budget and the Economic and Fiscal Outlook published by the Office for Budget Responsibility (OBR) in March 2021. Estimates have been prepared using the judgement of professional departmental economists and statisticians having substantial experience of tax forecasting.

6.1 Uncertainty around the estimates

Estimation uncertainty is based on a combination of factors, such as, evidence from the performance of our estimation models over previous years, changes to reflect the March 2021 Budget, and the Economic and Fiscal Outlook published by the OBR in March 2021.

Actual outcomes could differ from the estimates used, due to the areas of uncertainty involved. Estimation uncertainty has increased due to COVID-19, which may result in adjustments to the carrying values of our Accrued Revenue Receivables and Payables within the next financial year.

Each year HMRC reviews the performance of its estimation models. Last year, the ARR overestimation was £1.9 billion (0.3% of 2019 to 2020 total revenue) and the ARP overestimation was £0.1 billion (0.02% of 2019 to 2020 total revenue).

The process for each significant estimate is described in more detail below:

6.2 Self Assessment income tax

Self Assessment (SA) ARR is estimated to be £13.0 billion this year (£18.5 billion in 2019 to 2020), which is included in the total income tax ARR of £29.7 billion (£35.4 billion in 2019 to 2020) in note 4.1. The ARR represents taxpayer liabilities due where the taxable event has already occurred, but the return has not been submitted by the taxpayer by the end of the financial year.

The SA regime involves long filing and payment lags, so the ARR estimate is driven by the March 2021 Budget forecast and the underlying economic determinants are based on the OBR central forecast including expected impacts of COVID-19, rather than by receipts data.

The estimation process has 3 stages:

i) Estimation of accrued tax liabilities for 2020 to 2021. Information from SA returns relating to 2020 to 2021 are not available at the point of estimation, therefore the March 2021 Budget SA income tax forecast has been revised in line with the latest economic and tax receipts data that has been received.

ii) Deduction from the estimated 2020 to 2021 accrued tax liabilities of relevant payments received by the end of the financial year.

iii) A further deduction from the estimated 2020 to 2021 accrued tax liabilities for payments due by the end of the financial year but not made by that date. These amounts relate to payments on account due by 31 January. These are included within receivables (note 4.1).

There are several key economic factors that underpin these estimates. These include mixed income growth, dividend 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 produced to demonstrate the impact of changes to key assumptions used in the current estimate and the results are shown in the table below.

Based on historic data, changes in key assumptions are unlikely to exceed the percentages within the table below, but this is less certain than normal given the range of impacts that COVID-19 has had on income tax.

Impact on SA income tax ARR of varying key economic factors

Key Assumption (Change)	Increase £bn	Decrease £bn
Mixed income growth (+/-2%)	0.4	(0.4)
Dividend income growth (+/-3%)	0.3	(0.3)
Mainly SA Non-Saving Non-Dividend AETR (+/-0.25%)	0.5	(0.5)
Dividend AETRs (+/-1%)	0.5	(0.5)
Mainly SA PAYE deduction rate (+/-0.25%)	(0.2)	0.2

6.3 Corporation Tax

Corporation Tax (CT) ARR is £5.7 billion (£7.7 billion in 2019 to 2020) which includes an estimated amount of £4.1 billion (£5.9 billion in 2019 to 2020).

The ARR represents taxpayer liabilities due where the taxable event has already occurred, but the return has not been submitted by the taxpayer by the end of the financial year. As with SA, the filing of CT returns and payments are subject to a considerable lag, so the ARR estimate is subject to uncertainty, since there is less outturn data available.

The key drivers of the ARR estimate are outturn CT receipts received to date, which will reflect COVID-19 impacts occurring during 2020 to 2021, and a series of assumptions. These assumptions are needed to estimate the total amount of accrued tax liabilities from CT returns that relate to 2020 to 2021 but are not available at the point of estimation and are explained further below.

Sensitivity analysis has been produced to demonstrate the impact of changes to key assumptions used in the current estimate and the results are shown in the table below.

Based on historic data, changes in key assumptions are unlikely to exceed the percentages within the table below, but this is less certain than normal given the range of impacts that COVID-19 has had on CT.

Impact on CT ARR of varying key economic factors

Key Assumption (Change)	Increase £bn	Decrease £bn
Late Payments (+/-2%)	0.2	(0.2)
Overpayments (+/-3%)	(0.4)	0.4
CT liability growth (+/-10%)	0.2	(0.2)
Proportion of companies' CT liabilities paid with in-year QIPs (+/-5%)	(0.4)	1.0

Separate ARR estimates have been calculated for onshore and North Sea companies because of differences in how these companies operate and, in particular, the number of instalments paid. Further detail can be found below.

Onshore companies

CT for large onshore companies is paid by four quarterly instalment payments. CT ARR has been estimated where between one and four quarterly instalment payments (QIPs) for onshore companies have been received using a model that forecasts companies' CT liabilities based on the number and value of QIP's received by a given date.

For accounting periods where no QIPs have been received, ARR has been estimated using OBR's March 2021 Corporation Tax forecast.

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.

As agreed with HM Treasury, Corporation Tax for smaller companies that do not pay by instalment are accounted for on a partial accrual basis, as a reliable ARR estimate for these companies cannot be formed.

North Sea companies

North Sea companies pay their CT liabilities in three instalment payments (TIPs).

Most TIPs relating from 1 January to 31 March are not due in sufficient time to be included in the TIPs estimation model and these amounts are therefore estimated. This estimate is based on the OBR's March 2021 North Sea taxes forecast.

6.4 Value Added Tax

Value Added Tax (VAT) ARR is £37.2 billion (£35.8 billion in 2019 to 2020) and ARP is £14.9 billion (£14.1 billion in 2019 to 2020). Only a small proportion of these balances are estimated because a large amount is based on actual VAT return data and is not therefore subject to significant estimation uncertainty. It is necessary to estimate (ARR of £0.9 billion and ARP of £0.3 billion) as returns submitted in July relating to the current financial year are not available at the time of producing the estimate. An estimate is produced by calculating the value of these returns 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.

A number of further adjustments need to be made 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.

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 estimated reliably.

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 and/or the amount cannot be measured reliably.

Provision for liabilities

	Legal claims £bn	Oil and gas field decommissioning £bn	Total 2021 £bn	Total 2020 £bn
Balance as at 1 April	4.9	9.4	14.3	13.0
Provided in the year	1.1	0.6	1.7	2.6
Provision not required written back	(1.5)	(0.1)	(1.6)	(0.6)
Provision utilised in the year	(1.1)	(0.4)	(1.5)	(0.7)
Balance as at 31 March	**3.4**	**9.5**	**12.9**	**14.3**

Analysis of expected timing of cash flows

	Legal claims £bn	Oil and gas field decommissioning £bn	Total 2021 £bn
Amounts payable within 5 years	3.2	2.0	5.2
Amounts payable after 5 years	0.2	7.5	7.7
Balance as at 31 March	**3.4**	**9.5**	**12.9**

7.1 Provisions in-year expenditure movement

	Legal claims £bn	Oil and gas field decommissioning £bn	Total 2021 £bn	Total 2020 £bn
Total provided in the year	1.1	0.6	1.7	2.6
Provision not required written back	(1.5)	(0.1)	(1.6)	(0.6)
Net movement increase/(decrease)	**(0.4)**	**0.5**	**0.1**	**2.0**

7.2 Legal claims

Provision for liabilities

HMRC is involved in a number of legal and other disputes which can result in claims against HMRC by taxpayers. 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 an element of 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 2020 to 2021; 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 contingent liabilities 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, HMRC has 5 cases estimated to have a value of £3.1 billion (compared to 5 cases with an estimated value of £2.2 billion in 2019 to 2020) 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 and VAT.

The total value of estimates has increased in 2020 to 2021 due to revised costings and reclassification from provisions due to improved chance of success.

Potential claimants could opt to follow a lead case and may not yet be known to HMRC or the Courts. Those 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 comprising of two elements: Ring-fenced Corporation Tax and Supplementary Charge.

The legislation governing the losses from decommissioning costs (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

The provision is estimated as the appropriately discounted sum of all forecast decommissioning repayments over the expected lifetime of the North Sea oil and gas fields. Repayment profiles are derived from the output produced by HMRC's North Sea Forecasting Model developed at the individual company and field level. There has been no significant change in the model since last year.

A provision of £9.5 billion has been reported in 2020 to 2021 based on the estimated tax repayments of PRT £3.3 billion (£3.6 billion in 2019 to 2020) and offshore CT £6.2 billion (£5.8 billion in 2019 to 2020) by HMRC to companies over the period to 2068 due to losses from decommissioning expenditure.

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, production and the US Dollar/Sterling exchange rate) from the Office for Budget Responsibility and the Department for Business, Energy and Industrial Strategy (BEIS) as well as the discount rates from HM Treasury.

There has been a £0.1 billion increase in the overall provision since last year. The main cause of this was the higher forecast decommissioning costs when converted into nominal terms. This effect was largely offset by higher forecast oil and gas prices which lower the provision due to decreased forecast repayments.

The provision utilised in-year is the tax repayments in 2020 to 2021 due to decommissioning expenditure.

Uncertainty around the estimate of the provision

There is inherent uncertainty surrounding forecasting oil and gas revenues over nearly 40 years ahead.

The £9.5 billion provision is based on a view of assumptions as mentioned above. However, low and high estimates of the provision have been prepared based on different views:

a) The high estimate of £13.5 billion is based on lower price assumptions and production is reduced compared to current industry expectations.

b) The low estimate of £8.4 billion is based on assumptions that are positive for the North Sea, i.e., prices are sustained at higher levels and all proposed production projects go ahead.

The sensitivity of the £9.5 billion provision to individual inputs are as below.

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 £9.5 billion provision included in the Trust Statement is calculated using the OGA's central estimate for decommissioning costs of £48 billion in 2020 prices. Using the OGA's lower (£38 billion) and upper (£61 billion) decommissioning cost estimates would instead give provision estimates of £7.7 billion and £12.4 billion respectively.

The main economic determinant which drives the provision are oil and gas prices. The model has utilised certain BEIS projections and applied a growth rate to projected prices for later years. Compared to the baseline oil and gas price forecasts a ten percent increase (decrease) would decrease (increase) the provision by approximately £0.7 billion (£0.9 billion).

The provision is also impacted by discount 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 50 basis points will decrease the overall provision by £0.6 billion. The same decrease in discount rates would increase the provision by £0.6 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 £0.4 billion decrease in the provision. A 10-cent depreciation of the Dollar results in a £0.5 billion increase in the required provision.

8. Balance on Consolidated Fund Account

Movements on Consolidated Fund account:	2021 £bn	2020 £bn
Balance on Consolidated Fund as at 1 April as previously reported	54.9	58.9
Net revenue for the Consolidated Fund	432.6	459.2
Less amount paid to Consolidated Fund	(419.4)	(463.2)
Balance on Consolidated Fund Account	**68.1**	**54.9**

9. Certificates of tax deposits

Under the Certificate of Tax Deposits (CTD) scheme, HMRC previously accepted 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.

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. The value redeemed for the year ended 31 March 2021 totalled £56 million (£126 million in 2019 to 2020).

Delays in processing between redemption of CTDs and the transfer of funds to and from the National Loans Fund can result in an outstanding balance at the year end; this balance is included within payables in the Statement of Financial Position in the Trust Statement.

10. 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.

11. 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 EU member state(s) where the consumers of telecommunications, broadcasting and e-services are subsequently located. VAT MOSS traders can amend returns until 31 December 2021. Therefore, this arrangement will continue until the return amendment period has ended. Neither the department nor the government have any beneficial interest in these funds.

For further information on VAT MOSS being withdrawn as part of UK Transition, see note 2.2 on page 225 in the Trust Statement.

12. 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.

13. Devolved taxes

13.1 Scottish income tax

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 6 April 2017.

Starting from the 2018 to 2019 tax year and continuing up to the 2020 to 2021 tax year there have been five income tax bands in Scotland with different limits and rates applied to each. These range from the Starter rate of 19% up to the Top rate of 46%. This means that a Scottish taxpayer can pay a different amount of total income tax compared to someone from England and Northern Ireland earning the same amount of income. More information on the Scottish income tax rates for the 2020 to 2021 tax year can be found on the GOV.UK website (https://www.gov.uk/scottish-income-tax/2020-to-2021-tax-year).

13.2 Welsh income tax

The Wales Act 2017 gives the Welsh Parliament the power to set Welsh Rates of Income Tax (WRIT). This allows the Welsh Government to affect the amount of income tax that Welsh taxpayers pay and, as a result, the amount that the Welsh Government can spend in Wales. WRIT is calculated on a tax year basis and was introduced with effect from 6 April 2019.

The Welsh rates for the 2019 to 2020 and 2020 to 2021 tax years were set at 10% for each of the tax bands. This means that a Welsh taxpayer paid the same amount of total income tax as someone from England and Northern Ireland earning the same amount of income, but for the Welsh taxpayer 10 percentage points of each tax band was owed to the Welsh Government with the remainder owed to the UK Consolidated Fund.

13.3 Scottish and Welsh income tax estimates for 2020 to 2021

The provisional estimate of revenue raised in 2020 to 2021 from Scottish income tax is £12.0 billion and from Welsh income tax it is £2.1 billion.

These figures have been estimated because actual data is unavailable. For example, minimal disclosure has been made to HMRC in respect of SA revenue for the 2020 to 2021 tax year, and PAYE revenue is not available for taxpayers whose accounts have not been reconciled at the time the estimate has been produced for the Trust Statement. They also include 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 and Welsh shares of income tax liabilities are estimated using a model based on the HMRC Survey of Personal Incomes which reflects data collected in 2018 to 2019. These are also adjusted to take account of the latest 2019 to 2020 income tax for the Scottish and Welsh final outturn data. This latter adjustment involves scaling each of the provisional estimates in 2020 to 2021 by the percentage difference between their 2019 to 2020 final outturn data and the underlying methodology's estimates of 2019 to 2020 based on the HMRC Survey of Personal Incomes.

The underlying methodology estimated higher Scottish income tax receipts in 2019 to 2020 than the final outturn, therefore, the 2020 to 2021 provisional estimate has been scaled down by a proportionate amount. The methodology also estimated higher Welsh Income Tax receipts for 2019 to 2020 than the final outturn and the 2020 to 2021 provisional estimate has been scaled down by a proportionate amount.

Further information on revenue for the tax year 2020 to 2021 that becomes available during 2020 to 2021 will allow refinement of these calculations. Updated figures will be disclosed in the 2021 to 2022 Trust Statement, allowing a final reconciliation for the 2020 to 2021 tax year.

13.4 Scottish and Welsh income tax outturn for 2019 to 2020

Provisional estimates for Scottish income tax of £11.7 billion and £2.0 billion for Welsh income tax were disclosed in last year's accounts. Now that HMRC has established approximately 97% of the tax liabilities for the year, the final outturn figures for 2019 to 2020 have been calculated as £11.8 billion for Scottish income tax and £2.0 billion for Welsh income tax.

For full details on the 2019 to 2020 outturn please refer to the HMRC publications released on 22 July 2021 https://www.gov.uk/government/statistics/scottish-income-tax-outturn-statistics-2019-to-2020 and https://www.gov.uk/government/statistics/welsh-income-tax-outturn-statistics-2019-to-2020. The outturn publications are not subject to NAO audit.

HM Treasury is responsible for ensuring that the proceeds are made available to fund expenditure by the Scottish and Welsh Governments; these transfers are not accounted for in the HMRC Trust Statement.

The costs of collecting and administering are charged to the Scottish and Welsh Governments and accounted for in the parliamentary accountability section (see table 48 on page 204).

14. 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.

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 2021 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 Government Financial Reporting Manual ("FReM") and the FReM Addendum issued by HM Treasury which is in force for 2020-21.

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 11). 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.

8. The Trust Statement, together with this direction (but with the exception of the related appendices) and the Report produced by the Comptroller and Auditor General under section 2 of the Exchequer and Audit Departments Act 1921 shall be laid before Parliament at the same time as the Department's Resource Accounts for the year unless the Treasury have agreed that the Trust Statement may be laid at a later date.

Michael Sunderland
Deputy Director, Government Financial Reporting
Her Majesty's Treasury

23 December 2020

Resource Accounts

Consolidated Statement of Comprehensive Net Expenditure

for the year ended 31 March 2021

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	2020-21 £m Departmental group	Core department and agency	2019-20 £m Departmental group
Cash items:					
COVID-19 support schemes[1]	4	81,233.3	81,233.3	–	–
Personal tax credits	5.1.1	15,063.2	15,063.2	18,331.3	18,331.3
Corporation tax reliefs	5.1.4	10,696.1	10,696.1	10,100.7	10,100.7
Child Benefit		11,476.3	11,476.3	11,465.8	11,465.8
Tax Free Childcare		253.0	253.0	245.5	245.5
Lifetime ISA		346.1	346.1	225.8	225.8
Help to Save		67.9	67.9	23.8	23.8
Staff and related costs		2,745.3	2,778.3	2,701.6	2,735.3
Goods and services		1,143.2	1,105.0	863.6	824.7
Service charges		326.3	326.3	330.0	330.0
Payments in lieu of tax relief and rates		220.3	220.3	205.1	205.1
Other cash expenditure		424.2	424.9	294.8	295.4
Non-cash items:					
Transfer of personal tax credit receivables to DWP		325.6	325.6	605.1	605.1
Amortisation	7	266.4	266.4	238.8	238.8
Provisions	12	48.1	48.1	78.9	78.9
Depreciation	6	58.6	58.7	73.6	73.7
Other		21.3	21.3	18.7	18.7
Total operating expenditure	2	**124,715.2**	**124,710.8**	**45,803.1**	**45,798.6**
Total operating income		**(417.7)**	**(413.3)**	**(355.3)**	**(350.8)**
Net operating expenditure		**124,297.5**	**124,297.5**	**45,447.8**	**45,447.8**
Other comprehensive net expenditure					
Items that will not be reclassified to net operating costs:					
Net loss/(gain) on:					
- revaluation of property, plant and equipment		1.4	1.4	(5.1)	(5.1)
- revaluation of intangible assets		(47.3)	(47.3)	(20.1)	(20.1)
- actuarial revaluation of pension scheme		0.9	0.9	13.2	13.2
Total comprehensive expenditure for the year		**124,252.5**	**124,252.5**	**45,435.8**	**45,435.8**

[1] The individual schemes are detailed separately in note 4.

The notes on pages 251 to 292 form part of these accounts.

Consolidated Statement of Financial Position

as at 31 March 2021

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	Core department and agency	2020-21 £m Departmental group	Core department and agency	2019-20 £m Departmental group
Non-current assets:					
Property, plant and equipment	6	744.4	745.1	565.4	565.8
Intangible assets	7	1,606.5	1,606.5	1,396.4	1,396.4
Receivables	9	1,372.0	1,365.0	1,451.2	1,444.2
Pension Asset	13	5.9	5.9	6.7	6.7
Total non-current assets		**3,728.8**	**3,722.5**	**3,419.7**	**3,413.1**
Current assets:					
Inventories		1.6	1.6	1.8	1.8
Trade and other receivables	9	1,091.6	1,090.8	1,132.1	1,131.1
Cash and cash equivalents	10	9,910.2	9,914.4	80.4	85.5
Total current assets		**11,003.4**	**11,006.8**	**1,214.3**	**1,218.4**
Total assets		**14,732.2**	**14,729.3**	**4,634.0**	**4,631.5**
Current liabilities:					
Trade and other payables	11	(21,795.4)	(21,792.5)	(9,608.3)	(9,605.8)
Provisions	12	(1.5)	(1.5)	(15.0)	(15.0)
Total current liabilities		**(21,796.9)**	**(21,794.0)**	**(9,623.3)**	**(9,620.8)**
Total assets less current liabilities		**(7,064.7)**	**(7,064.7)**	**(4,989.3)**	**(4,989.3)**
Non-current liabilities:					
Payables	11	(1,887.4)	(1,887.4)	(1,802.3)	(1,802.3)
Provisions	12	(190.6)	(190.6)	(225.2)	(225.2)
Total non-current liabilities		**(2,078.0)**	**(2,078.0)**	**(2,027.5)**	**(2,027.5)**
Total assets less total liabilities		**(9,142.7)**	**(9,142.7)**	**(7,016.8)**	**(7,016.8)**
Taxpayers' equity and other reserves:					
General fund		9,245.8	9,245.8	7,111.7	7,111.7
Revaluation reserve		(103.1)	(103.1)	(94.9)	(94.9)
Total equity		**9,142.7**	**9,142.7**	**7,016.8**	**7,016.8**

Jim Harra
Accounting Officer
28 October 2021

The notes on pages 251 to 292 form part of these accounts.

Consolidated Statement of Cash Flows

for the year ended 31 March 2021

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

	Note	2020-21 £m Core department and agency	2020-21 £m Departmental group	2019-20 £m Core department and agency	2019-20 £m Departmental group
Cash flows from operating activities					
Net operating expenditure		(124,297.5)	(124,297.5)	(45,447.8)	(45,447.8)
Adjustments for non-cash transactions	2	720.0	720.1	1,015.1	1,015.2
(Increase)/decrease in trade and other receivables[1]		103.7	103.7	864.8	857.9
Personal tax credits receivables, adjusted for impairment, transferred to DWP	5.1.2	(325.6)	(325.6)	(605.1)	(605.1)
(Increase)/decrease in inventories		0.2	0.2	0.1	0.1
Increase/(decrease) in trade and other payables[1]		3,174.8	3,174.2	3,203.0	3,206.7
Use of provisions	12	(96.2)	(96.2)	(54.6)	(54.6)
Net cash outflow from operating activities		**(120,720.6)**	**(120,721.1)**	**(41,024.5)**	**(41,027.6)**
Cash flows from investing activities					
Additions to property, plant and equipment	6	(245.0)	(245.4)	(140.6)	(141.0)
Less additions to leased property, plant and equipment		10.0	10.0	8.4	8.4
Additions to intangible assets	7	(442.4)	(442.4)	(276.9)	(276.9)
Less additions to leased intangible assets		3.6	3.6	3.0	3.0
Proceeds of disposal of property, plant and equipment		0.3	0.3	0.4	0.4
Net cash outflow from investing activities		**(673.5)**	**(673.9)**	**(405.7)**	**(406.1)**
Cash flows from financing activities					
From the Consolidated Fund (Supply) - current year		105,994.4	105,994.4	16,296.5	16,296.5
From the Consolidated Fund (Supply) - prior year		726.0	726.0	–	–
From the Consolidated Fund (non-Supply)		–	–	–	–
Repayment to the Consolidated Fund		(806.3)	(806.3)	–	–
From the Trust Statement		25,088.2	25,088.2	24,948.6	24,948.6
From the National Insurance Fund		251.5	251.5	254.1	254.1
Capital element of payments in respect of finance leases and on-Statement of Financial Position PFI contracts		(29.6)	(29.6)	(29.2)	(29.2)
Net financing		**131,224.2**	**131,224.2**	**41,470.0**	**41,470.0**
Net increase/(decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund		**9,830.1**	**9,829.2**	**39.8**	**36.3**
Payments of amounts due to the Consolidated Fund		(0.3)	(0.3)	(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		**9,829.8**	**9,828.9**	**38.8**	**35.3**
Cash and cash equivalents at the beginning of the period	10	**80.4**	**85.5**	**41.6**	**50.2**
Cash and cash equivalents at the end of the period	10	**9,910.2**	**9,914.4**	**80.4**	**85.5**

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

The notes on pages 251 to 292 form part of these accounts.

Consolidated Statement of Changes in Taxpayers' Equity

for the year ended 31 March 2021

This statement shows the movement in the year on the different reserves held by the department, analysed into General Fund and revaluation reserve. The General Fund represents the total assets less liabilities of the department, to the extent that it is not represented by revaluation reserve and financing items. The revaluation reserve reflects the change in asset values that have not been recognised as income or expenditure.

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

				2020-21			2019-20
				Departmental group			Departmental group
	Note	General Fund[1] £m	Revaluation reserve[2] £m	Total reserves £m	General Fund[1] £m	Revaluation reserve[2] £m	Total reserves £m
Balance at 1 April		**(7,111.7)**	**94.9**	**(7,016.8)**	**(2,435.0)**	**100.8**	**(2,334.2)**
Net Parliamentary funding - drawn down		105,994.4	–	105,994.4	16,296.5	–	16,296.5
Net Parliamentary funding - deemed[3]		–	–	–	41.5	–	41.5
Net Parliamentary funding - balance to surrender[4]	11	–	–	–	(806.3)	–	(806.3)
Funding from Trust Statement[5]		25,088.2	–	25,088.2	24,948.6	–	24,948.6
National Insurance Fund		225.1	–	225.1	271.3	–	271.3
Supply (payable)/receivable adjustment		(9,908.6)	–	(9,908.6)	–	–	–
Excess Vote - Prior Year		726.0	–	726.0	–	–	–
Income payable to the Consolidated Fund		(1.8)	–	(1.8)	(1.0)	–	(1.0)
Net expenditure for the year		(124,297.5)	–	(124,297.5)	(45,447.8)	–	(45,447.8)
Other net comprehensive expenditure:							
Revaluation of property, plant and equipment		–	(1.4)	(1.4)	–	5.1	5.1
Revaluation of intangible assets		–	47.3	47.3	(7.0)	27.1	20.1
Transfer between reserves		37.7	(37.7)	–	38.1	(38.1)	–
Pension reserve actuarial (losses)/gains		(0.9)	–	(0.9)	(13.2)	–	(13.2)
Contributions to LGPS pension fund by DWP		1.3	–	1.3	0.7	–	0.7
Non-cash charges - auditor's remuneration	2	2.0	–	2.0	1.9	–	1.9
Balance at 31 March		**(9,245.8)**	**103.1**	**(9,142.7)**	**(7,111.7)**	**94.9**	**(7,016.8)**

1 General Fund includes Pension Reserve figures previously reported as separate column.
2 The 31 March 2021 balance comprised £28.1 million in relation to property, plant and equipment assets (31 March 2020 £38.4 million, 1 April 2019 £45.0 million) and £74.9 million in relation to intangible assets (31 March 2020 £56.4 million, 1 April 2019 £55.8 million).
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 As a result of the decrease in net cash requirement at Supplementary Estimate, the department had a balance to surrender which was owed to the Consolidated Fund. The balance remained outstanding at 31 March 2020 and therefore has been recognised as a payable.
5 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 220.

The notes on pages 251 to 292 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 Government Financial Reporting Manual (FReM) for the financial year 2020 to 2021 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.

2020-21 FReM:
https://www.gov.uk/government/publications/government-financial-reporting-manual-2020-21

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).

As a result of a Machinery of Government change, on 11 June 2020 HMRC transferred responsibility for the Border Delivery Group (thereafter known as Border and Protocol Delivery Group) to the Cabinet Office. Comparative figures have not been restated as the impact of this Machinery of Government change is not considered material to the Group, 2019 to 2020 net expenditure having been £30.0 million and net liabilities at 31 March 2020 having been £5.6 million.

1.4 COVID-19 support schemes

HMRC is empowered with the authority to make payments under the respective COVID-19 support schemes (or extensions) at the point an HM Treasury Direction is issued.

Expenditure on claims for the Coronavirus Job Retention Scheme (CJRS) and Eat Out to Help Out (EOHO) is recognised on the accruals basis in the financial year in which the economic activity being subsidised has, or would have but for the pandemic, taken place.

CJRS claims for the period 1 March 2020 to 31 March 2020 could only be made following the HM Treasury Direction on 15 April 2020. Expenditure for these claims is recognised in the financial year 2020 to 2021.

There have been three tranches of the Self-Employment Income Support Scheme (SEISS) during the financial year 2020 to 2021 that are recognised in this set of accounts. Expenditure on claims for SEISS is recognised after the related HM Treasury Direction is in place and in the financial year when the claimant has fulfilled the performance obligations associated with the grant.

CJRS, SEISS and EOHO expenditure is net of voluntary repayments received. The Finance Act 2020 introduced legislation to recover CJRS, SEISS and EOHO overpayments or amounts not used as intended. Amounts recovered for CJRS, SEISS and EOHO through tax charges are accounted for in the Trust Statement.

1.5 Tax credits

1.5.1 Personal tax credits

Where overpayments of personal tax credits arise these are not by arrangement and are not credit assessed or loan agreements. Customers are given a certain time to settle the overpayment, or enter into an arrangement to pay debt. The debt is considered to be overdue 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 debt asset, and there have been no historic sales of tax credit debt.

Tax credit debt is being transferred to the Department for Work and Pensions (DWP) as part of the transition to Universal Credit, this is a transfer between government bodies and not a sale of the debt.

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 contractual cash flows are solely repayments of principal debt and therefore the debt is measured at amortised cost.

There is not a definition of default for personal tax credits receivables due to the nature of the legislation surrounding the recovery of overpaid personal tax credits. Personal tax credits receivables are reported net of losses which are defined and detailed in the Losses Statement which is reported in the Public, stakeholder and Parliamentary accountability section on page 202.

1.5.2 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. A final estimate is made 5 years after initial recognition with the resulting amount considered to be a reasonable proxy for final outturn in the absence of readily available actual outturn values.

All reliefs expenditure is funded by the Trust Statement. This funding is recognised in reserves.

1.6 Child Benefit

Child Benefit expenditure is recognised in the month payment becomes due.

Child Benefit expenditure includes amounts paid to 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 Public, stakeholder and Parliamentary accountability section on page 202. Losses are made up of remissions and write-offs.

1.7 Non-current assets

1.7.1 General

Furniture, vehicles, IT hardware, software licences and website development costs reported by the core department are capitalised (excluding certain low value assets). 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 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	10 to 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.

The impact of COVID-19 is not thought to have had a short-term effect on HMRC asset values, although there may be a more obvious impact in the medium to long term which will be addressed in future revaluation and impairment exercises.

1.7.2 Property plant and equipment

Property

Where substantially all risks and rewards of ownership of a leased asset are borne by the department, at the inception of the contract, the asset is recognised and recorded at the lower of fair value and the present value of the minimum lease payments. 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.

For 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. Land reported in these Accounts represents the HMRC ownership of land.

Buildings to which we are contracted under HMRC Locations Programme 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 current value in existing use 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 with the remainder undergoing 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

Where applicable, 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.

Assets under construction

Assets under construction are separately reported in note 6. In respect of the HMRC Locations Programme, 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.

1.7.3 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 an index. As the major cost of developing computer software is IT labour costs, the index used is "Office of National Statistics - 'AWE: Information & Communication Index: Non Seasonally Adjusted Total Pay Including Arrears'. This index focuses on tracking changes in pay within the Information and Communications Industries.

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 7. Costs are accumulated until the asset is available for use whereupon it is transferred to the relevant asset class and amortisation commences.

1.8 Pensions

1.8.1 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
https://www.civilservicepensionscheme.org.uk/about-us/resource-accounts/

1.8.2 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 designed for people working in local government or for individuals employed by other organisations who have chosen to participate in it.

Further information can be found within the Valuation Office Agency accounts (HC 772) that can be viewed at **https://www.gov.uk/government/organisations/valuation-office-agency.**

1.8.3 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).

1.8.4 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 can be found within the RCDTS Ltd accounts available at Companies House at: **https://www.gov.uk/government/organisations/companies-house** by 31 December 2021.

1.9 Provisions and contingent liabilities

The department discloses provisions and contingent liabilities in excess of the de minimis limit for reporting of £0.1 million.

We recognise provisions in accordance with IAS 37 (Provisions, Contingent Liabilities and Contingent Assets). The expenditure required to settle the obligation is calculated based on the best available information, but the actual future outcomes of items provided for may differ from expectations.

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) (2020) 12.

1.9.1 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 -0.95% as set by HM Treasury (2019 to 2020: -0.5%).

1.9.2 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 Public, stakeholder and Parliamentary accountability Section on page 205.

1.10 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.

1.11 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:

COVID-19 support scheme expenditure

On 25 March 2020, the Coronavirus Act 2020 received Royal Assent. Section 76 of the Act referred to HMRC functions stating; "Her Majesty's Revenue and Customs are to have such functions as the Treasury may direct in relation to coronavirus or coronavirus disease." Subsequently, for each of the COVID-19 support schemes for which HMRC has had budget and delivery responsibility, HM Treasury have issued specific Treasury direction(s).

In considering our accounting for grant expenditure in relation to the COVID-19 support schemes, HMRC have sought to identify the point at which the department have a present obligation to pay in accordance with IAS 37: Provisions, Contingent Liabilities and Contingent Assets, as interpreted by HM Treasury in their "IAS 37 and Grantor Accounting application guidance" published in May 2021.

Since the legal authority for HMRC to operate and pay claims for the Coronavirus Job Retention Scheme (CJRS), Self-Employment Income Support Scheme (SEISS) and Eat Out to Help Out (EOHO) stems from HM Treasury directions, HMRC deems the issue of such directions to represent the establishment of a present obligation on the department to transfer the grant.

For claims in respect of the CJRS and EOHO, we account for the expenditure following issue of the relevant HM Treasury Direction on an accruals basis and in the financial year in which the economic activity being subsidised has or would have, but for the pandemic, taken place. For CJRS, this was for the period the employer claimed for expenditure incurred for furloughed staff. For EOHO, this was for the period restaurants claimed for discounting the cost of food and non-alcoholic drinks. This allows us to match the expenditure most closely to the period the claims relate to.

For the SEISS, we recognise expenditure in accordance with how the operation of the scheme or scheme extension is defined in the HM Treasury Directions. We recognise the expenditure for the first, second and third tranche of SEISS in the financial year 2020 to 2021 when a qualifying claim was made.

The HM Treasury Direction for the fourth grant of the Self-Employment Income Support Scheme had not been issued as at 31 March 2021. Since government could have reversed or amended their policy announcements, HMRC had no present obligation under IAS 37 and related HM Treasury guidance at that date. Accordingly no provision or accrual for the grant has been included in these Resource Accounts for 2020 to 2021.

Personal tax credits expenditure

Personal tax credits, reported at note 5.1.1, consist of Child Tax Credit and Working Tax Credit. Receivable and payable balances are based on data from tax credits systems and are used to inform the appropriation of revenue from the Trust Statement, where a cash-based disbursements figure is recorded (see note 3.2 on page 229), to these accounts on 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 financial year 2020 to 2021 considers the impact of claimants migrating to DWP under Universal Credit throughout 2021 to 2022 using the best available information, the extent to which policies impact on the estimate and utilises the latest compliance information. It is therefore subject to uncertainty.

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 expenditure

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 5.1.4 provides further detail on the estimation uncertainty relating to corporation tax reliefs.

Impairment of receivables

Receivables in the Statement of Financial Position are reported after impairment, which is estimated based on our analysis of existing receivables and historical trends in debt recovery, losses, discharges, amendments and cancellations.

The following receivables balances have been impaired: personal tax credits, Child Benefit, law costs, and other receivables (see note 9).

To calculate the impairment for personal tax credits receivables we use an Expected Credit Losses (ECL) model that estimates future debt recoverability of personal tax credits debt based on historic debt recovery rates.

The main judgements that we have made when producing the ECL model are:

- recent debt recovery experience is a reasonable proxy for recovery rates that inform our scenario analysis
- the probability weighting of the high, medium and low scenarios are an appropriate reflection of expected outcomes
- external future economic developments will not significantly affect recovery rates

Note 5.1.2 provides further details on the estimation uncertainty and judgements relating to personal tax credits ECL.

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.

1.12 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.

IFRS 16 Leases

In our 2019 to 2020 accounts we reported the decision taken by HM Treasury and the Financial Reporting Advisory Board (FRAB) to defer implementation of IFRS 16: Leases for public sector entities until 1 April 2021. We can further report that, due to the impact of COVID-19 on government departments, the implementation date has been further deferred to 1 April 2022.

IFRS 16 Leases replaces 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 right-of-use of assets and associated liabilities.

At the date of initial application, HM Treasury mandate that as a practical expedient, an entity is not required to reassess whether a contract is, or contains, a lease. Therefore, HMRC will apply this Standard to all contracts previously identified as leases applying IAS 17 and IFRIC 4, and not apply this Standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

IFRS 16 provides a single lessee accounting model and requires lessees to recognise assets and liabilities for leases with a term of more than 12 months remaining at 1 April 2022, unless the underlying asset is of low value.

HM Treasury mandate that IFRS 16 in the public sector will be implemented using the cumulative catch-up method, therefore comparatives will not be restated and the cumulative effect of initially applying the Standard at 1 April 2022 will be recognised as an adjustment to taxpayers' equity.

HMRC will use a discount rate provided by HM Treasury when they cannot readily obtain the rate implicit in the lease contract.

In preparation for the transition into IFRS 16, HMRC are reviewing existing and future contracts to identify lease and non-lease (i.e. service) elements. HMRC exposure falls primarily into 2 areas, Estates and IT. Key stakeholders from all business areas have been engaged to assist with this work, alongside Legal and Commercial teams.

New IT solutions are being developed in order to manage the lease portfolio and to enable efficient routine reassessment of leases throughout their lifecycle, as required by IFRS 16. This will enable real time amendments to lease parameters in line with contractual changes.

For information on HMRC lease commitments please see note 8 - Commitments. This is our lease position as at 31 March 2021, the lease position as at 1 April 2022 may differ.

2. Expenditure

	Note	2020-21 £m Core department and agency	2020-21 £m Departmental group	2019-20 £m Core department and agency	2019-20 £m Departmental group
COVID-19 support schemes					
Coronavirus Job Retention Scheme	4	60,677.4	60,677.4	–	–
Self-Employment Income Support Scheme	4	19,716.1	19,716.1	–	–
Eat Out to Help Out	4	839.8	839.8	–	–
		81,233.3	**81,233.3**	**–**	**–**
Personal tax credits	5.1.1	**15,063.2**	**15,063.2**	**18,331.3**	**18,331.3**
Corporation tax reliefs	5.1.4	**10,696.1**	**10,696.1**	**10,100.7**	**10,100.7**
Child Benefit					
Child Benefit[1]		11,473.8	11,473.8	11,463.4	11,463.4
Guardian's Allowance (funded from National Insurance Fund)		2.5	2.5	2.4	2.4
		11,476.3	**11,476.3**	**11,465.8**	**11,465.8**
Tax Free Childcare		**253.0**	**253.0**	**245.5**	**245.5**
Lifetime ISA		**346.1**	**346.1**	**225.8**	**225.8**
Help to Save		**67.9**	**67.9**	**23.8**	**23.8**
Staff and related costs	p. 165				
Wages and salaries		2,037.3	2,064.9	1,934.1	1,961.7
Other pension costs		509.0	511.2	498.4	500.6
Less capitalised costs		(38.8)	(38.8)	(30.2)	(30.2)
Social security costs		196.7	199.8	191.0	194.1
Travel, subsistence and hospitality		13.3	13.3	65.9	66.7
Recruitment and training		23.0	23.1	30.8	30.8
Early severance schemes		4.8	4.8	11.6	11.6
		2,745.3	**2,778.3**	**2,701.6**	**2,735.3**
Service charges					
IT Public Private Partnership contract (PPP) payments		152.2	152.2	148.1	148.1
Accommodation PFI and non-PFI contract payments		151.3	151.3	155.6	155.6
Accommodation interest charges		19.7	19.7	23.9	23.9
Indexation of liability on PFI deals		1.7	1.7	1.7	1.7
IT Public Private Partnership interest charges		1.4	1.4	0.7	0.7
		326.3	**326.3**	**330.0**	**330.0**
Goods and services					
IT services and consumables		731.5	692.0	512.1	473.7
Contracted out services		218.6	218.6	181.9	181.9
Printing, postage, stationery and office supplies		47.4	47.4	50.1	50.1
Legal and investigation		36.9	36.9	40.2	40.2
Telephone expenses		46.4	47.7	23.5	23.0
Enforcement costs		38.8	38.8	35.8	35.8
Other goods and services[2]		15.0	15.0	18.9	18.9
Consultancy[2]		8.6	8.6	1.1	1.1
		1,143.2	**1,105.0**	**863.6**	**824.7**

	Note	2020-21 £m Core department and agency	2020-21 £m Departmental group	2019-20 £m Core department and agency	2019-20 £m Departmental group
Payments in lieu of tax relief and rates		**220.3**	**220.3**	**205.1**	**205.1**
Other cash expenditure					
Accommodation expenses		219.5	219.5	128.2	128.2
Other operating leases		90.8	90.8	66.5	66.5
National Insurance Fund other government department collection service		50.4	50.4	50.2	50.2
Losses (excluding Child Benefit, tax credits & COVID-19 support schemes) and special payments		4.9	4.9	5.6	5.6
Auditors remuneration and expenses[2]		–	0.1	–	0.1
Other		58.6	59.2	44.3	44.8
		424.2	**424.9**	**294.8**	**295.4**
Non-cash items:					
Depreciation, amortisation and impairments					
Amortisation	7	266.4	266.4	238.8	238.8
Depreciation	6	58.6	58.7	73.6	73.7
Loss on impairment of non-current assets		3.8	3.8	2.1	2.1
		328.8	**328.9**	**314.5**	**314.6**
Provisions for liabilities and charges	12	**48.1**	**48.1**	**78.9**	**78.9**
Other non-cash					
Transfer of personal tax credits receivables to DWP		325.6	325.6	605.1	605.1
Auditors remuneration and expenses[3]		2.0	2.0	1.9	1.9
Other		15.5	15.5	14.7	14.7
		343.1	**343.1**	**621.7**	**621.7**
Total non-cash items		**720.0**	**720.1**	**1,015.1**	**1,015.2**
Total operating expenditure		**124,715.2**	**124,710.8**	**45,803.1**	**45,798.6**

1 Child Benefit expenditure includes amounts paid to higher rate taxpayers earning greater than £50,000 per annum. It is estimated that £409 million (2019 to 2020: £420 million) will be recovered via future income tax charges arising from payments of Child Benefit to those earning over £50,000 in 2020 to 2021. These income tax charges are accounted for in the Trust Statement.
2 Expenditure presented as Consultancy now aligns with the Cabinet Office definition. Prior year figures have been restated.
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. This management information covers expenditure and income and is used by the Board to inform decisions.

A revised approach to determining segment values has resulted in the restatement of comparatives.

3.1 Expenditure and income by reportable segment

			2020-21 £m			2019-20 £m
	Gross expenditure	Income	Net expenditure	Gross expenditure	Income	Net expenditure
Reportable segment						
Customer Services	853.8	26.5	827.3	869.7	27.3	842.4
Customer Strategy and Tax Design	187.3	15.1	172.2	175.4	20.1	155.3
Customer Compliance	1,242.1	75.6	1,166.5	1,254.6	60.9	1,193.7
Solicitors Office and Legal Services	118.4	6.5	111.9	123.2	6.4	116.8
Borders and Trade	404.1	6.9	397.2	90.3	1.3	89.0
Borders Delivery Group[1]	–	–	–	30.0	–	30.0
Chief Digital and Information Officer Group	893.4	40.8	852.6	703.0	36.4	666.6
Chief Finance Officer Group	667.4	217.7	449.7	672.3	160.8	511.5
Chief People Officer Group	108.8	7.8	101.0	76.8	11.0	65.8
Chief Executive Office	2.0	0.1	1.9	64.9	5.2	59.7
Organisation Capabilities	0.8	–	0.8	–	–	–
Transformation Group	48.2	1.7	46.5	27.9	0.1	27.8
Communications	19.4	0.1	19.3	19.9	0.2	19.7
Valuation Office Agency	194.9	40.2	154.7	207.7	41.3	166.4
Total	**4,740.6**	**439.0**	**4,301.6**	**4,315.7**	**371.0**	**3,944.7**

1 On 11 June 2020 HMRC transferred responsibility for the Border Delivery Group (thereafter known as Border and Protocol Delivery Group) to the Cabinet Office as part of a Machinery of Government change.

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

	2020-21 £m	2019-20 £m
Total net expenditure reported for operating segments	**4,301.6**	**3,944.7**
COVID-19 schemes	81,233.3	–
Personal tax credits	15,063.2	18,331.3
Child Benefit and Child Trust Fund	11,476.3	11,465.8
Corporation tax reliefs	10,696.1	10,100.7
Lifetime ISA	346.1	225.8
Depreciation/Amortisation/Impairment	318.6	305.2
Transfer of personal tax credits receivables to DWP	325.6	605.1
Tax Free Childcare	253.1	245.5
Help to Save	67.9	23.8
Payments in lieu of tax relief	140.1	116.0
Payments of Local Authority Rates	75.6	83.9
Net Operating Cost in Statement of Comprehensive Net Expenditure	**124,297.5**	**45,447.8**

4. COVID-19 support schemes

The COVID-19 support schemes have been created as part of the government's response to the coronavirus pandemic. In the financial year 2020 to 2021, HMRC had delivery responsibility and funding from HM Treasury for the Coronavirus Job Retention Scheme (CJRS), Self-Employment Income Support Scheme (SEISS) and Eat Out to Help Out (EOHO).

We have also administered the Statutory Sick Pay Rebate (SSPR) on behalf of the Department for Work and Pensions (DWP) since the launch in May 2020. DWP has both policy responsibility and the associated Annually Managed Expenditure funding for SSPR. Payments made by HMRC in respect of SSPR claims are therefore on behalf of DWP and the expenditure on SSPR claims is recognised in DWP's Consolidated Statement of Comprehensive Net Expenditure. At 31 March 2021, we recognised a payable on the Consolidated Statement of Financial Position in respect of advances received from DWP for future SSPR claims.

4.1 COVID-19 support schemes expenditure

The expenditure for CJRS for the financial year 2020 to 2021 includes claims for employees furloughed during the period 1 March 2020 to 31 March 2021. Accrued expenditure relates to claims for this period approved for payment after 31 March 2021.

The SEISS expenditure for financial year 2020 to 2021 includes the first, second and third tranches of these grants. The last date for making a claim for the third tranche of the scheme was 29 January 2021.

Note 1.11 explains the accounting judgements in respect of the CJRS, SEISS and EOHO expenditure.

Analysis of COVID-19 support scheme expenditure

				2020-21 £m
	Claims approved	Voluntary repayments	Accrual	Expenditure
Coronavirus Job Retention Scheme[1]	59,098.9	(829.2)	2,407.7	60,677.4
Self-Employment Income Support Scheme	19,745.1	(29.3)	0.3	19,716.1
Eat Out to Help Out	841.9	(2.1)	–	839.8
Total	**79,685.9**	**(860.6)**	**2,408.0**	**81,233.3**

1 Voluntary repayments consist of £542.0 million repaid and overpayments of £287.2 million deducted from subsequent payments in 2020 to 2021.

Voluntary repayments

Voluntary repayments occur when the customer has overclaimed or has claimed correctly but does not wish to retain the payments they have received in respect of a scheme. Amounts subject to compliance activity are recovered through tax returns and tax charges and are not included in these Resource Accounts. These repayments are recorded in the Statement of Revenue, Other Income and Expenditure in the Trust Statement.

Losses

The COVID-19 support schemes expenditure for financial year 2020 to 2021 includes £22.8 million in respect of losses (CJRS £8.7 million, SEISS £14.1 million and EOHO £0.0 million). These losses can be remissions or write-offs and relate to a very small proportion of claimants. 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. The Losses Statement reported in the Public, stakeholder and Parliamentary accountability section on page 202 provides further detail on the number of losses cases.

4.2 COVID-19 support schemes error and fraud

A provisional estimate of the error and fraud for CJRS, SEISS and EOHO has been prepared by HMRC analysts. These are interim estimates of the residual error and fraud (after pre-payment checks and before post payment compliance) and are based on the information available at the time these accounts were prepared.

The provisional estimate for each scheme is structured into three broad compliance categories: Organised Crime, Opportunistic Fraud, and Error (HMRC and/or claimant). These have been estimated separately, with different component risks having been identified and quantified for each category.

The main data sources used in the estimates are:

Scheme	Main data source
Coronavirus Job Retention Scheme (CJRS)	Real Time Information data
	CJRS claims received by 31 March 2021
	Surveys/analysis carried out by external institutes
Self-Employment Income Support Scheme (SEISS)	Income Tax Self Assessment tax return data from 2018 to 2019 and 2019 to 2020 returns
	Results of pre-claim, pre-payment and post-payment compliance activities
	Surveys/analysis carried out by external institutes.
Eat Out to Help Out (EOHO)	VAT Mandatory Random Enquiry Programme
	The results of downstream Business As Usual tax compliance activity into restaurant and food businesses
	HMRC Intelligence

At the time the estimate was prepared the complete results from compliance interventions and a Random Enquiry Programme were not available. Therefore for EOHO, CJRS and components of SEISS our evidence is drawn from; operational management information; high-level statistics; external survey data; expert opinion; and the nearest analogous compliance process or risk. Our estimates are therefore, in part, assumption based and accordingly these provisional estimates should be treated with caution and are likely to be revised as more complete data is available.

The totals shown in the table below are summed from the constituent risk components of each compliance category to construct the range, and illustrate the sensitivity around each estimate. Given it is highly unlikely that all the risk components would be their minimum or maximum levels at the same time, we use a Monte Carlo simulation to present a range that illustrates the upper and lower bounds. The Monte Carlo simulation runs 10,000 iterations of the error and fraud range to determine the simulated 95% confidence interval for the error and fraud estimates. Whilst we attempt to capture all reasonable possibilities within our input ranges they do not exhaust the range of reasonable possible outcomes and it is possible that actual values may exceed them.

Provisional estimate of the value of COVID-19 support schemes error and fraud and as a percentage of related expenditure

			2020-21
			£m
	Lower bound	Most likely	Upper bound
Coronavirus Job Retention Scheme	4,065.4 (6.7%)	5,278.9 (8.7%)	7,281.3 (12.0%)
Self Employment Income Support Scheme	354.9 (1.8%)	492.9 (2.5%)	630.9 (3.2%)
Eat Out to Help Out	42.8 (5.1%)	71.4 (8.5%)	99.1 (11.8%)

There is significant estimation uncertainty due to the following points:

- the schemes began in the financial year 2020 to 2021 and so there was limited, directly-relevant compliance data available to inform the estimate
- post payment scheme specific operational activity is still ongoing at the time that provisional estimates were prepared
- some inputs to the estimate were based upon relevant operational Management Information but rely on substantial adjustment or extrapolation to the data
- some inputs were assumption-based using expert opinion or drawing on operational Management Information, high-level statistics; nearest analogous compliance process or risk

We will aim to produce further refinements to the estimates for the CJRS and SEISS for future Resource Accounts, when we have more operational data from completed compliance interventions into these schemes and the results from our planned random enquiry programme for CJRS. We are not expecting to update the estimate for EOHO given this was a short-term intervention which is now closed and we do not expect significant new data or information to become available.

For further information on assessing the error and fraud levels in the COVID-19 support schemes and details of the actions we have taken and are planning to take to reduce error and fraud in the schemes, please see page 71 and page 133 of the Annual Report.

5. Tax credits and Child Benefit

5.1 Tax credits

Since the 2011 to 2012 financial year, personal tax credits expenditure and certain corporation tax reliefs have been reported in these Accounts. Tax credits can comprise both 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, and an element that is in excess of the tax liability, being a payment of entitlement. Only those credits that can include a payment of entitlement element are reported in these accounts.

5.1.1 Analysis of personal tax credits expenditure

Personal tax credits consist of Child Tax Credit and Working Tax Credit. The apportionment of expenditure between Child Tax Credit and Working Tax Credit shown in the table below is estimated. Please see note 1.11 for the estimation techniques used.

Awards are assessed and paid throughout the financial year on a provisional basis, based on claimants' assessments of their personal circumstances.

Claims are adjusted after the end of each award year, once claimants' actual circumstances are known this is called Finalisation. Finalisation is the process by which claimants confirm their actual income and other circumstances for the previous award year which may give rise to under or overpayments which are accounted for as soon as identified. Finalisation is not complete until after the Resource Account has been published, consequently there is uncertainty around the level of adjustments likely to arise. Finalisation forms the basis for the provisional award for the subsequent year.

To support customers during the COVID-19 pandemic, the basic element for Working Tax Credit was increased by £1,045 for the year from 6 April 2020 until 5 April 2021 and is reflected in personal tax credits expenditure.

Total personal tax credits expenditure has decreased by £3.3 billion from 31 March 2020 to 31 March 2021 due to the continued migration of customers to Universal Credit.

Analysis of personal tax credits expenditure

			2020-21 £m			2019-20 £m
	Child Tax Credit	Working Tax Credit	Total tax credits	Child Tax Credit	Working Tax Credit	Total tax credits
Tax credits	11,776.7	3,179.1	14,955.8	14,886.4	3,205.5	18,091.9
Movement in impairment of receivables	41.9	12.4	54.3	114.8	24.9	139.7
Remissions/write-offs	36.7	16.4	53.1	61.1	38.6	99.7
Total personal tax credits	**11,855.3**	**3,207.9**	**15,063.2**	**15,062.3**	**3,269.0**	**18,331.3**

Further information on the operation of personal tax credits can be found at **https://www.gov.uk/government/organisations/hm-revenue-customs.**

5.1.2 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.

The Department for Work and Pensions (DWP) has taken on the responsibility for recovering debt for customers who have made a claim to Universal Credit (UC). Debts started to transfer in April 2016 and further transfers are expected over the coming years as more customers move to UC. DWP is also responsible for taking on the debt of customers who have fallen out of the tax credits regime and for whom a direct earnings attachment can be used to recover the debt. HMRC started to transfer this debt in 2019 to 2020. In line with the Financial Reporting Manual (FReM), debt transfers are treated as capital grants in kind and are disclosed as such in the Financial Statements. The debt stock is impaired under IFRS 9 (Financial Instruments) and in line with HMRC policy, based on historical recoveries and write-offs.

In the 2020 to 2021 financial year, the planned migration of personal tax credits debts to DWP was paused from April 2020 to October 2020 due to the COVID-19 pandemic. At 31 March 2021, £361 million of debt which had been scheduled for transfer to DWP remained within HMRC. It is anticipated that all of this debt will be transferred during 2021 to 2022.

Personal tax credits receivables

	Note	2020-21 £m	2019-20 £m
Receivables as at 1 April		**4,843.2**	**6,232.9**
Adjustment to prior year finalisation estimate		171.4	(11.7)
Estimated overpayment of awards prior to finalisation[1]		413.0	195.0
Overpayments identified from change of circumstances in year		434.4	758.1
Transferred to DWP[2]		(706.2)	(1,185.0)
Recoveries made		(800.5)	(1,046.4)
Remissions/write-offs		(53.1)	(99.7)
Receivables as at 31 March		**4,302.2**	**4,843.2**
Impairment as at 1 April		**2,610.0**	**3,050.2**
- Transferred to DWP[3]		(380.6)	(579.9)
- Movement in impairment		54.3	139.7
Impairment at 31 March		**2,283.7**	**2,610.0**
Net receivables at 31 March		**2,018.5**	**2,233.2**
Of which:			
Amounts expected to be recovered within one year[4]	9	653.5	789.0
Amounts expected to be recovered in more than one year[4]	9	1,365.0	1,444.2
Total		**2,018.5**	**2,233.2**

[1] The range of the estimate is £195 million to £540 million (2019-20: £130 million to £260 million).

Summary of Receivables transferred to DWP	2020-21 £m	2019-20 £m
[2] Gross receivables	706.2	1,185.0
[3] Impairments	(380.6)	(579.9)
Net receivables transferred to DWP	**325.6**	**605.1**

[4] We have revised prior year receivable to provide an improved comparative analysis.

Personal tax credits Expected Credit Loss (ECL)

HMRC routinely assess likely recovery of debts, accepting that the individual credit risk associated with these debts increases as they age. However, the credit risk itself is not routinely assessed because the debts relate to overpayments made to benefit claimants, and not to lending through formal arrangements.

As simple financial instruments, the debts are impaired over their lifetime as required under the FReM (Chapter 8.2, Table 2, Interpretation 6).

The credit loss we recognise 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.

The main data inputs to the model are historic monthly stocks and flows of debt (including recoveries, remissions and transfers to DWP), tax credit expenditure forecasts, the finalisation estimate, and the claimant migration profile to Universal Credit.

The key assumptions/judgements included in the ECL model are:

- a value for new debts is given by the yearly evolution of the debt stock less remissions, transfers, and recoveries
- recent debt recovery experience is considered reasonable proxy for past recoveries to inform future recovery rates
- the migration of claimants to Universal Credit affects debt movements and it is therefore necessary to assess the effect of HMRC's debt recovery efficiency in isolation from the effect of the rate of transition to Universal Credit
- the discount rate applied to future recoveries is 3.7%, in accordance with Public Expenditure System papers published for government by HM Treasury
- consideration of the following three debt recovery scenarios:
  - the upper scenario considers the past 3 years debt recovery rates, takes the highest recovery rate and applies that rate to future recoveries
  - the middle (base) scenario takes the last complete year's debt recovery rate and applies that to future recoveries
  - the lower scenario considers the past 3 years debt recovery rates, takes the lowest recovery rate and applies that rate to future recoveries

The model assumes the upper and lower recovery scenario to occur with a 10% likelihood and the base with an 80% likelihood. The weighting does not have a material impact on the ECL because we have experienced a relatively consistent recovery rate in personal tax credits receivables in recent years, and this is expected to continue as the methods of recovery used by HMRC are expected to remain unchanged.

This year the ECL model has been developed to reflect the impact of COVID-19 on debt recoveries and specifically considers the impacts of:

- the increase in the basic element of Working Tax Credits for 2020 to 2021

- the pause in the migration of tax credit debts to DWP and the subsequent increase in HMRC's in-year finalised debt stocks
- other HMRC policy responses to the pandemic, including the reduction in compliance activity

HMRC have explored possible correlations between the unemployment rate and live recovery of personal tax credits debt; and between the Average Earnings Index and Consumer Price Index and direct recovery of personal tax credits debt. After testing, no robust relationships were found between these economic determinants and debt recovery, therefore forecasts of future economic conditions are not included in our ECL model. We therefore consider historic recovery experience to be a suitable proxy for future debt recovery.

The table below provides summary impairment information for age bands, although debt is not banded by these ranges in the model calculations. In the model, the impairment is calculated in bandings of a year with historic recovery rates for each year applied to the aged debt balance.

	Gross Receivable £m	Impairment £m	Net Receivable £m
Total HMRC debt	**4,302.2**	**2,283.7**	**2,018.5**
of which debt less than 1 year old	639.2	156.0	483.2
of which debt more than 1 but less than 5 years old	1,537.4	558.1	979.3
of which debt more than 5 but less than 10 years old	1,488.4	1,013.3	475.1
of which debt more than 10 years old	637.2	556.3	80.9

Sensitivity analysis

There is a significant degree of uncertainty around the assumptions that underpin the ECL. The sensitivity analysis below provides an indication of the impact if key assumptions were to change from the current estimate.

Scenario	Change to impairment as a percentage of gross receivables	Change to impairment £m
The upper recovery scenario was applied to 100% of the debt stock (as opposed to 10%)	-2%	(69.0)
The lower recovery scenario was applied to 100% of the debt stock (as opposed to 10%)	4%	160.0

Personal tax credits finalisation

HMRC analysts provide an estimated range for the results of the current year finalisation exercise and the estimate disclosed represents the most-likely point within the range. The range is obtained by assessing the level of overpayment created in current and previous years and then considering the impact of other factors. The lower end of the range is £195 million the upper end is £540 million.

The estimate produced for 2020 to 2021 considers the impact of claimants migrating to Universal Credit in the next financial year using the best available information. The impacts of COVD-19 are not considered to be material to these calculations.

5.1.3 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 used a tried and tested estimation methodology for the calculation of the finalisation estimate supported by annual review.

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.

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 or HMRC to account for non-response.

HMRC completed its testing on finalised awards for 2019 to 2020, based on a random sample of 4,000 enquiries. As shown in the table below, the central estimate of error and fraud overpayment rate has increase by 0.1% to 5.0% and the central estimate of error and fraud underpayment rate has increased by 0.1% to 0.8%, from the 2018 to 2019 estimates. Please see page 66 of the Annual Report for more detail.

Estimated value of personal tax credits error and fraud and as a percentage of final award value

	2019-20 awards £m			2018-19 awards £m		
	Lower bound	Central estimate	Upper bound	Lower bound	Central estimate	Upper bound
Overpayments to claimants	790 (4.5%)	880 (5.0%)	970 (5.5%)	990 (4.4%)	1,100 (4.9%)	1,210 (5.3%)
Underpayments to claimants	130 (0.7%)	150 (0.8%)	170 (1.0%)	140 (0.6%)	170 (0.7%)	200 (0.9%)

5.1.4 Corporation tax reliefs

In certain circumstances, companies are permitted to reduce their tax liability by making a claim for corporation tax reliefs. To be entitled to these reliefs, 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

		2020-21 £m	2019-20 £m
Research and development:	Small and Medium Enterprises (SME) scheme	5,485.8	4,840.9
	Research and development expenditure credits (RDEC)	3,839.3	3,929.1
Creative industries:	High-end Television Tax Relief	583.0	324.6
	Film Tax Relief	424.7	635.1
	Video Games Tax Relief	224.0	182.9
	Theatre Tax Relief	41.7	72.0
	Animation Tax Relief	20.4	21.4
	Children's Television Tax Relief	13.9	25.6
	Orchestra Tax Relief	12.8	17.1
	Museums and Galleries Tax Relief	9.2	12.4
Land Remediation Relief		40.9	39.6
Enhanced Capital Allowance		0.2	0.1
Vaccine Research Relief[1]		0.2	(0.1)
Total		**10,696.1**	**10,100.7**

[1] Relief ceased in 2016 to 2017

Of expenditure reported in 2020 to 2021 above, £1,780.9 million is additional expenditure relating to 2015 to 2016, in accordance with our accounting policy set out in note 1.5.2. The revised estimate increases the total for 2015 to 2016 from £2,895.5 million to £4,676.4 million as set out below:

Expenditure relating to 2015 to 2016:

	Estimate reported in 2015-16 (£m)	Final estimate (£m)	Included in value reported in these Accounts (£m)
Research and development SME	994.2	1,760.3	766.1
Research and development RDEC	1,356.3	2,142.8	786.5
Creative industries	517.6	743.1	225.5
Land remediation	25.4	28.0	2.6
Vaccine research	2.0	2.2	0.2
Total	**2,895.5**	**4,676.4**	**1,780.9**

Corporation tax reliefs expenditure and related accruals are estimated by the department's statisticians using the latest available prior year estimates. An estimate is required due to the time-lag between the end of companies' accounting periods and the submission of their company tax returns (as explained in note 1.5.2). Forecast growth and uplift assumptions are applied to the latest available data, along with adjustments for planned changes in relevant policy and rates, to determine values to be reported.

For financial year 2020 to 2021, the latest available year's claim data used in the estimates relates to the financial year 2019 to 2020. For the accounts for 2019 to 2020 the latest available year's claim data used in that year's estimate related to the financial year 2018 to 2019.

Research & development tax relief

The key assumptions underpinning the 2020 to 2021 R&D relief estimates are the uplift factor for outstanding tax returns and the forecast growth rate assumption.

- In respect of the uplift assumption, at the cut-off date for producing the 2019 to 2020 outturn estimate some company tax returns for that financial year had not yet been received and processed. The estimate has been 'uplifted' to account for this. When calculating the uplift factor it is assumed that the proportion of 2019 to 2020 R&D tax relief claimed after the cut-off date is similar to previous years. The calculation uses the average of the three previous years for R&D SME relief and the average of the two previous years for R&D Expenditure Credit (RDEC).

  - uplift applied to R&D SME relief claims: 33.1% (Negative taxation element) 15.2% (Payment element)

  - uplift applied to R&D Expenditure Credit (RDEC) claims: 24.2%

  The cut-off date for data used in the estimate for the financial year 2020 to 2021 was 30 April 2021. The cut-off date for data used in the financial year 2019 to 2020 was 30 June 2020. The comparatively earlier cut-off date for the estimate for the financial year 2020 to 2021 has increased the uplift factor.

- In respect of the forecast growth assumption, the forecast growth for R&D expenditure for the financial year 2019 to 2020 was based on OBR determinants with additional growth rates as costs had been growing more quickly than predicted by the OBR determinant. This approach was appropriate given the announcement of the COVID-19 pandemic by the World Health Organisation on 11 March 2020 occurred near the end of the financial year 2019 to 2020, and the pandemic was therefore not expected to have had a significant impact on R&D tax reliefs for that year.

- For the estimate for the financial year 2020 to 2021, we have needed to review how the forecast growth rate is calculated to factor in the impact of COVID-19. The forecast growth rate for R&D expenditure for 2020 to 2021 has been calculated for R&D SME and RDEC using a 3-year average growth rate with a COVID-19 adjustment based on Coronavirus Job Retention Scheme (CJRS) data. The COVID-19 adjustment is an assumption based on an estimate of the proportion of past R&D claimants who have accessed CJRS and the proportion of their employees that were furloughed. CJRS data has been used for the COVID-19 adjustment because of its timeliness. We have assumed there is a direct relationship between R&D claims and CJRS because expenditure on furloughed R&D staff is not eligible for R&D tax relief. We have also assumed R&D expenditure other than staff costs is affected the same as staff costs, and R&D staff costs are equally affected as non-qualifying R&D staff costs.

  - R&D expenditure, on which R&D SME relief is claimed, will grow by 8.0% in 2020 to 2021 (calculated as the average expenditure growth from last 3 years weighted by sector of 26.7% plus estimated COVID-19 adjustment of -18.7%)

  - R&D expenditure, on which RDEC is claimed, assumed will grow by -5.2% in 2020 to 2021 (calculated as the average expenditure growth from last 3 years weighted by sector of 9.0% plus estimated COVID-19 adjustment of -14.2%)

Sensitivity analysis has been applied to understand the degree of uncertainty if key assumptions underpinning them were to change. The range estimates set out in the table below are based on judgments of the levels of uncertainty, and it is possible that actual values may exceed them. At time of publication the full impact of COVID-19 on corporation tax reliefs is unknown and this increases the level of uncertainty for these estimates.

Change to key assumption:	Change in Assumption	Variation £m	Change in Assumption	Variation £m
R&D SME uplift for 2019-20 vary by up to 2%[1]	Increase by 2%	75	Decrease by 2%	(75)
RDEC uplift for 2019-20 varies by up to 6%[1]	Increase by 6%	150	Decrease by 6%	(150)
R&D SME expenditure growth in 2020-21 varies by up to +17%/-16%[2]	Increase by 17%	745	Decrease by 16%	(700)
RDEC expenditure growth in 2020-21 varies by up to +13%/-9%[2]	Increase by 13%	420	Decrease by 9%	(290)

1 For the R&D SME and RDEC uplift factors, the change to the key assumption is based on maximum variations seen in recent years.
2 For the R&D SME and RDEC expenditure growth, the increase is based on the upper-end of the range being the average growth in last 3 years and the decrease is based on the lower-end of the range being OBR ICC determinant plus half of additional growth rate.

Creative industries reliefs

The key assumptions underpinning the creatives industries reliefs are similar to those used for R&D relief.

For the financial year 2020 to 2021, given the impact of the COVID-19 pandemic on creative industries, we considered whether to use alternative forecast growth rate assumptions for the larger Creative Industries reliefs rather than the OBR nominal GDP growth rate determinant used in prior years. For Film Tax Relief and High-end Television Relief the forecast growth rates for 2020 to 2021 are based on the BFI publication "Film and high-end television production in the UK: January-March (Q1)" published in May 2021 and the year-on-year change between UK production expenditure reported therein. For Video Games Tax Relief and Theatre Tax Relief, the forecast growth rates for 2020 to 2021 is based on judgement by department statisticians informed by industry data. We have assumed that other creative industries reliefs will grow in proportion with nominal GDP as forecast by the OBR.

The forecast growth rate assumptions used for the financial year 2020 to 2021 for creative industries reliefs are:

Film Tax Relief	-45.0%
High-end Television Tax Relief	11.6%
Video Games Tax Relief	-5.0%
Theatre Tax Relief	-70.0%
Museums and Galleries Tax Relief	-5.7%
Children's Television Tax Relief	-5.7%
Orchestra Tax Relief	-5.7%
Animation Tax Relief	-5.7%

For Film Tax Relief and High-end Television Tax Relief, the two largest creative industries reliefs, sensitivity analysis has been applied to understand the degree of uncertainty in the estimates if the key assumptions underpinning them were to change. The range estimates set out in the table below are based on judgments of the levels of uncertainty, and it is possible that actual values may exceed them. Sensitivity analysis is not included for other creative industries reliefs - these have a smaller estimate and their range is expected to be immaterial. At time of publication the full impact of COVID-19 on corporation tax reliefs is unknown and this increases the level of uncertainty for these estimates.

Change to key assumption:	Change in Assumption	Variation £m	Change in Assumption	Variation £m
Film Tax Relief expenditure growth in 2020-21 varies by up to +50%/-23%[1]	Increase by 50%	310	Decrease by 23%	(140)
High-end Television Tax Relief expenditure growth in 2020-21 varies by up to 31%[2]	Increase by 31%	140	Decrease by 31%	(140)

1 For Film Tax Relief, the increase is based on the upper-end of the range being average growth in last 3 years and the decrease is based on the lower-end of the range being 1.5 times the growth rate in the estimate.
2 For High-end Television Tax Relief, the increase is based on the upper-end of the range being average growth in last 3 years and the decrease is based on the 11.6% used in the estimate being midway between the upper-end and lower-end of the range.

5.1.5 Corporation tax reliefs – R&D error and fraud

HMRC estimates the error and fraud by combining data for the population reviewed through our compliance processes and an estimate for the remaining population using comparable error rates from Tax Gaps.

HMRC analysts have used 2019 to 2020 compliance data from our Large Business team, and 2020 to 2021 compliance data from our Wealthy & Mid-sized Business team, to estimate the error and fraud within the R&D tax relief expenditure for 2020 to 2021, reported at note 5.1.4.

This is similar to the approach used to calculate R&D error and fraud in 2019 to 2020, except the percentage for the financial year 2019 to 2020 was based on claims received by Large Business in 2017 to 2018 and Wealthy & Mid-sized Business in 2019 to 2020.

Estimated value of R&D error and fraud and as a percentage of the estimated R&D tax relief expenditure

		2020-21		2019-20
	Estimate of the rate of error and fraud	Implied monetary value of error and fraud £m	Estimate of the rate of error and fraud	Implied monetary value of error and fraud £m
Error and Fraud - SME Scheme	5.5%	303	5.6%	271
Error and Fraud - RDEC	0.9%	33	1.0%	40
Error and Fraud - Total R&D tax relief expenditure	3.6%	336	3.6%	311

There is significant uncertainty with the estimate as:

- the estimated rate of error and fraud is extrapolated from the results of historic compliance activity based on the error and fraud risks understood to exist at that time
- it assumes the error rate in the non-reviewed population is consistent for R&D with more general error rates identified in the Tax Gaps
- the estimate does not anticipate any changes to our compliance approach in the future that may serve to reduce error and fraud in claims relating to 2020 to 2021
- the value of R&D expenditure is itself an estimate based on expected claims which are yet to be received, increasing the uncertainty in the derived monetary value of error and fraud presented

Given these uncertainties inherent in the estimate, we are unable to produce a meaningful range of outcomes for a sensitivity analysis based on the currently available information.

5.2 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 and is deemed non-compliant based upon the desk based analysis.

Based on the evidence available in 2020 to 2021, 80% of non-respondents (Group 2) are assessed as likely to be eligible, 20% ineligible. For 2020 to 2021 error and fraud in Group 1 is estimated at 0.4% (£45 million) and Group 2 is estimated at 0.4% (£45 million). 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. These estimates are based on a relatively small sample size and are therefore subject to a high degree of uncertainty.

Estimated value of Child Benefit error and fraud and as a percentage of estimated Child Benefit expenditure

			2020-21 £m			2019-20 £m
	Lower bound	Central estimate	Upper bound	Lower bound	Central estimate	Upper bound
Child Benefit error and fraud	65 (0.6%)	90 (0.8%)	115 (1.0%)	75 (0.6%)	105 (0.9%)	135 (1.2%)

6. Property, plant and equipment

	Land[1] £m	Buildings[1] £m	Accommodation refurbishments[1] £m	Office and computer equipment £m	Vehicles £m	Furniture and fittings £m	Assets under construction £m	Scientific aids £m	Total £m
Cost or valuation									
At 1 April 2020	52.4	505.4	199.9	304.3	17.8	55.9	167.0	3.7	1,306.4
Additions	6.7	–	0.1	36.4	0.8	0.4	201.0	–	245.4
Disposals	–	(11.1)	(49.3)	(28.0)	(1.5)	(7.1)	–	(0.6)	(97.6)
Impairments	–	–	–	–	–	–	–	–	–
Reclassifications	–	–	185.1	3.7	–	17.5	(208.7)	–	(2.4)
Revaluations[2]	(0.7)	(34.8)	–	–	–	–	–	–	(35.5)
At 31 March 2021	**58.4**	**459.5**	**335.8**	**316.4**	**17.1**	**66.7**	**159.3**	**3.1**	**1,416.3**
Depreciation									
At 1 April 2020	–	(301.0)	(153.2)	(250.1)	(13.5)	(20.3)	–	(2.5)	(740.6)
Charged in year	–	(17.3)	(13.6)	(22.0)	(0.9)	(4.1)	–	(0.8)	(58.7)
Disposals	–	10.9	49.1	27.2	1.3	5.7	–	0.6	94.8
Impairments	–	–	–	–	–	–	–	–	–
Reclassifications	–	–	–	0.6	–	(0.6)	–	–	–
Revaluations[2]	–	33.3	–	–	–	–	–	–	33.3
At 31 March 2021	**–**	**(274.1)**	**(117.7)**	**(244.3)**	**(13.1)**	**(19.3)**	**–**	**(2.7)**	**(671.2)**
Carrying amount at 31 March 2020	52.4	204.4	46.7	54.2	4.3	35.6	167.0	1.2	565.8
Carrying amount at 31 March 2021	**58.4**	**185.4**	**218.1**	**72.1**	**4.0**	**47.4**	**159.3**	**0.4**	**745.1**
The assets are financed as follows:									
Owned	58.4	–	218.1	60.8	4.0	47.4	159.3	0.4	548.4
Finance leased	–	–	–	–	–	–	–	–	–
PFI contracts	–	185.4	–	11.3	–	–	–	–	196.7
Carrying amount at 31 March 2021	**58.4**	**185.4**	**218.1**	**72.1**	**4.0**	**47.4**	**159.3**	**0.4**	**745.1**
Of the total:									
Core department	58.4	185.4	217.8	70.8	4.0	45.4	155.0	0.4	737.2
Valuation Office Agency	–	–	0.3	0.6	–	2.0	4.3	–	7.2
Revenue and Customs Digital Technology Services Limited	–	–	–	0.7	–	–	–	–	0.7
Carrying amount at 31 March 2021	**58.4**	**185.4**	**218.1**	**72.1**	**4.0**	**47.4**	**159.3**	**0.4**	**745.1**

	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 2019	51.9	507.6	202.8	315.9	18.2	56.4	63.3	4.8	1,220.9
Additions	–	–	–	19.6	1.9	3.1	116.4	–	141.0
Donations	–	–	–	–	–	–	–	–	–
Disposals	–	(6.9)	(8.2)	(33.2)	(2.3)	(6.7)	–	(1.4)	(58.7)
Impairments	–	–	–	–	–	(0.5)	–	–	(0.5)
Reclassifications	–	–	5.3	2.6	–	3.5	(12.7)	0.3	(1.0)
Revaluations[2]	0.5	4.7	–	(0.6)	–	0.1	–	–	4.7
At 31 March 2020	**52.4**	**505.4**	**199.9**	**304.3**	**17.8**	**55.9**	**167.0**	**3.7**	**1,306.4**
Depreciation									
At 1 April 2019	–	(286.7)	(145.2)	(247.4)	(14.5)	(21.3)	–	(3.0)	(718.1)
Charged in year	–	(20.5)	(13.9)	(33.5)	(1.1)	(3.9)	–	(0.8)	(73.7)
Disposals	–	6.3	5.9	30.6	2.1	4.9	–	1.3	51.1
Impairments	–	–	–	–	–	–	–	–	–
Reclassifications	–	–	–	–	–	–	–	–	–
Revaluations[2]	–	(0.1)	–	0.2	–	–	–	–	0.1
At 31 March 2020	**–**	**(301.0)**	**(153.2)**	**(250.1)**	**(13.5)**	**(20.3)**	**–**	**(2.5)**	**(740.6)**
Carrying amount at 31 March 2019	51.9	220.9	57.6	68.5	3.7	35.1	63.3	1.8	502.8
Carrying amount at 31 March 2020	**52.4**	**204.4**	**46.7**	**54.2**	**4.3**	**35.6**	**167.0**	**1.2**	**565.8**
The assets are financed as follows:									
Owned	52.4	–	46.7	48.7	4.3	35.6	167.0	1.2	355.9
Finance leased	–	1.9	–	0.7	–	–	–	–	2.6
PFI contracts	–	202.5	–	4.8	–	–	–	–	207.3
Carrying amount at 31 March 2020	**52.4**	**204.4**	**46.7**	**54.2**	**4.3**	**35.6**	**167.0**	**1.2**	**565.8**
Of the total:									
Core department	52.4	204.2	46.6	51.0	4.3	32.6	165.3	1.2	557.6
Valuation Office Agency	–	0.2	0.1	2.8	–	3.0	1.7	–	7.8
Revenue and Customs Digital Technology Services Limited	–	–	–	0.4	–	–	–	–	0.4
Carrying amount at 31 March 2020	**52.4**	**204.4**	**46.7**	**54.2**	**4.3**	**35.6**	**167.0**	**1.2**	**565.8**

1 See note 1.7.2 for the accounting policy for property assets.
2 See notes 1.2 and 1.7.2 for the accounting policy regarding revaluation of property, plant and equipment.

Property revaluation

Valuations were performed by the Valuation Office Agency, an executive agency of HM Revenue and Customs, whose services include providing valuation and estate surveying services to government departments.

7. Intangible assets

	Licences £m	Software £m	Website development £m	Assets under construction £m	Total £m
Cost or valuation					
At 1 April 2020	77.9	3,760.3	19.9	443.2	4,301.3
Additions	31.3	–	–	411.1	442.4
Disposals	(10.9)	(316.0)	–	–	(326.9)
Impairments	–	(3.8)	–	–	(3.8)
Reclassifications	5.3	239.3	–	(242.2)	2.4
Revaluation[1]	–	178.9	–	–	178.9
At 31 March 2021	**103.6**	**3,858.7**	**19.9**	**612.1**	**4,594.3**
Amortisation					
At 1 April 2020	(43.0)	(2,849.3)	(12.6)	–	(2,904.9)
Charged in year	(28.2)	(236.4)	(1.8)	–	(266.4)
Disposals	10.7	304.4	–	–	315.1
Impairments	–	–	–	–	–
Reclassifications	–	–	–	–	–
Revaluation[1]	–	(131.6)	–	–	(131.6)
At 31 March 2021	**(60.5)**	**(2,912.9)**	**(14.4)**	**–**	**(2,987.8)**
Carrying amount at 31 March 2020	34.9	911.0	7.3	443.2	1,396.4
Carrying amount at 31 March 2021	**43.1**	**945.8**	**5.5**	**612.1**	**1,606.5**
The assets are financed as follows:					
Owned	40.9	945.8	5.5	612.1	1,604.3
Finance leased	2.2	–	–	–	2.2
PFI contracts	–	–	–	–	–
Carrying amount at 31 March 2021	**43.1**	**945.8**	**5.5**	**612.1**	**1,606.5**
Of the total:					
Core department	43.1	936.4	5.5	606.2	1,591.2
Valuation Office Agency	–	9.4	–	5.9	15.3
Revenue and Customs Digital Technology Services Limited	–	–	–	–	–
Carrying amount at 31 March 2021	**43.1**	**945.8**	**5.5**	**612.1**	**1,606.5**

	Licences £m	Software £m	Website development £m	Assets under construction £m	Total £m
Cost or valuation					
At 1 April 2019	65.8	3,498.9	19.0	425.0	4,008.7
Additions	10.3	2.8	–	263.8	276.9
Disposals	(1.4)	(57.3)	–	–	(58.7)
Impairments	–	(1.6)	–	–	(1.6)
Reclassifications	3.2	242.4	0.9	(245.6)	0.9
Revaluation[1]	–	75.1	–	–	75.1
At 31 March 2020	**77.9**	**3,760.3**	**19.9**	**443.2**	**4,301.3**
Amortisation					
At 1 April 2019	(32.1)	(2,621.1)	(10.6)	–	(2,663.8)
Charged in year	(12.1)	(224.7)	(2.0)	–	(238.8)
Disposals	1.2	51.5	–	–	52.7
Impairments	–	–	–	–	–
Reclassifications	–	–	–	–	–
Revaluation[1]	–	(55.0)	–	–	(55.0)
At 31 March 2020	**(43.0)**	**(2,849.3)**	**(12.6)**	**–**	**(2,904.9)**
Carrying amount at 31 March 2019	33.7	877.8	8.4	425.0	1,344.9
Carrying amount at 31 March 2020	**34.9**	**911.0**	**7.3**	**443.2**	**1,396.4**
The assets are financed as follows:					
Owned	34.9	910.5	7.3	443.2	1,395.9
Finance leased	–	0.5	–	–	0.5
PFI contracts	–	–	–	–	–
Carrying amount at 31 March 2020	**34.9**	**911.0**	**7.3**	**443.2**	**1,396.4**
Of the total:					
Core department	34.9	898.6	7.3	435.4	1,376.2
Valuation Office Agency	–	12.4	–	7.8	20.2
Revenue and Customs Digital Technology Services Limited	–	–	–	–	–
Carrying amount at 31 March 2020	**34.9**	**911.0**	**7.3**	**443.2**	**1,396.4**

1 See notes 1.2 and 1.7.3 for the accounting policy regarding revaluation of intangible assets.

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 does not. 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

HMRC's buildings commitments for financial year 2020 to 2021 relates to our operational regional centres and specialist sites, or where Agreements for Leases are held, and to our other leased properties that are operating leases (including the minor occupation of other government department buildings).

The table below shows the total minimum value of future lease payments under operating leases.

At 31 March 2020, commitment values reflect property leased by Mapeley from third-party landlords on behalf of the department.

At 31 March 2021, commitment values reflect the end of the department's 20-year contract with Mapeley STEPS Contractor Ltd on 1 April 2021. Despite the end of the contract, the department has remained in some of the properties that were leased under it.

Obligations under operating leases

		2020-21 £m		2019-20 £m
	Core department and agency	Departmental group	Core department and agency	Departmental group
Land and buildings				
Due within one year	145.0	145.0	127.3	127.3
Due between one year and five years	434.5	434.5	363.5	363.5
Due later than five years	1,297.2	1,297.2	1,335.5	1,335.5
	1,876.7	**1,876.7**	**1,826.3**	**1,826.3**
Other				
Due within one year	15.3	15.3	40.8	40.8
Due between one year and five years[1]	15.2	15.2	15.7	15.7
Due later than five years	–	–	–	–
	30.5	**30.5**	**56.5**	**56.5**

1 2019 to 2020 figure has been revised by £5 million for a reallocation to note 8.4.

8.1.2 Finance leases

The following commitments are in respect of charges for assets that have been brought onto the department's Consolidated Statement of Financial Position as Finance Leases under IAS 17.

Obligations under finance leases

	2020-21 £m		2019-20 £m	
	Core department and agency	Departmental group	Core department and agency	Departmental group
Buildings				
Due within one year	–	–	1.3	1.3
Due between one year and five years	–	–	1.7	1.7
Due later than five years	–	–	–	–
	–	**–**	**3.0**	**3.0**
Other				
Due within one year	1.8	1.8	1.2	1.2
Due between one year and five years	0.4	0.4	–	–
Due later than five years	–	–	–	–
	2.2	**2.2**	**1.2**	**1.2**

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 Newcastle Estates Partnership held with DWP, the building known as 100 Parliament Street, St. John's House - Bootle, the STEPS contract (Mapeley-owned) freehold and historic leasehold properties and also commitments in relation to IT infrastructure. The Mapeley contract ended on 1 April 2021.

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 £235.8 million (2019 to 2020: £237.4 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

		2020-21 £m		2019-20 £m
	Core department and agency	Departmental group	Core department and agency	Departmental group
Minimum lease payments:				
Due within one year	28.1	28.1	44.6	44.6
Due between one year and five years	105.3	105.3	100.1	100.1
Due later than five years	231.8	231.8	253.2	253.2
Total minimum lease payments due in future periods	**365.2**	**365.2**	**397.9**	**397.9**

Details of the obligations for service elements

		2020-21 £m		2019-20 £m
	Core department and agency	Departmental group	Core department and agency	Departmental group
Service elements due in future periods:				
Due within one year[1]	40.8	40.8	80.8	80.8
Due between one year and five years[1]	112.9	112.9	163.2	163.2
Due later than five years	94.1	94.1	109.4	109.4
Total service elements due in future periods	**247.8**	**247.8**	**353.4**	**353.4**
Total Commitments	**613.0**	**613.0**	**751.3**	**751.3**

1 2019 to 2020 figures have been revised by a total of £15 million for a reallocation to note 8.4.

8.3 Capital commitments

The capital commitments reported relate to the future cost of development of the estate and IT infrastructure.

Contracted capital commitments at 31 March not otherwise included in these financial statements

		2020-21 £m		2019-20 £m
	Core department and agency	Departmental group	Core department and agency	Departmental group
Property, plant and equipment	93.9	93.9	93.9	93.9
Intangible assets	29.2	29.2	18.5	18.5
	123.1	**123.1**	**112.4**	**112.4**

8.4 Other financial commitments

The department has entered into non-cancellable contracts (which are not a lease, PFI contract or other service concession arrangement) to support development of transformation capability within HMRC.

The payments to which the department are committed are as follows:

		2020-21 £m		2019-20 £m
	Core Department & Agency	Departmental group	Core Department & Agency	Departmental group
Due within one year[1]	306.3	306.3	23.8	23.8
Due between one year and five years[1]	414.9	414.9	163.3	163.3
Due later than five years	6.5	6.5	11.8	11.8
	727.7	**727.7**	**198.9**	**198.9**

1 2019 to 2020 figures have been revised by a total of £20 million for a reallocation from note 8.1.1 and 8.2.2

9. Trade receivables, financial and other assets

		2020-21 £m		2019-20 £m	
	Note	Core department and agency	Departmental group	Core department and agency	Departmental group
Amounts expected to be received in more than one year:					
Personal tax credits[1]	5.1.2	1,365.0	1,365.0	1,444.2	1,444.2
RCDTS Ltd Funding[2]		7.0	–	7.0	–
		1,372.0	**1,365.0**	**1,451.2**	**1,444.2**
Amounts expected to be received within one year:					
Personal tax credits[1]	5.1.2	653.5	653.5	789.0	789.0
Child Benefit[3]		26.6	26.6	2.7	2.7
Help to Save		4.3	4.3	4.3	4.3
Trade receivables		4.4	4.4	5.1	5.1
Other receivables[4]		42.7	42.7	41.7	41.7
Deposits and advances		93.8	93.8	79.8	79.8
Value Added Tax		45.5	44.4	19.4	18.2
Prepayments - Child Benefit		75.0	75.0	64.8	64.8
Accrued income, other prepayments		145.8	146.1	125.3	125.5
		1,091.6	**1,090.8**	**1,132.1**	**1,131.1**

1 We have revised prior year receivable to provide an improved comparative analysis.
2 HMRC has funded RCDTS Ltd for general working capital and investment purposes. This has been accounted for as a long-term loan arrangement.
3 This figure is net of provision for impairment amounting to £38.1 million (2019 to 2020: £3.4 million).
4 This figure is net of provision for impairment amounting to departmental group: £20.9 million (2019 to 2020 departmental group: £20.9 million).

10. Cash and cash equivalents

Cash and bank balances relate to the administering of the department and programme expenditure, but exclude all tax and duty revenues collected. The latter are included in the department's Trust Statement. Cash and cash equivalents comprise cash in hand and current balances, which are readily convertible to known amounts of cash and which are subject to insignificant changes in value. Bank accounts are part of the Exchequer pyramid whereby balances are effectively held overnight with the Bank of England.

Cash and cash equivalents

		2020-21 £m		2019-20 £m
	Core department and agency	Departmental group	Core department and agency	Departmental group
Balance at 1 April	80.4	85.5	41.6	50.2
Net change in cash and cash equivalent balances	9,829.8	9,828.9	38.8	35.3
Balance at 31 March	**9,910.2**	**9,914.4**	80.4	85.5
Of which balances were held at:				
Government Banking Service	9,845.0	9,849.2	79.8	84.9
Commercial banks and cash in hand[1]	65.2	65.2	0.6	0.6
Balance at 31 March	**9,910.2**	**9,914.4**	**80.4**	**85.5**

1 Includes money held at the Bank of England (via the Trust Statement).

11. Trade payables and other liabilities

	2020-21 £m Core department and agency	Departmental group	2019-20 £m Core department and agency	Departmental group
Amounts expected to be paid within one year:				
Statutory Sick Pay Rebate - advance repayable to DWP	41.3	41.3	–	–
Personal tax credits	379.6	379.6	501.7	501.7
Child Benefit[1]	54.8	54.8	13.2	13.2
Tax Free Childcare	–	–	29.1	29.1
Help to Save[2]	–	–	30.2	30.2
Trade payables	69.2	69.6	90.7	91.1
Taxation and social security excluding VAT	68.0	69.1	47.1	48.1
IT Public Private Partnership	2.0	2.0	2.6	2.6
Accommodation PFI	9.0	9.0	23.3	23.3
Accommodation non-PFI	0.2	0.2	1.1	1.1
Other payables	5.0	5.1	6.7	6.7
Accruals - COVID-19 support schemes	2,408.0	2,408.0	–	–
Accruals - corporation tax reliefs	8,135.2	8,135.2	7,315.5	7,315.5
Accruals - Child Benefit[1]	–	–	202.0	202.0
Other accruals	674.6	670.1	473.0	469.1
Deferred Income	38.3	38.3	65.7	65.7
Amounts issued from the Consolidated Fund for Supply but not spent at year end	9,908.6	9,908.6	–	–
Balance to surrender payable to the Consolidated Fund[3]	–	–	806.3	806.3
Consolidated Fund Extra Receipts due to be paid to the Consolidated Fund				
Received	1.6	1.6	0.1	0.1
Receivable	–	–	–	–
	21,795.4	**21,792.5**	**9,608.3**	**9,605.8**
Amounts expected to be paid in more than one year:				
Accruals - corporation tax reliefs	1,676.8	1,676.8	1,592.3	1,592.3
IT Public Private Partnership	8.8	8.8	3.5	3.5
Accommodation PFI	197.6	197.6	205.1	205.1
Accommodation non-PFI	4.2	4.2	1.4	1.4
	1,887.4	**1,887.4**	**1,802.3**	**1,802.3**

1 An element of Child Benefit payables were previously reported under Accruals - Child Benefit
2 Help to Save was previously reported under Child Benefit. Prior year figures have been restated.
3 As a result of the decrease in net cash requirement at Supplementary Estimate, the department had a balance to surrender which was owed to the Consolidated Fund. The balance remained outstanding at 31 March 2020 and therefore had been recognised as a payable.

11.1 Reconciliation of liabilities arising from financing activities

	Balance at 1 April 2020	Cash Flows: Financing cash flows	Cash Flows: Net Cash Requirement	Non-Cash Changes: Acquisition	Non-Cash Changes: Forex Movements	Non-Cash Changes: Fair Value changes	Non-Cash Changes: Disposal	Balance at 31 March 2021
	£m	£m	£m	£m	£m	£m	£m	£m
Supply - current year	–	105,994.4	(96,085.8)	–	–	–	–	9,908.6
Supply - prior year	–	726.0	(726.0)	–	–	–	–	–
Parliamentary funding - balance to surrender	806.3	(806.3)	–	–	–	–	–	–
From the Trust Statement	–	25,088.2	(25,088.2)	–	–	–	–	–
From the National Insurance Fund	(15.7)	251.5	(225.1)	–	–	–	–	10.7
Lease Liabilities	237.0	(29.6)	–	13.6	–	1.6	(0.9)	221.7
Total liabilities from financing activities	**1,027.6**	**131,224.2**	**(122,125.1)**	**13.6**	**–**	**1.6**	**(0.9)**	**10,141.0**

	Balance at 1 April 2019	Cash Flows: Financing cash flows[1]	Cash Flows: Net Cash Requirement	Non-Cash Changes: Acquisition	Non-Cash Changes: Forex Movements	Non-Cash Changes: Fair Value changes	Non-Cash Changes: Disposal	Balance at 31 March 2020
	£m	£m	£m	£m	£m	£m	£m	£m
Supply - current year	41.5	16,216.2	(16,257.7)	–	–	–	–	–
Supply - prior year	–	–	–	–	–	–	–	–
Parliamentary funding - balance to surrender	–	80.3	726.0	–	–	–	–	806.3
From the Trust Statement	–	24,948.6	(24,948.6)	–	–	–	–	–
From the National Insurance Fund	1.5	254.1	(271.3)	–	–	–	–	(15.7)
Lease Liabilities	253.7	(29.2)	–	11.4	–	1.7	(0.6)	237.0
Total liabilities from financing activities	**296.7**	**41,470.0**	**(40,751.6)**	**11.4**	**–**	**1.7**	**(0.6)**	**1,027.6**

1 The £16,216.2 million reported as Supply - current year, together with the £80.3 million reported as Parliamentary funding - balance to surrender, are reported as financing from the Consolidated Fund (Supply) - current year in the Consolidated Statement of Cash Flows.

12. 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

				2020-21 £m				2019-20 £m
		Core department and agency		Departmental group		Core department and agency		Departmental group
Balance at 1 April		**240.2**		**240.2**		**215.9**		**215.9**
Provided in the year	104.5		104.5		138.1		138.1	
Provisions not required written back	(56.4)		(56.4)		(59.2)		(59.2)	
Borrowing costs (unwinding of discounts)	–		–		–		–	
Net expenditure		48.1		48.1		78.9		78.9
Provisions utilised in the year		(96.2)		(96.2)		(54.6)		(54.6)
Balance at 31 March		**192.1**		**192.1**		**240.2**		**240.2**

12.1 Analysis of expected timing of discounted flows

		2020-21 £m		2019-20 £m
	Core department and agency	Departmental group	Core department and agency	Departmental group
Not later than one year	1.5	1.5	15.0	15.0
Later than one year and not later than five years	145.6	145.6	199.6	199.6
Later than five years	45.0	45.0	25.6	25.6
Balance at 31 March	**192.1**	**192.1**	**240.2**	**240.2**

	Child Trust Fund £m	Legal claims £m	Accommodation costs £m	Other £m	Total £m
Not later than one year	0.1	0.9	0.1	0.4	1.5
Later than one year and not later than five years	0.3	87.5	10.7	47.1	145.6
Later than five years	–	40.0	5.0	–	45.0
Balance at 31 March	**0.4**	**128.4**	**15.8**	**47.5**	**192.1**

12.2 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.

12.3 Legal claims

A provision of £128.4 million (2019 to 2020: £112.7 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.

12.4 Accommodation costs

A provision of £15.8 million has been made (2019 to 2020: £11.7 million) for buildings related claims giving rise to probable liabilities under tenancy agreements.

12.5 Other

Provisions relating to various other claims against the department amount to £47.5 million (2019 to 2020: £115.4 million).

13. 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 part of the Local Government Pension Scheme are reflected in the Consolidated Statement of Financial Position (see page 248).

Further information can be found within the Valuation Office Agency accounts (HC 772) that can be viewed **https://www.gov.uk/government/organisations/valuation-office-agency.**

14. Contingent liabilities

Contingent liabilities are possible obligations that arise from past events and for which 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 £119.2 million (2019 to 2020: £90.5 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, 59 cases (2019 to 2020: £0.6 million, 68 cases).

Other - the department has a further number of contingent liabilities amounting to £64.0 million (2019 to 2020: £67.0 million).

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 **https://www.voa.gov.uk**

Revenue and Customs Digital Technology Services Limited is an Arms Length Body. Its Annual Report and Accounts are published at **https://www.gov.uk/government/organisations/companies-house**

17. Investments and loans in other public sector bodies

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

18. Events after the reporting period date

We recognise as material non-adjusting events after the reporting date:

- The Coronavirus Job Retention Scheme extension - The Treasury Direction for the latest extension was signed on 15 April 2021 for the period beginning on 1 May 2021 and ending on 30 September 2021. Based on official statistics[1], of the cumulative amount claimed up to 14 September 2021 of £69.3 billion, we estimate £8.0 billion to relate to 2021 to 2022 entitlement.

- The Self-Employment Income Support Scheme fourth grant - The Treasury Direction for the fourth grant was signed on 7 April 2021. The claim service for the fourth grant opened on 21 April 2021. The last day for making claims for the fourth grant was 1 June 2021. Based on official statistics[1], claims as at 15 September 2021 were £5.5 billion.

- The Self-Employment Income Support Scheme fifth grant - The Treasury Direction for the fifth grant was signed on 2 July 2021. The claim service for the fifth grant opened on 28 July 2021. The last day for making claims for the fifth grant was 30 September 2021. Based on official statistics[1], claims as at 15 September 2021 were £2.5 billion.

- The COVID-19 support scheme for a one-off payment of £500 to working households receiving tax credits - The Treasury Direction was signed on 7 April 2021 and was extended by a further Treasury Direction signed on 3 September 2021 with payments commencing in April 2021 following the Treasury Direction. £765.0 million was included in the 2021 to 2022 Main Estimate related to this expenditure.
- On 1 October 2021, the land, building, PFI liability and associated commitment relating to 100 Parliament Street was transferred to the Government Property Agency. This will result in a reduction of £51.7 million land assets, £155.7 million building assets and £167.3 million PFI liabilities in the Statement of Financial Position. HMRC will continue to occupy the building under a Terms of Occupation agreement, scheduled to end in 2037 to 2038.

[1] https://www.gov.uk/government/collections/hmrc-coronavirus-covid-19-statistics

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 tax payer liabilities

Accrued Revenue Receivable (ARR) - ARR represents taxes and duties relating to the financial year that are not yet due or received from taxpayers, where these have not been included in receivables.

Administration costs - these relate to the internal administration costs of running the department, for example human resources, finance, estates management, and includes both costs and associated operating income.

Amortisation - this is the 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 or 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 future accounting periods.

Departmental Expenditure Limits (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 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 to 2010 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 practioner 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.

*This section is not subject to audit

Annex 1 - Arm's-length bodies

(This information is not subject to audit)

Information on arm's length bodies is shown on pages 129 to 131 within the Principal Accounting Officer's report. The following bodies are those within our accounting boundary for 2020 to 2021 that contribute to the departmental group.

	Total operating income £'000	Total operating expenditure £'000	Net expenditure for the year (including financing) £'000	Permanently employed staff		Other staff	
				Number of employees	Staff costs £'000	Number of employees	Staff costs £'000
HMRC	-377,085	124,380,228	124,003,143	57,493	2,566,712	234	23,438
RCDTS Ltd	–	76,540	76,540	775	32,443	134	411
VOA	-36,328	254,115	217,787	3,040	143,541	191	6,850

As 100% of the income generated by Revenue and Customs Digital Technology Services Limited (RCDTS) is from HMRC, the RCDTS income is offset against HMRC's expenditure upon consolidation. This explains the reason for the nil figure under the RCDTS income column.

Annex 2 - Statistical tables

This table provides further detail by category on HMRC spending.

Table 1: Total departmental spending (£000)

	2016-17 Outturn	2017-18 Outturn	2018-19 Outturn	2019-20 Outturn	2020-21 Outturn	2021-22 Plans
Resource DEL[1]						
HMRC administration	3,505,243	3,450,380	3,483,718	3,813,617	4,335,323	5,612,631
VOA administration	-2,743	143,476	142,738	164,797	141,100	178,290
Utilised provisions	17,500	31,631	42,918	54,597	96,219	30,000
National Insurance Fund	315,500	320,306	282,548	254,332	222,649	252,000
Total Resource DEL	**3,835,500**	**3,945,793**	**3,951,922**	**4,287,343**	**4,795,291**	**6,072,921**
Of which:						
Staff costs	2,406,240	2,401,849	2,360,289	2,602,310	2,778,298	3,007,889
Purchase of goods and services	1,269,919	1,145,766	1,199,928	1,207,607	1,494,300	1,683,610
Income from sales of goods and services	-426,857	-202,750	-201,710	-204,751	-288,573	-180,700
Current grants to persons and non-profit bodies (net)	2,841	2,327	1,714	6,277	52,638	765,000
Current grants abroad (net)	1,286	1,054	1,418	1,287	840	456
Subsidies to private sector companies	–	–	387	–	–	–
Rentals	203,739	195,611	208,542	296,210	326,652	299,529
Depreciation[2]	278,038	296,974	288,680	296,137	310,833	383,734
Change in pension scheme liabilities	1,828	1,847	1,324	-210	-210	240
Other resource	98,466	103,115	91,350	82,476	120,513	113,163
	3,835,500	**3,945,793**	**3,951,922**	**4,287,343**	**4,795,291**	**6,072,921**

1 Outturn values are consistent with those reported in SOPS 1.1 on pages 194 to 195.
2 Includes impairments.
Note: The totals may differ to the information in the Statement of Parliamentary Supply due to rounding.

Table 1: Total departmental spending (£000)

	2016-17 Outturn	2017-18 Outturn	2018-19 Outturn	2019-20 Outturn	2020-21 Outturn	2021-22 Plans
Resource AME[1]						
Child Benefit	11,651,914	11,689,654	11,475,319	11,487,105	11,541,713	11,932,223
Tax Free Childcare	6	28,783	115,730	245,524	253,047	399,980
Providing payments in lieu of tax relief to certain bodies	70,068	85,027	97,388	116,035	140,071	120,061
Lifetime ISA	–	–	251,019	225,808	346,120	542,225
HMRC administration	32,000	37,975	93,672	82,016	52,212	30,000
VOA - payments of rates to LAs on behalf of certain bodies	63,836	76,085	66,785	83,886	75,646	88,000
VOA administration	3,100	5,690	7,094	1,523	1,184	2,000
Utilised provisions	-17,412	-31,633	-42,920	-54,607	-96,223	-30,010
Personal tax credit	27,143,623	26,362,989	22,288,296	18,331,274	15,063,222	13,214,009
Other reliefs and allowances	3,381,936	3,705,182	5,879,196	10,103,140	10,698,573	11,727,465
COVID-19	–	–	–	–	81,233,264	19,157,000
Total Resource AME	**42,329,071**	**41,959,753**	**40,231,579**	**40,621,704**	**119,308,829**	**57,182,953**
Of which:						
Purchase of goods and services	94,963	91,916	71,679	89,110	95,721	94,500
Income from sales of goods and services	-3,764	-4,725	-4,894	-5,224	-4,535	-4,500
Current grants to persons and non-profit bodies (net)	40,706,128	39,665,624	34,231,898	30,418,746	26,770,567	26,210,958
Subsidies to private sector companies	1,531,740	2,204,456	5,876,916	10,100,691	88,673,903	30,882,005
Depreciation[2]	-2,144	1,854	477	1,290	1,785	–
Take up of provisions	26,137	41,811	100,289	82,249	50,315	30,000
Release of provision	-18,912	-31,633	-42,920	-54,607	-102,416	-30,010
Change in pension scheme liabilities	–	–	–	–	–	–
Other resource	-5,077	-9,550	-1,866	-10,551	24,795	–
	42,329,071	**41,959,753**	**40,231,579**	**40,621,704**	**115,510,135**	**57,182,953**
Resource budget[1]						
Total Resource DEL	3,835,500	3,945,793	3,951,922	4,287,343	4,795,291	6,072,921
Total Resource AME	42,329,071	41,959,753	40,231,579	40,621,704	119,308,829	57,182,953
Total Resource Budget	**46,164,571**	**45,905,546**	**44,183,501**	**44,909,047**	**124,104,120**	**63,255,874**
Of which:						
Depreciation[2]	275,894	298,828	289,157	297,427	312,618	383,734

1 Outturn values are consistent with those reported in SOPS 1.1 on pages 194 to 195.

2 Includes impairments

Note: The totals may differ to the information in the Statement of Parliamentary Supply due to rounding.

Table 1: Total departmental spending (£000)

	2016-17 Outturn	2017-18 Outturn	2018-19 Outturn	2019-20 Outturn	2020-21 Outturn	2021-22 Plans
Capital DEL[1]						
HMRC administration	314,622	273,268	353,476	328,666	529,830	634,712
VOA administration	11,778	7,517	8,742	6,362	6,746	24,420
Total Capital DEL	**326,400**	**280,785**	**362,218**	**335,028**	**536,576**	**659,132**
Of which:						
Purchase of assets	327,774	308,339	387,376	420,306	677,700	668,228
Income from sales of assets	-1,374	-27,554	-25,158	-85,278	-141,124	-9,096
	326,400	**280,785**	**362,218**	**335,028**	**536,576**	**659,132**
Capital AME[1]						
Child Benefit	4	2	2	10	4	10
Total Capital AME	**4**	**2**	**2**	**10**	**4**	**10**
Of which:						
Capital grants to persons & non-profit bodies (net)	4	2	2	10	4	10
	4	**2**	**2**	**10**	**4**	**10**
Capital budget[1]						
Total Capital DEL	326,400	280,785	362,218	335,028	536,576	659,132
Total Capital AME	4	2	2	10	4	10
Total Capital Budget	**326,404**	**280,787**	**362,220**	**335,038**	**536,580**	**659,142**

1 Outturn values are consistent with those reported in SOPS 1.2 on page 196.

Note: The totals may differ to the information in the Statement of Parliamentary Supply due to rounding.

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)

	2016-17 Outturn	2017-18 Outturn	2018-19 Outturn	2019-20 Outturn	2020-21 Outturn	2021-22 Plans
Resource DEL						
HMRC administration	788,643	754,343	773,467	767,280	896,424	938,506
Utilised provisions	8,596	8,596	7,057	2,208	–	14,000
National Insurance Fund	74,100	78,597	59,264	51,552	50,536	44,981
Total administration budget	**871,339**	**841,536**	**839,788**	**821,040**	**946,960**	**997,487**
Of which:						
Staff costs	359,968	329,804	335,364	401,196	467,299	392,759
Purchase of goods and services	474,151	350,347	341,999	245,209	338,798	433,519
Income from sales of goods and services	-134,700	-40,483	-35,670	-34,256	-94,044	-71,310
Current grants to persons and non-profit bodies (net)	1,988	1,687	1,671	1,660	1,661	–
Rentals	95,355	103,038	94,795	132,956	149,860	120,507
Depreciation	68,359	88,050	76,452	63,784	52,274	107,808
Other resource	6,218	9,093	25,177	10,491	31,112	34,856
	871,339	**841,536**	**839,788**	**821,040**	**946,960**	**1,018,139**

Note: The totals may differ to the information in the Statement of Parliamentary Supply due to rounding.

Report by the Comptroller and Auditor General

HM Revenue & Customs 2020-21 Accounts

This Report is published alongside the 2020-21 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

29 October 2021

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.

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Contents

Coverage of this report

HMRC corporate document	Coverage of this report
Trust Statement	HM Revenue & Customs (HMRC) reported £608.8 billion of tax revenue for 2020-21. Under the Exchequer and Audit Departments Act 1921, the Comptroller and Auditor General (C&AG) must certify whether HMRC's 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 the income and expenditure for the purposes Parliament intended. The 1921 Act also requires the C&AG to consider whether HMRC's systems to collect taxes are adequate. We found that HMRC's systems are adequate, subject to the observations in this report and our other reports to Parliament.
Resource Accounts	The cost of running HMRC in 2020-21 was £4.3 billion. HMRC paid out £119.3 billion, including £15.1 billion of Personal Tax Credits payments, £11.5 billion of Child Benefit and £81.2 billion in relation to the main COVID-19 support schemes, which comprise: the Coronavirus Job Retention Scheme; the Self-Employment Income Support Scheme; and Eat Out to Help Out. 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 has concluded that: • the Resource Accounts are true and fair; but • material levels of error and fraud have been identified in the COVID-19 support schemes (Part Three); • there remains a material level of error and fraud in Personal Tax Credits expenditure (Part Four); and • there remains a material level of error and fraud in Corporation Tax research and development reliefs (Part Four).
Annual Report	We reviewed HMRC's performance against its objective of collecting tax revenues and managing compliance and considered the main components of the £608.8 billion raised during 2020-21 (Part One). We review if HMRC is getting value for money and report our findings to Parliament under section 6 and section 9 of the National Audit Act 1983.

Summary

HM Revenue & Customs performance, 2020-21

1 HM Revenue & Customs (HMRC) is responsible for administering the UK's tax system. In line with other government departments, HMRC did not produce a Single Departmental Plan or set strategic objectives for 2020-21 due to the uncertainty around the COVID-19 pandemic and the need to respond quickly to urgent government priorities. HMRC published performance updates during 2020-21 and has prepared its Annual Report against the following deliverables:

- collecting revenue and managing compliance;
- improving customer experience;
- delivering coronavirus (COVID-19) support schemes;
- supporting the UK's international trade;
- transforming how we work; and
- supporting wider government aims.

2 This report is our factual commentary on HMRC's performance during 2020-21 and the strategic issues it is addressing. It draws on the findings from our statutory audit work during the period, including on HMRC's financial statements; the adequacy of its systems for collecting revenue; and the value for money it achieved from its spending (see Appendix Two). Each audit comes under different legislation (see Coverage of this report, page R4). This report does not reach a separate conclusion on the value for money of HMRC's expenditure.

3 The report covers:

- HMRC's performance against its 2020-21 objective of collecting revenue and managing compliance, and looks at the main components of the £608.8 billion raised during 2020-21 (Part One);
- HMRC's approach to the strategic challenges it faces, specifically: HMRC's implementation of the government's response to the COVID-19 pandemic and the impact of COVID-19 on its operations; UK transition and the ending of staged customs controls; and HMRC's plans to build a trusted and modern tax administration system (Part Two);
- the basis of the Comptroller and Auditor General's (C&AG's) qualification of his opinion on the regularity of HMRC's Resource Accounts in relation to error and fraud in the COVID-19 support schemes (Part Three); and

- the basis of the C&AG's qualification of his opinion on the regularity of HMRC's Resource Accounts in relation to error and fraud in Corporation Tax research and development reliefs and Personal Tax Credits (tax credits) (Part Four).

Summary findings

Tax revenues

4 **Total tax revenues in 2020-21 fell by 4.4% compared with 2019-20, reflecting the impact of COVID-19 on the economy, having risen in each of the preceding three years.** HMRC reported total tax revenues of £608.8 billion in 2020-21, down by £27.9 billion compared with 2019-20 (£636.7 billion). The three largest components of revenue were Income Tax, National Insurance Contributions and VAT. Of the reported total tax revenue of £608.8 billion, HMRC has included £159.8 billion (26.2%) from tax liabilities which had not been paid by 31 March 2021 (paragraphs 1.2, 1.7 and Figure 1).

5 **Revenues generated through VAT, hydrocarbon oils duties and Income Tax arising from Self Assessment all fell during 2020-21.** In contrast, Income Tax arising through Pay As You Earn and Capital Gains Tax both rose compared with 2019-20. Income from National Insurance Contributions remained broadly unchanged. HMRC estimates that Income Tax and National Insurance Contributions due on grants it paid through the Coronavirus Job Retention Scheme and Self-Employment Income Support Scheme accounted for around £10.7 billion of 2020-21 revenue. In July 2020, the Office for Budget Responsibility's (OBR's) central scenario forecast that public sector receipts in 2020-21 would fall by 10%. In July 2021, the OBR reported an actual 4.1% fall in receipts (paragraphs 1.2, 1.3 and Figure 2).

6 **HMRC estimates that the tax gap – the difference between the amount of tax that should, in theory, be paid to HMRC, and what is actually paid – was £35 billion in 2019-20, up from £33 billion in 2018-19.** The tax gap can occur for several reasons including mistakes, failure to comply, avoidance of tax and insolvency, and can be affected by factors such as changes in the economy and demographics. HMRC's estimate of the tax gap for 2019-20 of £35 billion – the latest year for which data are available – represents 5.3% of the total theoretical tax liabilities of £674 billion (paragraphs 1.17 and 1.18).

7 **HMRC estimates that the yield from its tax compliance activities in 2020-21 was £30.4 billion, down 18% compared with 2019-20 (£36.9 billion against a target of £34.5 billion).** Compliance yield measures the effectiveness of HMRC's compliance and enforcement activities. It is one of HMRC's main performance measures. HMRC explained that yield in 2020-21 was down on the previous year for two main reasons. Firstly, yield in 2019-20 was inflated by a small number of large, one-off successful litigations (the largest case yielded £4.2 billion – 11% of total 2019-20 yield). In addition, yield in 2020-21 was affected by pandemic restrictions which meant that HMRC had to reduce the level of compliance activity it undertook. HMRC opened 29% fewer civil compliance cases in 2020-21 than in 2019-20 (256,000 compared with 361,000) and closed 26% fewer cases (250,000 compared with 338,000). HMRC said its compliance activity recognised the needs and challenges facing businesses and individuals, and took a sympathetic approach to those struggling to pay their tax. HMRC and HM Treasury agreed that COVID-19 had created too much uncertainty to determine an appropriate compliance target for 2020-21 (paragraphs 1.21 to 1.26 and Figure 6).

Customer service performance

8 **COVID-19 contributed to a deterioration in key aspects of HMRC's customer service performance in 2020-21 as it reallocated resources to provide new services in response to the pandemic.** HMRC reported performance against eight key customer service measures in 2020-21. Performance declined for the five measures covering speed of telephone answering and responses to correspondence, compared with the three previous years. HMRC's performance stabilised in handling Tax Credits and Child Benefit claims for overseas customers. Customer satisfaction with HMRC's digital services improved as did its performance in handling Tax Credits and Child Benefit claims for UK customers (paragraphs 1.28 to 1.30 and Figure 8).

HMRC's response to the COVID-19 pandemic

9 **HMRC demonstrated considerable agility in implementing substantial aspects of the government's response to COVID-19 to support businesses and individuals at pace, with a cost of at least £94 billion in 2020-21.** The main elements of this support were the Coronavirus Job Retention Scheme and the Self-Employment Income Support Scheme. The Coronavirus Job Retention Scheme enabled employers to keep employees in 11.5 million jobs on a period of temporary leave or furlough, or reduced working, at a cost of £61 billion in 2020-21. The first three phases of the Self-Employment Income Support Scheme have seen 7.2 million claims totalling £20 billion in 2020-21 to support the self-employed. HMRC has also implemented more than 80 other temporary policy changes or clarifications to respond to the impact of COVID-19. HMRC has not quantified the impact of all the tax measures implemented but, of those it has costed, estimates that the six largest changes reduced tax revenue by around £11 billion in 2020-21. We report lifetime costs of all HMRC support measures where estimates are available in our COVID-19 Cost Tracker (paragraphs 2.2 to 2.8).

10 COVID-19, and HMRC's role in the government's response, has continued to have a significant impact on HMRC's operations during 2020-21. HMRC estimates that its COVID-19-related activity cost £318 million in 2020-21, including additional spending of £116 million, mainly on IT systems to deliver the COVID-19 support schemes and the cost of contractors and temporary staff. Most of the remaining £202 million was for permanent staff redeployed from within HMRC to support COVID-19 activity. HMRC reallocated a substantial number of its staff to work in COVID-19-related roles during 2020-21. At the peak, in May 2020, of 58,600 full-time equivalent staff, 8,900 (15%) were reallocated to COVID-19-related roles. From November 2020, HMRC brought in more temporary staff to support its response to COVID-19. In the last quarter of 2020-21, it used an average of 1,400 temporary staff a month – equivalent to around 2% of its permanent workforce (paragraphs 2.14 to 2.16 and Figure 14).

11 HMRC has sought to mitigate potential risks to its regional centre programme by letting out excess capacity to other government departments. HMRC plans to transform its previous, extensive local office network into one based principally around 13 regional centres. In 2020-21 HMRC opened regional centres in Edinburgh, Cardiff, Leeds and Stratford alongside those already open in Croydon, Bristol and Belfast. HMRC considers that the pandemic has accelerated existing trends around working patterns and that these trends may have long-term impacts on how offices are used and potentially alter demand for office space. HMRC is working with the Government Property Agency to respond to these changing patterns of demand and accommodate staff from other public bodies in its regional centres (paragraphs 2.18 to 2.22).

UK transition and the ending of staged customs controls

12 HMRC is responsible for key customs and border-related programmes. It had a significant role in ensuring the UK was ready for the end of the transition period on 31 December 2020, for example by putting in place key systems, infrastructure and resources underpinning the government's minimum operating capability for the border. It needs to ensure that the UK is ready for the end of staged customs controls on 1 January 2022, following the government's decision to phase in the introduction of full UK import controls over the period between 1 January 2021 and 1 July 2022. HMRC also has a key role in implementing the Northern Ireland Protocol, which is challenging given the ongoing uncertainty around how the Protocol will operate. During 2020-21 HMRC budgeted £977 million for work relating to UK transition and spent £936 million. The number of HMRC staff working on transition has increased since 2019-20. HMRC's annual report shows that 8,100 staff worked on transition in 2020-21, compared with 6,100 the previous year (paragraphs 2.23 to 2.27).

Building a trusted, modern tax administration system

13 **HMRC has established a new 10-year strategy for modernising the tax system.** In July 2020 HMRC set out a long-term strategy to create a trusted and modern tax system based on real-time information. HMRC has not yet set specific targets for this strategy, though expects to achieve the following benefits: a better experience for taxpayers and businesses; reducing the tax gap and wider benefits for businesses; and greater resilience and responsiveness in times of crisis. The new framework will also support HMRC's aim to make it easy to get tax right and harder to get wrong and help build trust in a tax system that is seen as fair and even-handed. HMRC has acknowledged that, across the world, the type of digital tax system the UK is embarking on is increasingly the norm, with some countries already taking more decisive, faster steps. HMRC has had to adjust and reprioritise its previous plans for transformation to reflect unforeseen developments, such as EU Exit and higher than expected customer demand. Delivering on its transformation ambitions against the backdrop of the other strategic objectives HMRC is working towards will be challenging (paragraphs 2.28 and 2.29).

14 **HMRC estimates that its Making Tax Digital programme will deliver additional tax revenue, though it will also bring additional costs for taxpayers.** The Making Tax Digital programme (the requirement to keep tax records and submit returns digitally) is a key part of HMRC's 10-year modernisation strategy. The government originally announced its digital tax ambitions in 2015 with the aim of most individuals and small businesses having a digital tax account by 2020. However, following stakeholder feedback about the pace of change, the government decided in 2017 to slow the roll-out of Making Tax Digital. HMRC estimates that by 2020-21 the programme had generated additional revenue of £265 million, some £215 million (45%) less than the original forecast. HMRC estimates that the total additional tax revenue over the Making Tax Digital programme lifecycle, to 2027-28, will be £2.9 billion. HMRC has estimated that taxpayers will incur one-off transitional costs of around £1.5 billion as a result of the forthcoming extension of the Making Tax Digital programme (paragraphs 2.28 and 2.31 to 2.34).

15 **HMRC has reported that the age and extent of its legacy IT has made it more difficult to comply with the UK General Data Protection Regulation and associated security obligations.** HMRC reports that, during the past two years, it has decommissioned more than three-quarters of the 166 IT services that it had identified as being obsolete. It plans to tackle the rest during 2021-22. In 2020 HMRC commissioned a review into its legacy IT infrastructure. HMRC has been working with the Information Commissioner's Office (ICO) to consider the steps it is taking to deliver the actions arising from that review (paragraphs 2.35 and 2.36).

Error and fraud in the COVID-19 support schemes

16 The C&AG has qualified his opinion on the regularity of HMRC's 2020-21 Resource Accounts due to the material levels of error and fraud in the main COVID-19 support schemes. These comprise the Coronavirus Job Retention Scheme (CJRS), the Self-Employment Income Support Scheme (SEISS) and Eat Out to Help Out (EOHO). The government's priority at the start of the pandemic was to get support to those who needed it as quickly as possible. HMRC recognised the pace of implementation, and the need to process payments quickly, would limit its opportunities to mitigate error and fraud. HMRC's current most likely estimate of the level of error and fraud in the 2020-21 COVID-19 support scheme payments is £5.8 billion, of which £5.3 billion relates to CJRS. Its estimate of the most likely rate of error and fraud, along with upper and lower-level estimates, are 8.7% (range of 6.7% to 12%) for CJRS, 2.5% (range of 1.8% to 3.2%) for SEISS and 8.5% (range of 5.1% to 11.8%) for EOHO. HMRC's estimates are subject to considerable uncertainty and the actual levels of error and fraud in the schemes could differ significantly from the estimated rates and values currently reported. HMRC is aiming to improve its estimates of error and fraud, based on a random enquiry programme and post-payment compliance checks for CJRS, and analysis of 2020-21 Self Assessment tax returns for SEISS. HMRC plans to have revised estimates of error and fraud which reflect these improvements in 2022 (paragraphs 3.2, 3.7, 3.10 to 3.15, 3.27, 3.28 and Figures 16 and 17).

Error and fraud in Personal Tax Credits and Corporation Tax research and development reliefs

17 The C&AG has qualified his opinion on the regularity of HMRC's 2020-21 Resource Accounts due to the material level of error and fraud in Personal Tax Credits. The most recent available estimates indicate that overpayments in 2019-20 by HMRC were 5.0% of tax credits expenditure, similar to the previous year (4.9%). Errors in tax credits resulting in underpayments amounted to 0.8% of expenditure, an increase of 0.1% from the rate in 2018-19. These rates equate to overpayments of £880 million from an estimated 490,000 claims, a reduction of £220 million compared with 2018-19 and underpayments of £150 million from an estimated 350,000 claims, a reduction of £20 million compared with 2018-19. HMRC estimates that action it took to respond to COVID-19 from April 2020 contributed around £150 million to overpayments reported in the 2019 financial year. To enable it to quickly pay the £20 per week uplift to tax credits for 2020-21, and release staff to help with other COVID-19 support measures, HMRC relaxed its approach to checking tax credits renewals and reduced its compliance activity (paragraphs 4.2, 4.13, 4.17 and Figure 21).

18 The C&AG has also qualified his opinion on the regularity of HMRC's 2020-21 Resource Accounts due to the material level of error and fraud in Corporation Tax research and development reliefs. The research and development relief schemes are complex, opening up opportunities for abuse. HMRC's most recent estimate shows that the level of error and fraud present within this area of expenditure is some £336 million or 3.6% of related expenditure (2019-20 – £311 million (3.6% of related expenditure)). The C&AG considers the level of error and fraud to be material to the related expenditure and for his regularity opinion on the Resource Accounts. HMRC has taken steps to improve both taxpayer compliance and its approach to measuring error and fraud (paragraphs 4.2, 4.32, 4.35, 4.38, 4.39 and 4.42).

Conclusion

19 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 2020-21, HMRC framed adequate regulations and procedures to secure an effective check on the assessment, collection and proper allocation of revenue, and that they are 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.

20 In 2020-21 COVID-19 had a significant impact on HMRC and its operations. The Department implemented key aspects of the government's response to the pandemic, while simultaneously managing the impact on its business, such as large-scale remote working. The main COVID-19 support schemes have ended and the impact of the pandemic on HMRC is easing. HMRC now needs to identify, measure and recover payments made as a result of erroneous or fraudulent claims, at the same time as returning its compliance activity as a whole to more normal levels. Achieving this will be particularly challenging, and will require careful prioritisation, against the backdrop of dealing with the post-EU Exit transition period and modernising the tax system.

Part One

Performance in 2020-21

1.1 This part of the report sets out HM Revenue & Customs' (HMRC's) performance in 2020-21 in collecting revenue and managing compliance. Performance is measured by the revenues reported in HMRC's Trust Statement and compliance yield, which is disclosed in its Annual Report. This part also considers customer service performance reported by HMRC during 2020-21.

Tax revenue in 2020-21

1.2 The total revenue HMRC reported in its Trust Statement in 2020-21 was £608.8 billion (£636.7 billion in 2019-20) (**Figure 1**).[1] In 2020-21, the economic impact of COVID-19 contributed to an overall reduction in tax revenues of 4.4% (£27.9 billion). The largest falls in revenue were from VAT, hydrocarbon oils duties and Income Tax arising from Self Assessment (**Figure 2** on page R14). Income Tax arising through Pay As You Earn and Capital Gains Tax both rose by more than £1 billion in 2020-21. Income from National Insurance Contributions was broadly unchanged. Grants HMRC paid to businesses and individuals through the Coronavirus Job Retention Scheme and Self-Employment Income Support Scheme are taxable. HMRC estimates that Income Tax and National Insurance Contributions reported in the Trust Statement include in total around £10.7 billion of revenue from grants paid in 2020-21.[2]

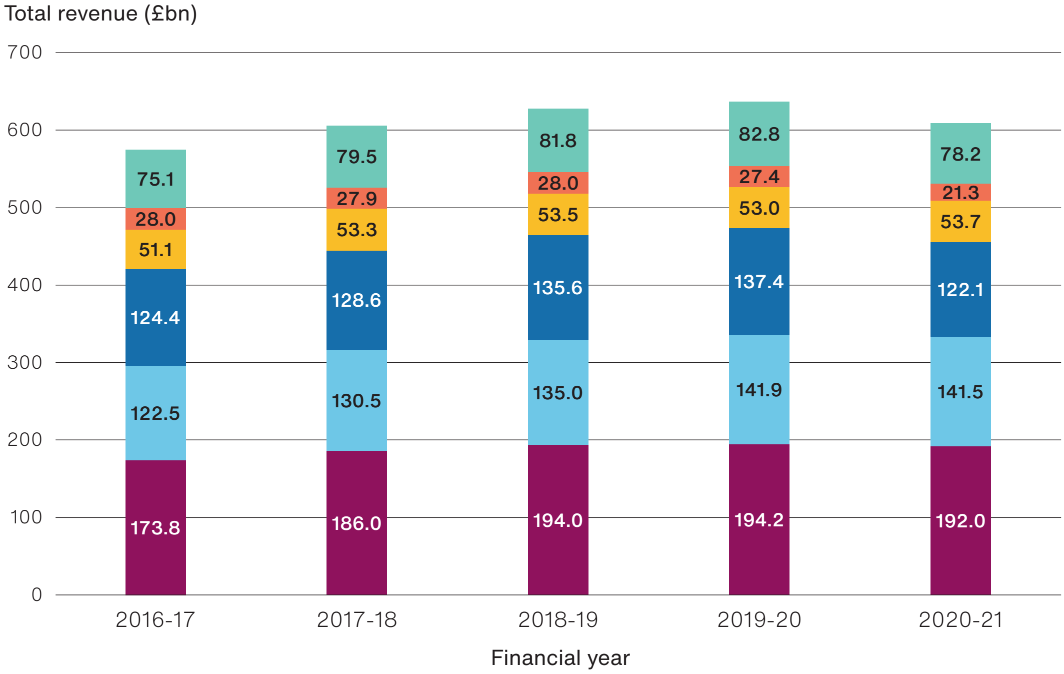
1 HMRC records revenue in the Trust Statement on an accruals basis, other than for those taxes disclosed in Note 1.2 of the Trust Statement accounts. Accounting for tax on an accruals basis means that the revenue figures reported relate to tax due on earned income or activities during the financial year, regardless of when the cash is received. Values throughout this report are in nominal terms to maintain consistency with HMRC's Trust Statement and its wider Annual Report and Accounts.

2 Due to the way Self Assessment is operated the tax and National Insurance Contributions on SEISS grants paid in 2020-21 will be collected in later years.

Figure 1

Total tax revenues reported by HM Revenue & Customs (HMRC) from 2016-17 to 2020-21

The economic impact of COVID-19 contributed to a 4.4% reduction in tax revenues in 2020-21. Revenue had increased in each of the three previous years



	2016-17	2017-18	2018-19	2019-20	2020-21
Total revenue (£bn)	**574.9**	**605.8**	**627.9**	**636.7**	**608.8**
Change in total revenue (£bn)	–	30.9	22.1	8.8	-27.9
Change in total revenue (%)	–	5.4	3.6	1.4	-4.4

- Income Tax
- National Insurance Contributions
- Value Added Tax
- Corporation Tax
- Hydrocarbons oils duty
- Other[1]

Notes

1 Other includes, for example, stamp taxes, Inheritance Tax, alcohol and tobacco duties, Insurance Premium Tax, Capital Gains Tax, student loan recoveries, environmental taxes, customs duties and fines and penalties.

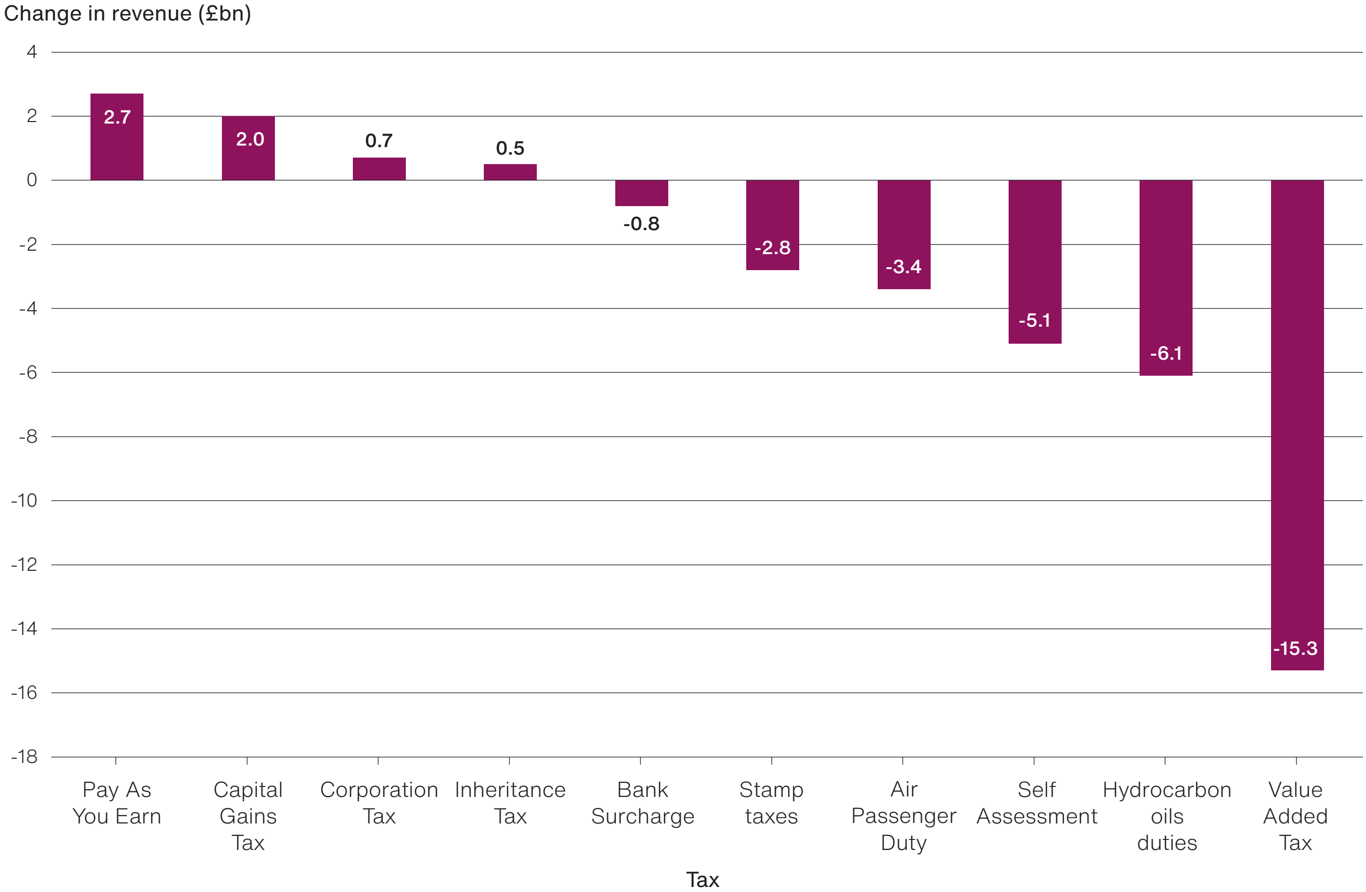
2 Grants HMRC paid to businesses and individuals through the Coronavirus Job Retention Scheme and Self-Employment Income Support Scheme are taxable. HMRC estimates that Income Tax and National Insurance Contributions reported in the Trust Statement include in total around £10.7 billion of revenue from grants paid in 2020-21.

3 Values are in nominal terms to maintain consistency with HMRC's Annual Report and Accounts.

Source: National Audit Office analysis of HM Revenue & Customs, Annual Report and Accounts 2016-17 to 2020-21

Figure 2
Main changes in tax revenue, 2019-20 to 2020-21

The Pay As You Earn element of Income Tax, and three other taxes, each increased by £0.5 billion or more. Value Added Tax, hydrocarbon oils duties, the Self Assessment element of Income Tax and three other taxes each fell by more than £0.5 billion



Tax	Pay As You Earn	Capital Gains Tax	Corporation Tax	Inheritance Tax	Bank Surcharge
	(%)	(%)	(%)	(%)	(%)
Percentage change in revenue	1.7	20.0	1.3	9.8	-47.1
Tax	**Stamp taxes**	**Air Passenger Duty**	**Self Assessment**	**Hydrocarbon oils duties**	**Value Added Tax**
Percentage change in revenue	-18.2	-91.9	-15.5	-22.3	-11.1

Notes

1 Figure shows all taxes where revenue changed by £0.5 billion or more. It does not show the Digital Services Tax which was introduced in 2020-21 generating £0.5 billion. National Insurance Contributions – the second largest revenue stream – are also not included as they fell by £0.4 billion (0.3%).

2 The two main elements of Income Tax – Pay As You Earn and Self Assessment – are split to show the differing movements in revenue.

Source: National Audit Office presentation of HM Revenue & Customs data

1.3 The fall in tax revenues in 2020-21 was less than the Office for Budget Responsibility (OBR) had initially forecast. In July 2020, OBR's central scenario was for public sector receipts to fall by 10% year on year in 2020-21.[3] In July 2021, OBR reported the actual fall in receipts in 2020-21 (4.1%) was less than the reduction in nominal GDP (5.3%) despite tax cuts and falls in receipts from taxes impacted by the public health restrictions arising from COVID-19.[4] The OBR's assessment of the main reasons for the changes in tax revenues generated included:

- Pay As You Earn and National Insurance Contributions held up because wages and salaries grew by 1.4% in 2020-21 despite the fall in GDP. Wages and salaries were supported by the £60.7 billion HMRC paid to employers through the CJRS in 2020-21;
- for Corporation Tax, taxable profits were supported by the £16.3 billion of grants and £10.4 billion of business rates relief that the government provided in 2020-21;
- taxes on consumption, which are dominated by VAT, fell broadly in line with the UK's GDP; and
- taxes on transport, including hydrocarbon oils duties and Air Passenger Duty, fell much more sharply than GDP due to public health restrictions.[5]

Repayments

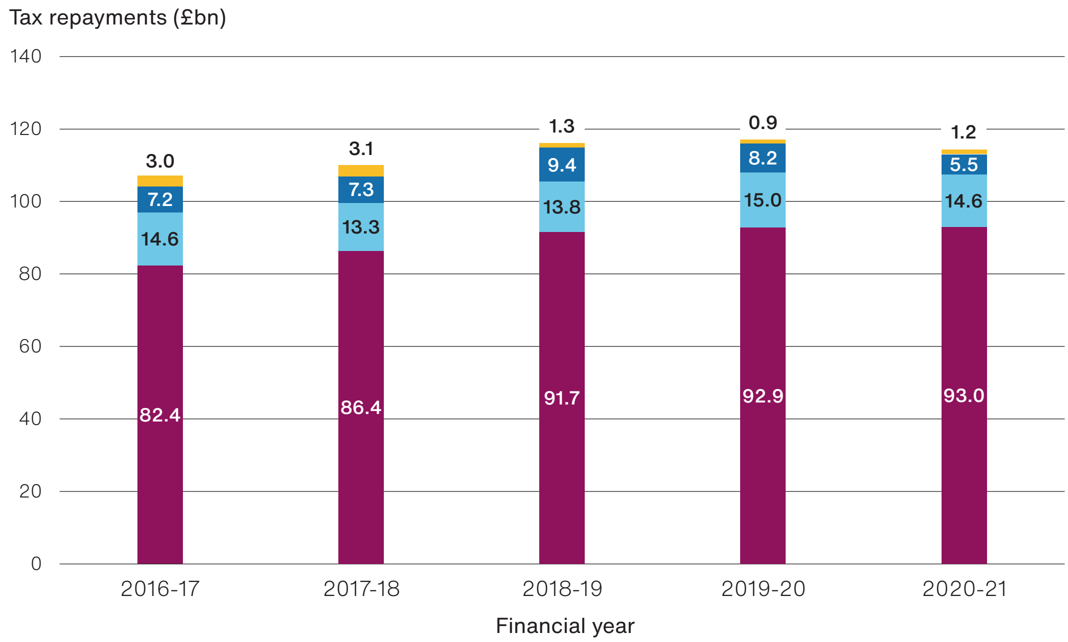
1.4 The total revenue figure of £608.8 billion is net of £114.2 billion of repayments to taxpayers (£117.0 billion in 2019-20) (**Figure 3** overleaf). Repayments are a necessary part of tax administration and can arise for a variety of reasons. For instance, HMRC may demand payments on account from taxpayers before their full liability is assessed, which can lead to repayments.

1.5 Most repayments relate to VAT (£93.0 billion in 2020-21, which compares with total VAT revenue in 2020-21 of £122.1 billion). 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.

3 Office for Budget Responsibility, *Fiscal sustainability report*, July 2020, paragraph 3.40. The large majority of public sector receipts comes from taxes administered by HMRC. Other public sector receipts include Council Tax and Business Rates.
4 Office for Budget Responsibility, *Fiscal risks report*, CP 453, July 2021, paragraph 2.22.
5 Office for Budget Responsibility, *Fiscal risks report*, CP 453, July 2021, paragraph 2.24. The value for the CJRS is the value included in HMRC's accounts for 2020-21 rather than the value reported by the OBR.

Figure 3
Repayments made by HM Revenue & Customs (HMRC) to taxpayers by tax type from 2016-17 to 2020-21

Repayments increased each year between 2016-17 and 2019-20 and fell in 2020-21



Total repayments (£bn)	107.2	110.1	116.2	117.0	114.2

- Value Added Tax
- Income Tax and National Insurance Contributions
- Corporation Tax
- Other[1]

Notes

1 'Other' includes alcohol duties, Capital Gains Tax, hydrocarbon oils duties, and stamp taxes.

2 Total for 2020-21 does not sum due to rounding.

Source: National Audit Office analysis of HM Revenue & Customs Trust Statements 2016-17 to 2020-21

Receivables, impairments and revenue losses

Receivables and accrued revenue receivables

1.6 Receivables represent taxpayer liabilities to HMRC that have been established, irrespective of whether they are due or overdue. They can include taxes, duties, recovery of tax credits, penalties and interest charges owed by individuals and businesses.

1.7 As of 31 March 2021, HMRC receivables amounted to £159.8 billion – 26.2% of revenue (March 2020: £138.8 billion, 21.8%). This balance consisted of:

- **receivables** – £65.3 billion (40.9%) due from taxpayers but not yet received. This is a significant increase in the value and proportion outstanding since 31 March 2020 (£37.2 billion (26.8%)). HMRC reported that the increase was largely due to the government's decision to give taxpayers the option to defer VAT payments due between 20 March 2020 and 30 June 2020 until 2021-22. The amount of VAT receivable rose by £19.4 billion to £33.0 billion at 31 March 2021; and

- **accrued revenue receivables** – an estimated £94.5 billion (59.1%) (31 March 2020: £101.6 billion (73.2%)) of taxes not yet due from taxpayers but relating to 2020-21 revenues where a tax return has not been received from the taxpayer by the end of the reporting period.[6]

1.8 Of the £94.5 billion accrued revenue receivable balance, 91% comprises taxpayer liabilities for: VAT (£37.2 billion); Income Tax (£29.7 billion); National Insurance Contributions (£13.7 billion); and Corporation Tax (£5.7 billion). For Income Tax (Self Assessment) and Corporation Tax in particular, HMRC's estimates of the amount of tax that will be due, once the relevant tax returns have been received and the tax liabilities assessed, are subject to an inherent degree of estimation, as explained in Note 6 of the Trust Statement.

1.9 We review HMRC's models and assumptions as part of our financial audit of HMRC and are satisfied that its estimates are reasonable based on the data available to HMRC at the time.

6 As HMRC explains in the Trust Statement, accrued revenue receivable 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, it used this information to support its valuation of accrued revenue receivable. For those taxes where HMRC is yet to receive taxpayer returns, principally Income Tax (Self Assessment) and Corporation Tax, HMRC has estimated accrued revenue receivable.

Impairments

1.10 The receivables balance of £65.3 billion is money that taxpayers were liable for at the end of the financial year but they had not paid. 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, known as an impairment. HMRC has estimated that it may not be able to collect £14.7 billion (2019-20: £9.4 billion) of these receivables. When adjusted to reflect this, the overall receivables balance due from taxpayers is £50.6 billion (2019-20: £27.8 billion). HMRC's approach to calculating the impairment is set out in Note 4.2 of the Trust Statement.

Losses

1.11 In certain cases, HMRC stops debt collection activity and incurs a 'revenue loss' – such losses are likely to relate to tax revenue due in earlier financial years. There are two forms of revenue losses: write-offs of £1.5 billion during 2020-21 (£3.5 billion in 2019-20) and remissions of £0.4 billion in 2020-21 (£0.5 billion in 2019-20). 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. HMRC has identified that the reduction in losses was due to two factors. Individual and corporate insolvencies fell in part because of government measures to financially support individuals and businesses during the COVID-19 pandemic. HMRC compliance activity also fell due to operational restrictions caused by the pandemic.

1.12 HMRC reduced its debt collection activity as a result of COVID-19 including for six months in 2020-21 (pauses in activity affected two periods in 2020-21 – start of April to mid-June 2020 and mid-December 2020 to end of March 2021). During these pauses HMRC did not undertake proactive campaigns with businesses and other taxpayers to collect their tax debts. However, it continued to provide debt services, including agreeing time to pay arrangements. During the first pause in the first half of 2020 HMRC updated its approach to debt management through its Return to Collection programme. This included tailoring debt collection activity according to how severely customers have been impacted by the pandemic, being more supportive in communications with customers (for example, by emphasising the support available rather than the requirement to pay) and making it easier to repay debt through online channels. We will report separately in autumn 2021 on HMRC's management of the tax debt it is owed. Our report will assess HMRC's understanding of how the pandemic has affected taxpayers, how it is adapting its debt management practices and whether it has the capacity, capability and tools it needs.

Tax reliefs

1.13 HMRC's latest data on tax reliefs, published in October 2020 and May 2021, provide estimated annual costs totalling £458 billion for 289 reliefs (**Figure 4** overleaf).[7] HMRC notes that these estimates 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 reports that some estimates are subject to a high degree of uncertainty.

1.14 Most of the cost (£283 billion) arises from 85 structural reliefs which are integral parts of the tax regime. HMRC reports that these reliefs have various purposes including to: define the scope of the tax; calculate income or profits correctly; and make the tax progressive or simpler. The remainder (£176 billion) arises from 204 non-structural reliefs (also known as tax expenditures). These reliefs help or encourage particular types of individuals, activities or products in order to achieve economic or social objectives. For those 103 non-structural reliefs where HMRC had reported an estimate for 2018-19 and 2019-20, the cost increased by £6.7 billion (4.2%).

1.15 HMRC has improved its reporting of the cost of non-structural tax reliefs following a 2018 Committee of Public Accounts recommendation.[8] In 2020 and 2021, HMRC published estimates for 102 previously uncosted non-structural reliefs. The largest relief was for kerosene used as heating fuel (£2.4 billion).

1.16 In February 2021 the C&AG reported on how HM Treasury and HMRC manage tax measures, including tax reliefs, with environmental objectives. The report concluded that: "There is some evidence of the positive impact that taxes can have on the environment, but too little is known about their effect. The exchequer departments tend to focus more on the revenue that environmental taxes raise rather than the environmental impact they achieve." On tax reliefs relevant to the environment, the report found that HMRC had limited information on their cost and environmental impact. It did not maintain a list of tax reliefs relevant to the environment.[9]

7 HM Revenue & Customs, *Tax relief statistics*, October 2020 and May 2021, available at: www.gov.uk/government/collections/tax-relief-statistics. Most cost estimates are for 2019-20 and are projections based on previous years' actuals. Some estimates are for earlier years.

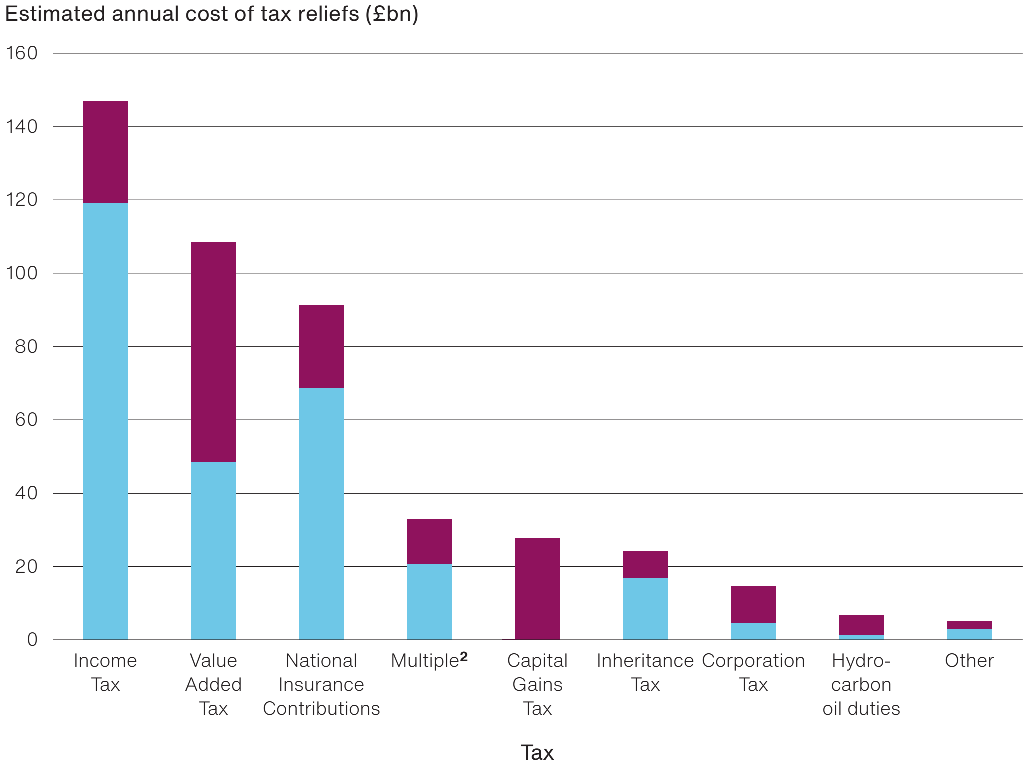
8 HC Committee of Public Accounts, *HMRC's performance in 2017-18*, Sixty-Sixth Report of Session 2017–2019, HC 1526, November 2018, page 5.

9 Comptroller and Auditor General, *Environmental tax measures*, Session 2019–2021, HC 1203, National Audit Office, February 2021, paragraphs 16 and 19.

Figure 4

Estimated annual cost of tax reliefs (where known) by tax type

HM Revenue & Customs (HMRC) has reported estimated annual costs for 289 tax reliefs at £458 billion, of which structural reliefs cost £283 billion and non-structural reliefs £176 billion



	Income Tax	Value Added Tax	National Insurance Contributions	Multiple[2]	Capital Gains Tax	Inheritance Tax	Corporation Tax	Hydro-carbon oil duties	Other	Total
Non-structural reliefs[3]	28	60	22	12	28	8	10	6	2	**176**
Structural reliefs[3]	119	48	69	21	0	17	5	1	3	**283**

Notes

1 Most cost estimates for individual reliefs are for 2019-20 and are projections based on previous years' actuals. Aggregates also include experimental cost estimates for some non-structural tax reliefs where these are the best estimates available. Many of these are for years before 2019-20 and were not included in cost estimates we have previously reported.

2 Multiple covers those reliefs that apply to more than one tax.

3 Structural reliefs are integral parts of the tax structure. The reliefs have various purposes including defining the scope of the tax and making the tax progressive. Non-structural reliefs help or encourage particular types of individuals, activities or products in order to achieve economic or social objectives.

4 HMRC advises against aggregating the cost of tax reliefs, but we have done so as it provides the best, if an imperfect, measure of their scale.

5 Totals do not sum due to rounding. HMRC has not reported costs for all tax reliefs.

6 'Other' includes Stamp Duty Land Tax and the Climate Change Levy.

Source: National Audit Office analysis of HM Revenue & Customs, *Tax relief statistics*, October 2020 and May 2021, available at: www.gov.uk/government/collections/tax-relief-statistics

Tax compliance

Tax gap

1.17 HMRC defines the tax gap as “the difference between the amount of tax that should, in theory, be paid to HMRC, and what is actually paid”.[10] The gap occurs for a number of reasons. Inevitably some taxpayers make mistakes, others choose not to comply, and some cannot pay because of insolvency. In other cases, taxpayers interpret tax rules differently from HMRC, which can affect the amount of tax they pay, or construct artificial arrangements to avoid tax. The gap can also be affected by other factors, such as the state of the economy, demographic changes and the perceived fairness of tax policy. HMRC publishes the results of its tax gap estimates each year. The accounting framework under which HMRC produces its financial statements means the tax gap is not included in its annual Trust Statement.

1.18 HMRC has estimated that the tax gap for 2019-20 – the latest year for which data are available – was £35 billion (2018-19: £33 billion). The tax gap for 2019-20 represents 5.3% of the total theoretical tax liabilities of £674 billion and is consistent with the 5.0% tax gap estimated by HMRC for 2018-19.[11] The tax gap split by the different taxpayer behaviours is shown in (**Figure 5** on pages R22 and R23).

Tax compliance activities

1.19 Compliance activities can take many different forms. These can include disrupting organised criminal groups or tackling the use of tax avoidance schemes, as well as measures to promote compliance and prevent non-compliance, such as guidance to taxpayers and the Making Tax Digital changes.

1.20 HMRC has set out that the aim of its compliance work is for everyone to pay the tax that is legally due, no matter who they are. HMRC considers that its role is to help people to pay the right tax through education and well-designed systems, and to step in when tax is at risk of not being paid. When customers are not compliant, HMRC’s aim is to work with them to get them back on the right track. HMRC will investigate where it believes a business or individual is trying to cheat the tax system.

1.21 Historically HMRC has measured the effectiveness of its compliance and enforcement activities through compliance yield – that is, the estimate of the additional revenues that HMRC considers it has generated and the revenue losses it has prevented. HMRC is currently working to widen its measurement framework to take into account a broader set of key metrics notably around harm prevention and customer experience. Compliance yield remains one of the few measures HMRC can apply consistently across many areas and it remains a key measure used to inform discussions with HM Treasury about funding for compliance work.

10 HM Revenue & Customs, *Measuring tax gaps 2021 edition*, September 2021.
11 See footnote 10.

Figure 5

HM Revenue & Customs' (HMRC's) estimate of the 2019-20 tax gap loss arising from different taxpayer behaviours

HMRC estimates that the taxpayer behaviour leading to the largest tax gap loss in 2019-20 was failure to take reasonable care

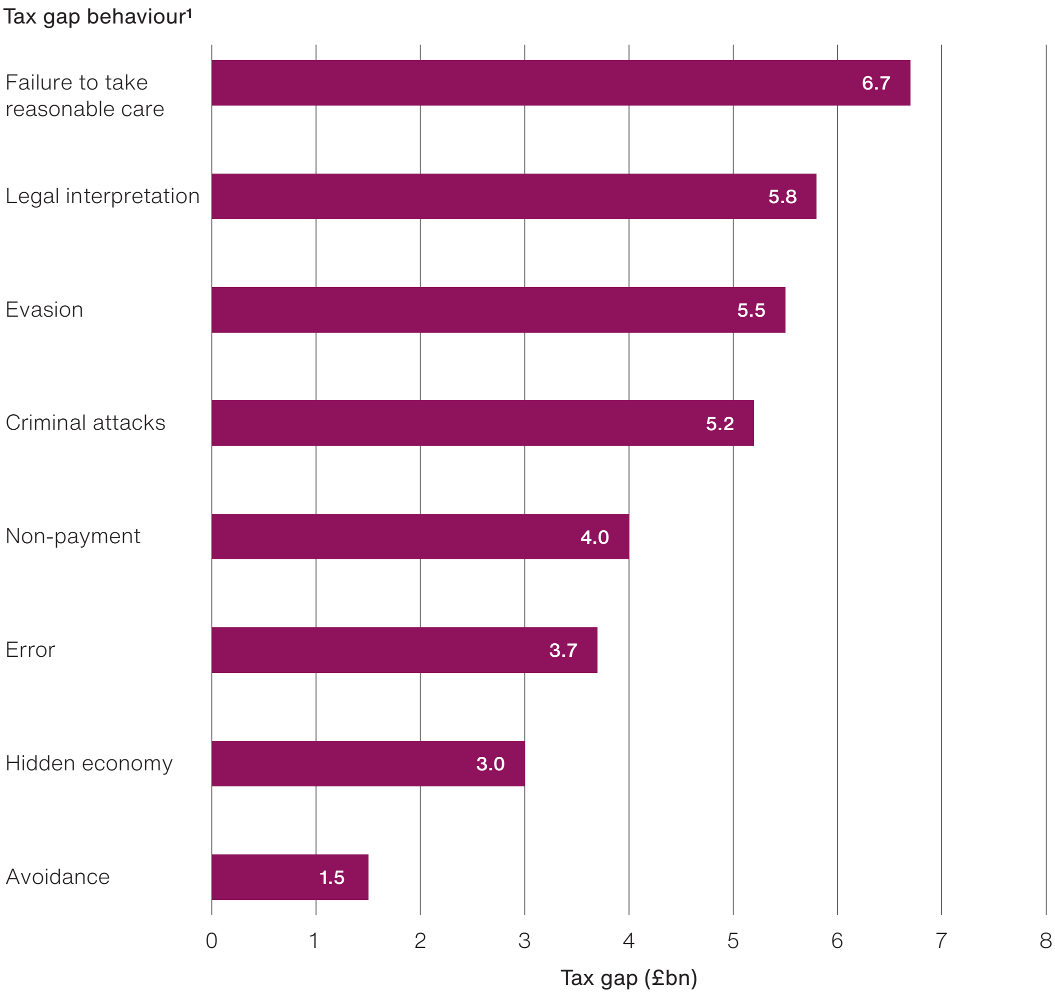


Figure 5 *continued*

HM Revenue & Customs' (HMRC's) estimate of the 2019-20 tax gap loss arising from different taxpayer behaviours

Notes

1 HMRC's definitions of tax gap behaviours:

- Failure to take reasonable care results from a customer's carelessness and/or negligence in adequately recording their transactions and/or in preparing their tax returns.
- Legal interpretation losses arise where the customer's and HMRC's interpretation of the law and how it applies to the facts in a particular case result in a different tax outcome, and there is no avoidance.
- Evasion is an illegal activity, where registered individuals or businesses deliberately omit, conceal or misrepresent information to reduce their tax liabilities.
- Criminal attacks – co-ordinated and systematic attacks on the tax system by organised criminal groups. This includes smuggling goods, such as alcohol or tobacco, and VAT repayment fraud.
- Non-payment – for direct taxes non-payment refers to tax debts that are written off by HMRC and result in a permanent loss of tax – mainly as a result of insolvency. It does not include debts that are eventually paid.
- Error results from mistakes made in preparing tax calculations, completing returns or in supplying other relevant information, despite the customer taking reasonable care.
- Hidden economy is undeclared economic activity that involves what HMRC calls 'ghosts' – whose entire income is unknown to HMRC, and 'moonlighters' – who are known to HMRC in relation to part of their income but have other sources of income that HMRC does not know about.
- Avoidance is bending the tax rules to gain a tax advantage that Parliament never intended. It often involves contrived, artificial transactions that serve little or no purpose other than to produce a tax advantage. It involves operating within the letter, but not the spirit, of the law.

2 HMRC defines tax gap behaviours in full in *Measuring tax gaps 2021 edition*.

Source: HM Revenue & Customs, *Measuring tax gaps 2021 edition*, September 2021

1.22 The impact of COVID-19, and HMRC's response to it, affected its core compliance activity in 2020-21. HMRC's ability to visit its customers was limited because many of its staff were required to work from home, there were travel and social distancing restrictions and many businesses were not operating. Furthermore, HMRC reallocated an average of 1,356 (6%) of its compliance group staff to support the COVID-19 measures during the year. HMRC said it carried out its compliance activity in a way that recognised the needs and challenges that businesses and individuals were facing. It reported that it took a sympathetic approach to those struggling to pay their tax, only opening an enquiry into those affected by the pandemic if it thought the customer could engage. HMRC said it continued to use its criminal and civil powers where it believed someone was trying to cheat the system.

1.23 Total compliance yield in 2020-21 was £30.4 billion. Total yield was 18% down on 2019-20 levels (£36.9 billion against a target of £34.5 billion). There were reductions in five of the six categories HMRC uses to analyse its compliance performance (**Figure 6** on pages R25 and R26). HMRC explained the reduction was due to:

- unusually high performance in 2019-20 – HMRC said yield in 2019-20 was affected by a small number of very large, one-off successful litigations. The largest case increased yield by £4.2 billion (11% of total annual yield). In contrast the yield from the largest individual case in 2020-21 was £516 million; and
- COVID-19 – HMRC said that part of the reason for the drop in compliance yield was the unprecedented economic circumstances and a deferral of compliance activity. HMRC's published measures of its compliance activity support this. There were 29% fewer civil compliance cases opened in 2020-21 than in 2019-20 (256,000 compared with 361,000), and 26% fewer such cases closed (250,000 compared with 338,000). COVID-19 also contributed to fewer closed criminal investigations (437 compared with 864, a 49% reduction) although the success rate was reported by HMRC to be up eight percentage points to 96%.[12]

HMRC told us that its strategy of focusing more on preventing non-compliance had reduced the impact of COVID-19 on compliance yield as this was now less reliant on HMRC investigating cases of non-compliance. HMRC generated compliance yield from preventative work (which it categorises as 'upstream product and process' and 'upstream operational') of £9.0 billion in 2020-21, up from £8.2 billion in 2019-20.

1.24 We have reported regularly on the design and implementation of HMRC's compliance yield measure in our reports on HMRC's annual accounts.[13] In our July 2020 report *Tackling the tax gap*, we concluded that HMRC's measure of compliance yield remains the best indicator of its performance because it calculates the direct return from its work to tackle the tax gap.[14] We found that HMRC had established an adequate methodology for measuring yield and effective processes to ensure data quality, but that it should be clearer that not all yield is cash and include ranges for the estimated elements. Improvements in the calculation and recording of compliance yield remain possible.

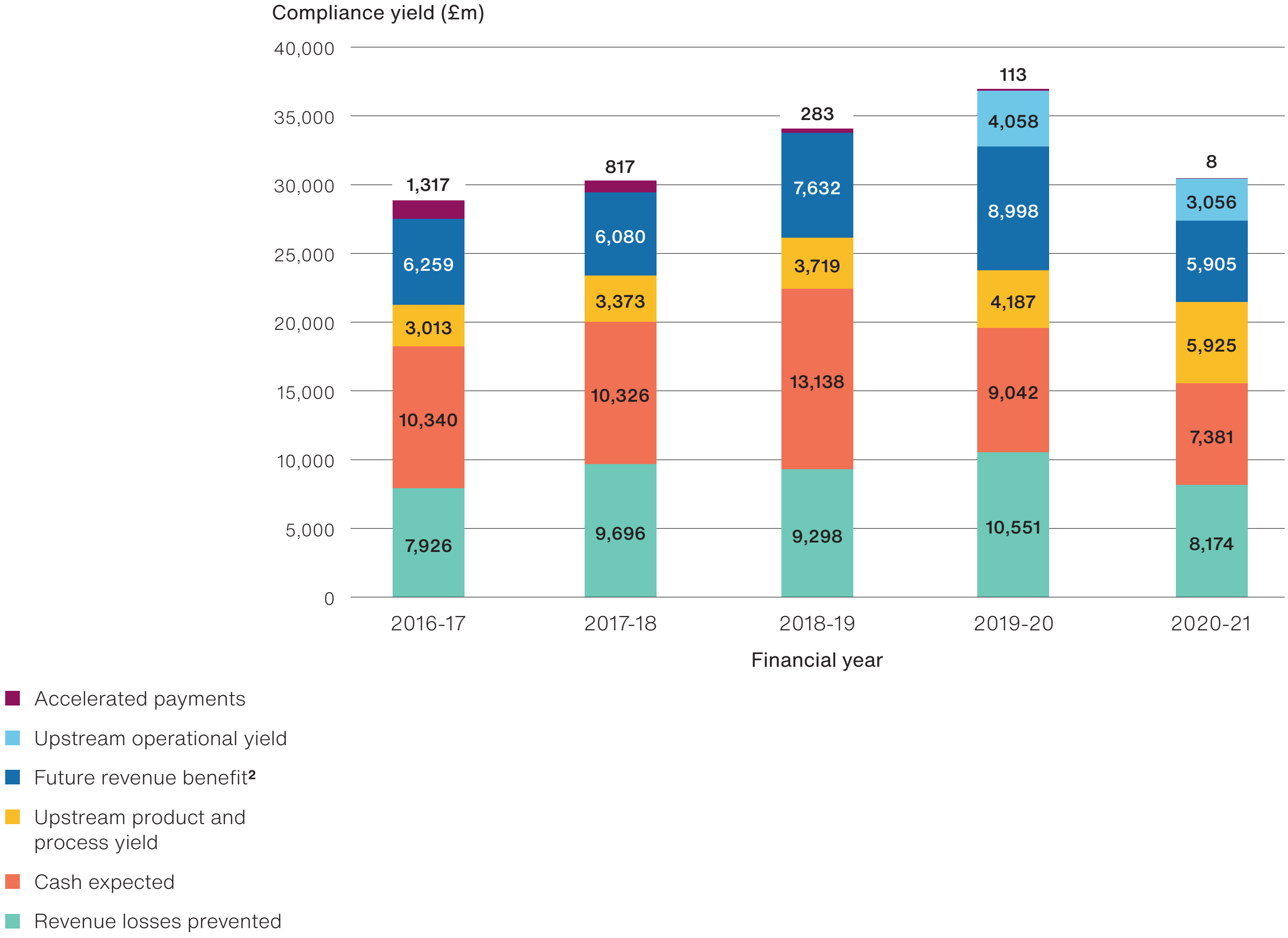
12 Factors identified by HMRC as leading to fewer closed criminal investigations included: COVID-19 restrictions on its investigators' work; closures of criminal courts and the criminal justice system prioritising non-fiscal fraud cases, as a result of COVID-19; and HMRC focussing more of its criminal investigations on fewer, more complex frauds, which have a higher impact but take longer to conclude.

13 Most recently in Comptroller and Auditor General, *HM Revenue & Customs 2019-20 Accounts*, November 2020.

14 Comptroller and Auditor General, *Tackling the tax gap*, Session 2019–2021, HC 372, National Audit Office, July 2020.

Figure 6
Compliance yield performance by category

In five of the six categories for measuring compliance yield performance used by HM Revenue & Customs (HMRC) yield was lower in 2020-21 than in 2019-20, the exception being upstream product and process yield



	2016-17	2017-18	2018-19	2019-20	2020-21
Total yield (£m)	**28,855**	**30,292**	**34,070**	**36,948**	**30,450**
Percentage change (%)	–	5.0	12.5	8.4	-17.6

Figure 6 *continued*

Compliance yield performance by category

Notes

1 HMRC's definition of the compliance categories:

- Accelerated payments – estimate of 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.
- Upstream operational yield – estimate of the impact of HMRC's operational activities undertaken to promote compliance and prevent non-compliance before it occurs. In 2019-20 HMRC started reporting upstream operational yield as a distinct category as it became a more significant proportion of total yield. It had previously been included as part of cash expected.
- Future revenue benefit – estimate of the effect of HMRC's compliance work on taxpayers' future behaviour.
- Upstream product and process yield – estimate of net tax receipts from legislative changes to close tax loopholes, and changes to HMRC's processes that reduce opportunities to avoid or evade tax.
- Revenue losses prevented – estimate of the tax revenue HMRC has prevented from being lost to the Exchequer (for example, by stopping fraudulent repayment claims and disrupting criminal activity).
- Cash expected – estimate of the additional revenue due when HMRC identifies past non-compliance.

2 HMRC reports future revenue benefit in the year it impacts the Exchequer rather than in the year of the compliance intervention. In recognition of the economic impact of COVID-19, HMRC reduced the future revenue benefit brought forward into 2020-21 by £0.5 billion.

3 Totals for 2019-20 and 2020-21 do not sum due to rounding.

Source: National Audit Office presentation of HM Revenue & Customs data

1.25 HMRC usually agrees a target for compliance yield with HM Treasury each year. HMRC did not set a target for 2020-21 because of the uncertainty caused by the COVID-19 pandemic and the need to respond quickly to urgent government priorities. Instead, from summer 2020, HMRC published forward-looking performance 'expectations' for yield for each quarter, starting with quarter two. HMRC told us that it set these expectations to help it manage its performance, rather than as an accountability mechanism.

1.26 Compliance yield varies significantly quarter to quarter as it depends on when cases are closed and the yield is scored. HMRC considers this variation means that making a comparison of outturn to expectation each quarter is less valuable than looking at the total for the year, as shown in paragraph 1.23. HMRC's performance data, published during the year, show that its 2020-21 compliance yield exceeded its expectations in quarter two (£4,211 million against £3,800 million) and quarter four (£14,208 million against £10,700 million). In quarter three HMRC was £23 million short of the £5,000 million expectation.

Customer service performance

1.27 This section considers HMRC's customer service in 2020-21 and factors affecting its operational performance. It also looks at developments in the measurement of its customer service performance.

Performance in 2020-21

1.28 As with compliance yield (paragraph 1.25), HMRC did not set performance targets for customer service in 2020-21 due to the uncertainty around the COVID-19 pandemic and the need to respond quickly to urgent government priorities. HMRC did however publish expected performance for the fourth quarter for five measures. HMRC's actual performance was below expected levels (**Figure 7** overleaf). HMRC's reported data showed that throughout 2020-21 there was a consistent level of customer satisfaction for its digital services. For the other four measures with published expectations, HMRC's performance was lowest in the fourth quarter. HMRC's published data show that demand for its traditional customer services fell in 2020-21, with calls received down by around 8.3 million (20%) to 33.3 million.[15] HMRC encouraged customers to use webchat as an alternative to its helplines. It reported the number of webchats increased from 4,000 a day before the pandemic to a peak of more than 33,000 on 21 April 2020 and were at 6,000 a day by the end of 2020-21.

1.29 Since 2017-18, HMRC has used eight largely output-focused measures to report its customer service performance. HMRC's reported data show that its performance has improved for two measures since 2017-18 and it also halted a decline in a third in 2020-21. Performance for the other five measures covering the handling of calls and correspondence, received by post and digitally, has been declining since 2017-18 (**Figure 8** on page R29). HMRC told us COVID-19 was the main factor that affected its performance in 2020-21. It had to handle a change in demand requiring it to provide new services, handle new types of enquires and reallocate resources quickly. Across the year, an average of 1,679 (8%) of HMRC's customer service staff were transferred to COVID-19-related activity. Some of the remaining customer service staff could not work as efficiently at home. For example, customer service staff can handle three or four webchats simultaneously in the office, but when working from home technology may limit them to one.

15 Numbers exclude those who rang when helplines were not open and include those who did not need to speak to, or could not get through to, advisers.

Figure 7

HM Revenue & Customs' (HMRC's) quarterly performance in 2020-21 for five key customer service measures

HMRC's performance was lowest in the final quarter

Metric		April to June	July to September	October to December	January to March	National Audit Office comment
Telephone						
Average speed of answering calls to HMRC helplines (queue time[3])	Outturn[1]	11:57 mins	8:55	11:47	15:23	Performance improved in the second quarter before declining
	Published expectation[2]				12:15	
Customers waiting more than 10 minutes to speak to an adviser	Outturn[1]	46.6%	38.6%	42.2%	51.2%	Performance improved in the second quarter before declining
	Published expectation[2]				46%	
Post where the customer requires a response						
Post responded to within 15 days	Outturn[1]	83.6%	80.0%	53.7%	42.5%	Performance declined during the year
	Published expectation[2]				55%	
Digital						
Customer satisfaction for digital services[4]	Outturn[1]	85.6%	86.6%	85.4%	83.3%	Performance was consistent during the year
	Published expectation[2]				84%	
iForms and secure emails replied to within seven days[5]	Outturn[1]	88.7%	89.8%	58.5%	44.9%	Performance declined from the second quarter
	Published expectation[2]				55%	

Notes

1 Colour key for quarter four outturn: amber – outturn below expectation but within 10%; red – outturn more than 10% below expectation.

2 For 2020-21, HMRC did not set targets due to the uncertainty around the COVID-19 pandemic and the need to respond quickly to urgent government priorities. Instead it forecast expected quarterly performance. Ahead of the final quarter, HMRC decided it had gained sufficient experience of this new approach and published its expectations for January to March 2021 for five of its key customer service measures.

3 Speed of answering calls covers the time customers spend in the queue waiting for an adviser. It excludes the time customers are in HMRC's automated telephony system before entering the queue.

4 Customer satisfaction for digital services is measured using an exit survey.

5 iForms can be filled in and filed online.

Source: National Audit Office analysis of HM Revenue & Customs data

Figure 8

HM Revenue & Customs' (HMRC's) customer service performance, 2017-18 to 2020-21

For five out of eight of HMRC's key customer service measures, performance in 2020-21 declined compared to the previous three years

Metric	2017-18 outturn	2018-19 outturn	2019-20 outturn	2020-21 outturn	Performance trend
Telephone					
Average speed of answering calls to HMRC helplines (queue time)[1]	04:28 mins	05:14	06:39	12:04	Declining
Customers waiting more than 10 minutes to speak to an adviser	14.6%	19.7%	29.9%	44.7%	Declining
Post where the customer requires a response					
Post responded to within 15 days	80.7%	76.6%	70.3%	64.4%	Declining
Post responded to within 40 days	97.1%	96.4%	88.0%	85.3%	Declining
Tax Credits and Child Benefit claims					
Average time to handle new Tax Credits and Child Benefit claims and changes of circumstances – UK customers	14.0 days	12.0 days	13.2 days	11.2 days	Improving
Average time to handle new Tax Credits and Child Benefit claims and changes of circumstances – international customers	55.6 days	61.5 days	65.7 days	64.8 days	Decline halted in 2020-21
Digital					
Customer satisfaction for digital services[2]	79.8%	80.4%	81.6%	85.2%	Improving
iForms and secure emails replied to within 7 days[3]	94.6%	94.1%	87.6%	70.4%	Declining

Notes

1 Speed of answering calls covers the time customers spend in the queue waiting for an adviser. It excludes the time customers are in HMRC's automated telephony system before entering the queue.

2 Customer satisfaction for digital services is measured using an exit survey.

3 iForms can be filled in and filed online.

Source: National Audit Office analysis of HM Revenue & Customs data

1.30 The decline in HMRC's speed of answering phone calls since 2017-18 accelerated in 2020-21. The proportion of customers waiting more than 10 minutes to speak to an adviser increased from 14.6% in 2017-18 to 44.7% in 2020-21. Average time queuing to speak to an adviser rose to 12.04 minutes in 2020-21. Performance was lower at the start and end of the year when the country was locked down. For its main helplines, performance across 2020-21 was lowest on call lines handling the large number of tax queries from personal taxpayers and from agents. Because of their skills, staff from these lines were most suited to work on the new lines HMRC established to handle calls about COVID-19 support schemes.

1.31 During the pandemic HMRC reduced the hours when its advisers handled calls. Prior to 20 March 2020 its helplines were open Monday to Saturday from 8am to 8pm for personal tax matters and 8am to 6pm for business tax matters. From 20 March 2020, hours were reduced to 8am to 4pm Monday to Friday, before being extended from 22 September 2020 to 6pm.[16] Webchat facilities were available from 8am to 8pm.

Developments in the measurement of customer service performance

1.32 We have previously reported that HMRC has been developing a new set of measures to assess its customer service performance.[17] For 2021-22, HMRC will draw on these measures to publicly report its performance. It is replacing most of its response time measures with metrics of whether it is easy for customers to access and deal with HMRC. These new customer experience measures are one of the ways it plans to embed its recently revised Charter in its day-to-day activity. The November 2020 Charter sets out the standards of behaviour and values customers can expect from HMRC. To support the Charter, HMRC set principles for the support it will provide for customers who need extra help. We plan to cover HMRC's new customer service measures in our report on HMRC's 2021-22 performance.

16 The Customs and International Trade Helpline operated for longer hours. It was made available seven days a week and was accessible 24/7 from 16 December 2020.

17 Comptroller and Auditor General, *HM Revenue & Customs 2019-20 Accounts*, November 2020, paragraph 1.37.

Part Two

Strategic issues

2.1 This part considers the approach HM Revenue & Customs (HMRC) is taking to address the main strategic issues it is facing. It covers:

- HMRC's role in administering the government's response to the COVID-19 pandemic, including important measures to support employment and businesses;
- the impact of the COVID-19 pandemic on HMRC's operations;
- UK transition and the ending of staged customs controls; and
- HMRC's plans to build a trusted and modern tax administration system.

Response to and impact of COVID-19

2.2 HMRC has continued to play a significant role in implementing the government's response to the COVID-19 pandemic during 2020-21. During the year:

- HMRC made grants and other payments to businesses and individuals at a cost of £83 billion to support them through the pandemic;[18] and
- HMRC implemented more than 80 other temporary policy changes, or clarifications to respond to the impact of COVID-19.[19] These policy changes included changes to taxes, such as rate reductions, which reduced revenue in 2020-21. HMRC does not have an estimate of the revenue impact of all the tax measures implemented but, where it does, the six largest are estimated to have reduced revenue by around £11 billion in 2020-21.

2.3 All of HMRC's main support measures are listed in the National Audit Office's published COVID-19 Cost Tracker, which shows estimates of lifetime costs where data are available.[20] The most significant measures are outlined below.

18 Comprises claims for Coronavirus Job Retention Scheme (£60.7 billion) and Self-Employment Income Support Scheme (£19.7 billion), and the payment of both the £20 increase in the basic element of Working Tax Credit in 2020-21 (£1.5 billion) and claims made under the Eat Out to Help Out scheme (£0.84 billion). The £60.7 billion for Coronavirus Job Retention Scheme comprises £58.3 billion for payments made for 2020-21 plus an accrual of £2.4 billion for expenditure in March 2020.

19 The clarifications include 'easements' to the administration of taxes and welfare benefits, primarily so that the system could operate within COVID-19 guidance on working from home, travel and social distancing.

20 National Audit Office, *COVID-19 cost tracker*, September 2021. Available at: www.nao.org.uk/covid-19/cost-tracker/

Grants and payments

2.4 During 2020-21, HMRC was responsible for administering the Coronavirus Job Retention Scheme (CJRS) which paid grants to employers of up to £2,500 a month per employee to help continue to keep people in employment. **Figure 9** summarises the scope of the scheme and the main changes made during 2020-21 as lockdown restrictions and the duration of the scheme were extended. These changes included:

- altering the eligibility date for the scheme so more jobs were covered by later tranches of the grants; and
- altering the contributions employers had to make for each furloughed employee. Contributions varied from nothing to 20% of usual wages plus National Insurance and pension contributions.

2.5 HMRC's 2020-21 Resource Accounts report £60.7 billion paid to employers through the CJRS. HMRC's published statistics show the scheme supported a total of 11.5 million jobs by March 2021. The number of jobs furloughed was highest in April and May 2020 (**Figure 10** on page R34).

2.6 During 2020-21, HMRC was also responsible for administering the Self-Employment Income Support Scheme (SEISS), which paid grants to self-employed people and members of partnerships. The cost of the first three phases of the scheme are accounted for in HMRC's 2020-21 accounts. The costs of the final two phases will be accounted for in HMRC's 2021-22 accounts. **Figure 11** on page R35 summarises the scope of the scheme and the main changes made during the first three phases. These changes included a tightening of eligibility conditions. For the first grant a person had to declare their trade had been 'adversely affected' by coronavirus. By the third grant, claimants were required to confirm that they reasonably believed they had suffered a significant reduction in trading profits, due to reduced business activity, capacity, demand or inability to trade due to coronavirus.

2.7 Through the first three phases of the scheme HMRC made payments totalling £19.7 billion. The number of claims reduced over the phases of the scheme (**Figure 12** on page R36). HMRC estimates that the proportion of potentially eligible people who claimed fell from 77% for the first grant to 65% for the third.[21] HMRC told us there were a number of factors which contributed to the reduction in take-up since the first grant, including taxpayers being less likely to need support due to the reopening of the economy and others permanently ceasing trading. It also said that the introduction of the requirement for taxpayers to declare that they had a reasonable belief they would suffer a significant reduction in their profits may have reduced claims for the third grant.

21 Potential eligibility is based on a taxpayer's Self Assessment return. It does not take account of whether a taxpayer meets other criteria such as whether their business has been affected by COVID-19.

Figure 9

Summary of the Coronavirus Job Retention Scheme (CJRS) in place in 2020-21, including eligibility criteria[1] and size of grants

Eligibility and size of grants varied across 2020-21

Summary of scheme	Payments to employers to help continue to keep people in employment. Employers could put workers on temporary leave and HM Revenue & Customs (HMRC) would pay cash grants, up to £2,500 a month. Scheme covered the period March 2020 to September 2021.
Cut-off date to be registered in HMRC tax records to be eligible	For claims up to 31 October 2020 the cut-off date was 19 March 2020. For claims from 1 November 2020 the cut-off date was 30 October 2020.
Permitted working	For claims to 30 June 2020: there were restrictions on work furloughed employees could undertake. For claims from 1 July 2020: furloughed employees could work for any amount of time or shift pattern, with employers claiming CJRS grant for employee hours not worked.
Income	No limit on employee earnings but maximum HMRC grant to employer capped. Employee could receive support across multiple employments.
Cap on grants and split of usual monthly wage cost	See table below
National Insurance and pensions	Employer National Insurance and pension contributions were paid by HMRC until 31 July 2020 and then by employers.

Cap on grants and split of usual monthly wage cost:

Phase of claims	HMRC	Employer	Employee pay reduction[3]
March 2020 to August 2020	80% or £2,500 cap	No contribution required	20% unless employer topped-up
September 2020	70% or £2,187.50 cap	At least 10% (up to £312.50)	20% unless employer topped-up
October 2020	60% or £1,875 cap	At least 20% (up to £625)	20% unless employer topped-up
November 2020 to March 2021[2]	80% or £2,500 cap	No contribution required	20% unless employer topped-up

Notes

1 Example eligibility criteria shown only.

2 Cap and split of cost remained unchanged from April 2021 until 1 July 2021 when employers were required to make a 10% contribution to usual monthly wages (up to £312.50 a month). From the start of August 2021 the requirement rose to 20% (up to £625). The scheme closed at the end of September 2021.

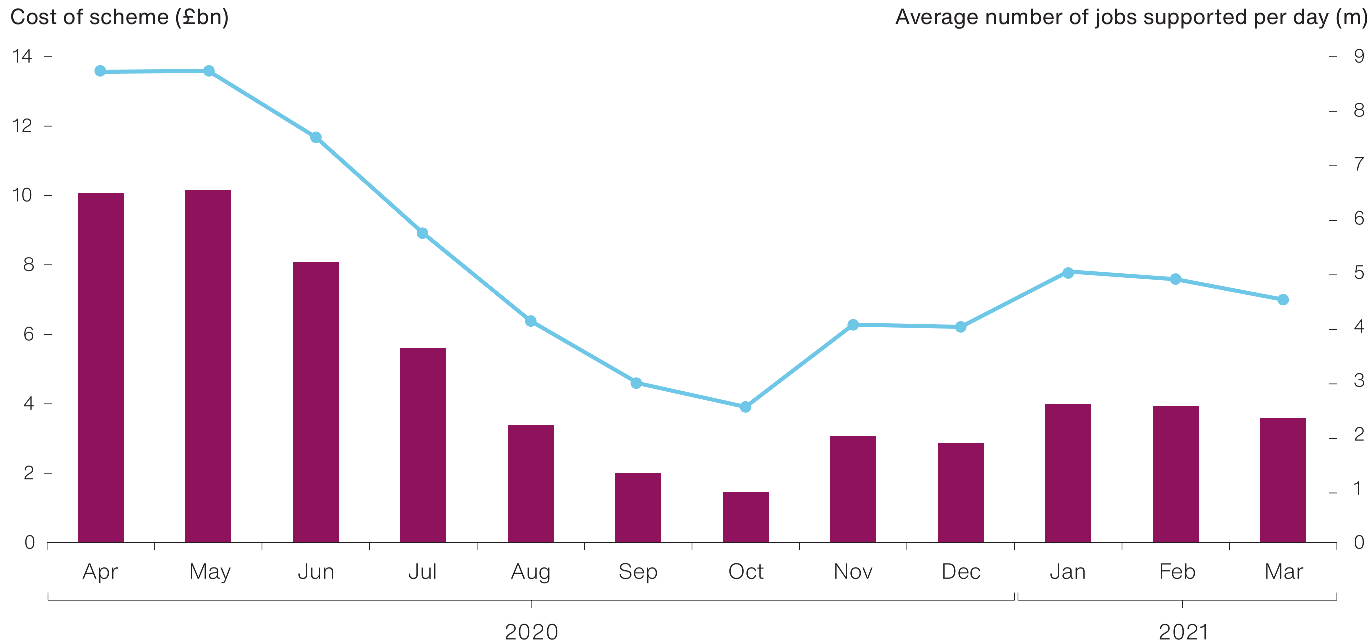
3 Assumes employee not usually earning more than £3,125 a month. An employee earning above £3,125 would lose more than 20% of usual wages unless employer voluntarily topped-up. Discretionary elements of pay, such as tips and bonuses, and non-monetary benefits excluded from wages.

Source: National Audit Office analysis of HM Revenue & Customs' and other government departments' documents

Figure 10

Coronavirus Job Retention Scheme – cost and number of jobs supported in 2020-21

The average number of jobs supported peaked in April and May 2020, with the cost of the scheme highest in May. Jobs supported and costs declined before rising again from November



	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Average number of jobs supported per day (m)[1]	8.7	8.7	7.5	5.7	4.1	3.0	2.5	4.0	4.0	5.0	4.9	4.5
Cost of scheme (£bn)	10.1	10.2	8.1	5.6	3.4	2.0	1.5	3.1	2.9	4.0	3.9	3.6

Note

1 Jobs supported included temporary leave or furlough, or reduced working.

Source: National Audit Office presentation of HM Revenue & Customs and Office for National Statistics data

Figure 11

Summary of the first three grants of the Self-Employment Income Support Scheme (SEISS), including eligibility criteria[1] and size of grants

Eligibility and size of grants varied across the first three phases

Summary of scheme	SEISS was introduced to provide payments to persons carrying on a trade which had been 'adversely affected' by the pandemic. HM Revenue & Customs (HMRC) paid grants to self-employed individuals and members of partnerships. The grant was first available from 13 May 2020. The first three grants covered the period May 2020 to January 2021.[2]
Cut-off date to be registered in HMRC's tax records to be eligible	For each of the first three grants, the taxpayer was required to have submitted a tax return by 23 April 2020 to be eligible, capturing those who had submitted a 2018-19 tax return.
Permitted working and conditions covering the impact of coronavirus	People could continue to work and claim a grant as long as their trade was affected by coronavirus and they met other eligibility criteria. To be eligible for the first grant, a person's trade had to be 'adversely affected' by coronavirus. For the second grant they had to confirm that their business had been adversely affected on or after 14 July 2020. There were additional qualifying criteria for the third grant with claimants having to confirm that they reasonably believed they had suffered a significant reduction in trading profits due to reduced business activity, capacity or demand, or inability to trade, due to coronavirus, between November 2020 and January 2021.[3]
Trading profit and intention	To be eligible, a claimant's trading profits could not exceed £50,000 and had to be at least equal to any non-trading income. The claimant had to have continued trading in 2019-20 and intended to continue to trade.
Size and cap on grants	For the first and third grants, the value was 80% of three months' average trading profit capped at a total of £7,500. For the second grant the value was 70% of three months' average trading profits capped at £6,570. All grants were paid out in a single instalment.

Notes

1 Example eligibility criteria shown only.

2 There was a fourth grant for February 2021 to April 2021 and a fifth and final grant for May 2021 to September 2021. The costs of both these phases will be accounted for in HMRC's 2021-22 accounts.

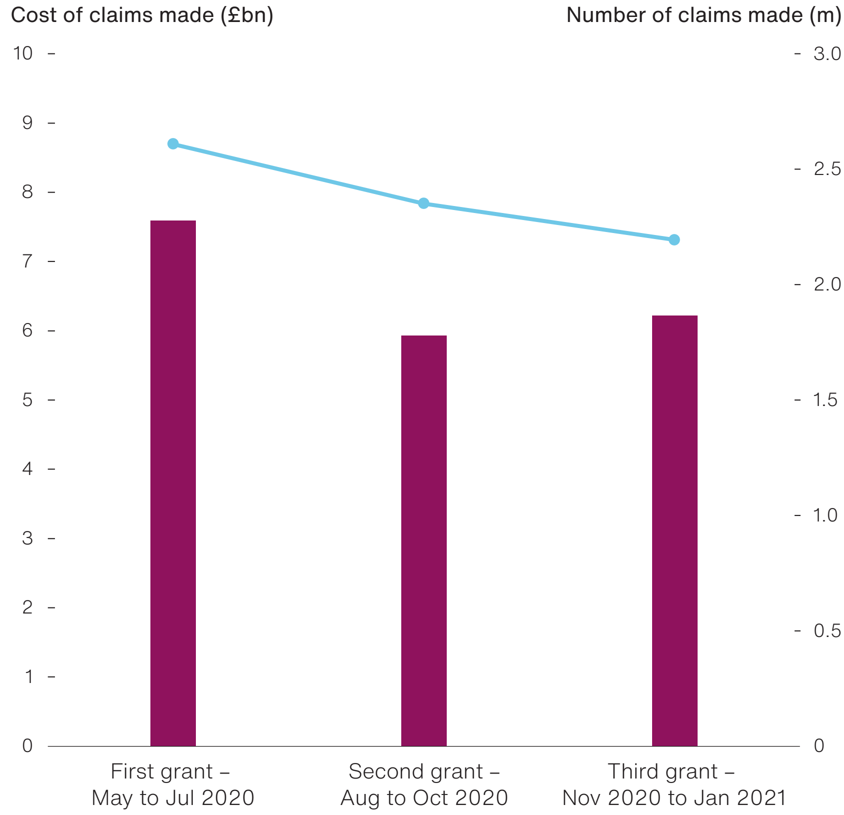
3 For the fifth grant a new turnover test was introduced which determined how much an applicant was entitled to claim. People who qualified for SEISS and whose turnover fell by more than 30% in the year from April 2020 were entitled to a grant worth 80% of three months' average trading profits. If their turnover fell by less than 30%, they were entitled to a lower grant worth 30% of three months' average trading profits.

Source: National Audit Office analysis of HM Revenue & Customs' and other government departments' documents

Figure 12

Self-Employment Income Support Scheme (SEISS) – cost and number of claims made for the first three grants

Claims declined over the first three phases of the scheme, driving a reduction in cost. The cost of the second grant was lower than the third because payments to individuals were capped at a lower level



	First grant – May to Jul 2020	Second grant – Aug to Oct 2020	Third grant – Nov 2020 to Jan 2021
Number of claims made (m)	2.6	2.4	2.2
Cost of claims made (£bn)	7.6	5.9	6.2

Notes

1 The maximum payment under the second grant was capped at £6,570 – the other two at £7,500. The average value of claims was similar for the first (around £2,900) and third grants (£2,800), but lower for the second grant (£2,500).

2 In total 7.2 million claims were made over the first three phases.

Source: National Audit Office presentation of HM Revenue & Customs' statistics

2.8 In October 2020, we reported on the value for money of the CJRS and the SEISS schemes in *Implementing employment support schemes in response to the COVID-19 pandemic*.[22] In its December 2020 report on the schemes, the Committee of Public Accounts concluded that:

- HM Treasury and HMRC had shown great agility in implementing the employment support schemes quickly in response to COVID-19;
- the age of the Self Assessment system made it more difficult for HMRC to provide financial support for the self-employed;
- HM Treasury and HMRC had not done enough to reduce the number of people excluded from the schemes;
- HM Treasury and HMRC did not evaluate the schemes or fully identify who had been supported before extending them;
- HMRC will not know the actual levels of error and fraud within the schemes until 2021;
- too much chopping and changing of the new schemes had created uncertainty for the UK nations, regions and businesses, regarding financial support and job security; and
- HM Treasury was unable to explain how much the extended schemes were forecast to cost or what would constitute value for money.[23]

2.9 HMRC and HM Treasury agreed with all the recommendations the Committee of Public Accounts made in its December 2020 report, and HMRC agreed with two further recommendations the Committee made in a subsequent report in January 2021 on HMRC's performance in 2019-20.[24] HMRC and HM Treasury have made a number of changes to areas covered by the Committee's recommendations and our recommendations. In particular:

- an additional 2.6 million jobs were brought into the scope of CJRS from May 2021 as the cut-off date for someone to be registered as employed was moved forward by four months to March 2021;
- eligibility to the fourth and fifth SEISS grants was extended, including to people who became self-employed in 2019-20. HMRC estimates this change brought into the scope of SEISS another 500,000 people;[25] and
- published those employers who claimed through CJRS from December 2020 to help tackle fraudulent claims.[26]

22 Comptroller and Auditor General, *Implementing employment support schemes in response to the COVID-19 pandemic*, Session 2019–2021, HC 862, National Audit Office, October 2020.
23 HC Committee of Public Accounts, *COVID-19: Support for jobs*, Thirty-Fourth Report of Session 2019–2021, HC 920, December 2020.
24 HC Committee of Public Accounts, *HMRC performance 2019-20*, Thirty-Sixth Report of Session 2019–2021, HC 690, January 2021, HM Treasury, *Treasury Minutes: Government responses to the Committee of Public Accounts on the Thirtieth to the Thirty-Fourth reports from Session 2019-21*, CP 389, February 2021 (pages 26–30) and HM Treasury, *Treasury Minutes: Government responses to the Committee of Public Accounts on the Thirty-Fifth to the Thirty-Ninth reports from Session 2019-21*, CP409, March 2021 (pages 11–12).
25 HMRC estimated that a similar number of people were removed from scope, for example because they had stopped being self-employed.
26 Employers with a valid reason can ask HMRC not to publish details about their claim.

2.10 We examine error and fraud in CJRS and SEISS in Part Three of this report.

2.11 HMRC has administered two other schemes which have each provided more than £0.5 billion of financial support to groups affected by COVID-19 in 2020-21.[27]

- **Working Tax Credits** – A temporary £20-a-week increase in the basic element of Working Tax Credits for 2020-21 at a cost of £1.5 billion.[28]
- **Eat Out to Help Out** – to encourage people to return to eating out, HMRC funded a discount of 50% (capped at £10 per diner) on food and non-alcoholic drinks every Monday, Tuesday and Wednesday between 3 and 31 August 2020. Before the scheme was implemented, the HMRC Accounting Officer requested and received a direction from the Chancellor of the Exchequer because there was insufficient time to gather the further evidence and wider external opinions that might enable him to reach a conclusion on the scheme's value for money. Some £840 million was claimed through the scheme, for 162 million meals (average cost around £5.20). HMRC has not assessed the value for money of the scheme.

Tax changes in response to COVID-19

2.12 Six of the tax changes made in response to COVID-19 are estimated to have cost in excess of £0.5 billion each in 2020-21 (**Figure 13**). VAT was the tax most affected by these measures. Estimates indicate three of the measures may have reduced VAT revenue by around £6.0 billion in 2020-21, contributing to the total reduction in VAT of £15.3 billion shown in Figure 2. HMRC does not have data on the number of taxpayers benefiting from most of the tax changes and does not have any data on their impacts.

The impact of COVID-19 on HMRC's operations

2.13 This section considers the impact of the COVID-19 pandemic, and the government's response, on HMRC's operations.[29]

27 On behalf of the Department for Work & Pensions, HMRC also administered the Coronavirus Statutory Sick Pay Rebate Scheme which helps small employers meet the cost of paying statutory sick pay on COVID-19-related absences.

28 The weekly payment of an additional £20 was a time-limited measure for 2020-21. In 2021-22, HMRC made a one-off payment of £500 to working households receiving tax credits in April 2021.

29 We have published a number of reports on the impact of the COVID-19 pandemic on government generally. For example, in May 2021 we published a report on our initial thoughts on the learning government can draw from its response to COVID-19 so far – Comptroller and Auditor General, *Initial learning from the government's response to the COVID-19 pandemic*, Session 2021-22, HC 66, National Audit Office, May 2021.

Figure 13

The largest tax changes to support individuals and businesses in response to COVID-19 in 2020-21

Six tax changes implemented by HM Revenue & Customs (HMRC) in response to COVID-19 are estimated to have each cost more than £500 million in 2020-21

Tax change[1]	Estimate of cost in 2020-21 (£m)	Outturn – key facts reported by HMRC
Temporary Stamp Duty Land Tax cut	3,325	Not available
Reduced VAT rate for the hospitality sector, accommodation and attractions.	3,040	Not available
Deferring VAT payments. UK VAT-registered businesses could defer VAT payments due between 20 March and 30 June 2020 either to 31 March 2021, or, if they applied for the 'New Payment Scheme', they could spread their payments over 2021-22.	1,990[2]	600,000 payments deferred £33.5 billion VAT deferred[4]
Postponing off-payroll working reforms by 12 months resulting in a loss of expected revenue.	1,090[3]	Not available
VAT zero rating for personal protective equipment between 1 May and 31 October 2020.	960	Not available
Relief on import taxes and duties for goods to tackle COVID-19 until 31 December 2020. Applied to specific medical goods from outside the EU including ventilators, coronavirus testing kits and protective clothing.	940	Not available
Total	**11,345**	

Notes

1 Includes all tax changes with an estimated cost of £500 million or more. For further information about the range of support provided by HMRC, and the UK government as a whole, in response to the COVID-19 pandemic see National Audit Office COVID-19 Cost Tracker available at: www.nao.org.uk/covid-19/cost-tracker/. The tracker also includes estimates of lifetime costs for the measures listed above.

2 Estimated cost shown includes both the original deferral and the subsequent New Payment Scheme, which enabled taxpayers to extend the deferral. The estimated cost is based on an assumed proportion of tax that will not be recovered as a result of the deferral. The final cost will depend on the ultimate non-recovery position.

3 HMRC estimates the lifetime cost (£740 million) will be lower than the 2020-21 cost as the postponement is likely to bring additional revenue in 2021-22.

4 The number and value of payments deferred include some payments that were due in March 2020.

Source: National Audit Office presentation of HM Revenue & Customs data and Office for Budget Responsibility data

Impact on HMRC's operating costs

2.14 HMRC estimates that it incurred costs of £318.3 million on COVID-19-related work in 2020-21 (equivalent to around 7% of HMRC's total running cost). Of this total, £202.6 million came from its original 2020-21 budget, mostly the cost of existing staff who were fully or partially reallocated to work on the COVID-19 response (**Figure 14**). HMRC incurred additional costs of £115.7 million, of which £81.1 million was spent on IT, including the systems implemented to administer the COVID-19 support schemes and equipment needed for home working.

Figure 14

Operating costs incurred by HM Revenue & Customs (HMRC) on COVID-19-related work in 2020-21

The majority (62%) of COVID-19–related operating costs incurred by HMRC were due to permanent staff working on the pandemic response

Category of operating cost	Costs met from HMRC's original 2020-21 budget	Additional expenditure[1]	Total for category	Percentage of total cost	Comment
	(£m)	(£m)	(£m)	(%)	
Costs of permanent staff	189.3	7.7	197.0	62	£7.7 million relates to permanent staff transferred to HMRC's COVID-19 Response Unit, which coordinated HMRC's activity; £189.3 million relates to the cost of other permanent staff working on COVID-19-related activities.
IT for COVID-19 support schemes	–	81.1[2]	81.1	25	Comprises capital and revenue costs.
Contracted-out services	–	19.3	19.3	6	Includes cost of temporary staff and contractors.
Accommodation	6.0	4.6	10.6	3	Costs related to ensuring HMRC premises met COVID-19 guidance such as for health and safety.
Other	7.3	3.0[2]	10.3	3	Includes travel and subsistence costs of £7.0 million.
Total cost	**202.6**	**115.7**	**318.3**		

Notes

1 HMRC received additional funding of £125.4 million from HM Treasury.

2 IT costs are net of £4.0 million, and Other is net of £1.7 million recharged to the Department for Work & Pensions.

3 Figures may not sum due to rounding.

Source: National Audit Office presentation of HM Revenue & Customs data

Impact on staff

2.15 During 2020-21, an average of around 4,000 of HMRC's permanent workforce were working in its offices each day.[30] These staff were undertaking roles which, for example, required access to sensitive documents, paper records and specialist facilities.

2.16 As we reported in November 2020, HMRC reallocated a substantial number of its staff to work in COVID-19-related roles during 2020-21.[31] At its peak in May 2020, of 58,592 full-time equivalent permanent staff, 8,932 (15%) were allocated to COVID-19-related roles (**Figure 15** overleaf). To manage its staffing position HMRC reduced redundancies by finding new permanent posts for 555 staff planning to leave HMRC in 2020-21 and agreed extensions with 583 who had accepted voluntary redundancy. From November 2020, HMRC also scaled up its use of temporary staff to support its response to COVID-19. In the last quarter, it used an average of 1,428 temporary staff a month – equivalent to 2% of its permanent workforce.

2.17 Around 5% of HMRC's permanent workforce were still working in COVID-19-related roles between January and March 2021. By the end of the year, it also had 1,838 (3%) fewer permanent staff than it had planned before the start of the year and before COVID-19. Most of the shortfall was in the groups responsible for compliance (891 staff, 3.7% of the group's permanent staffing at year end), digital (368, 12.2%) and customer service (318, 1.5%). HMRC explained the main reasons for the shortfalls were:

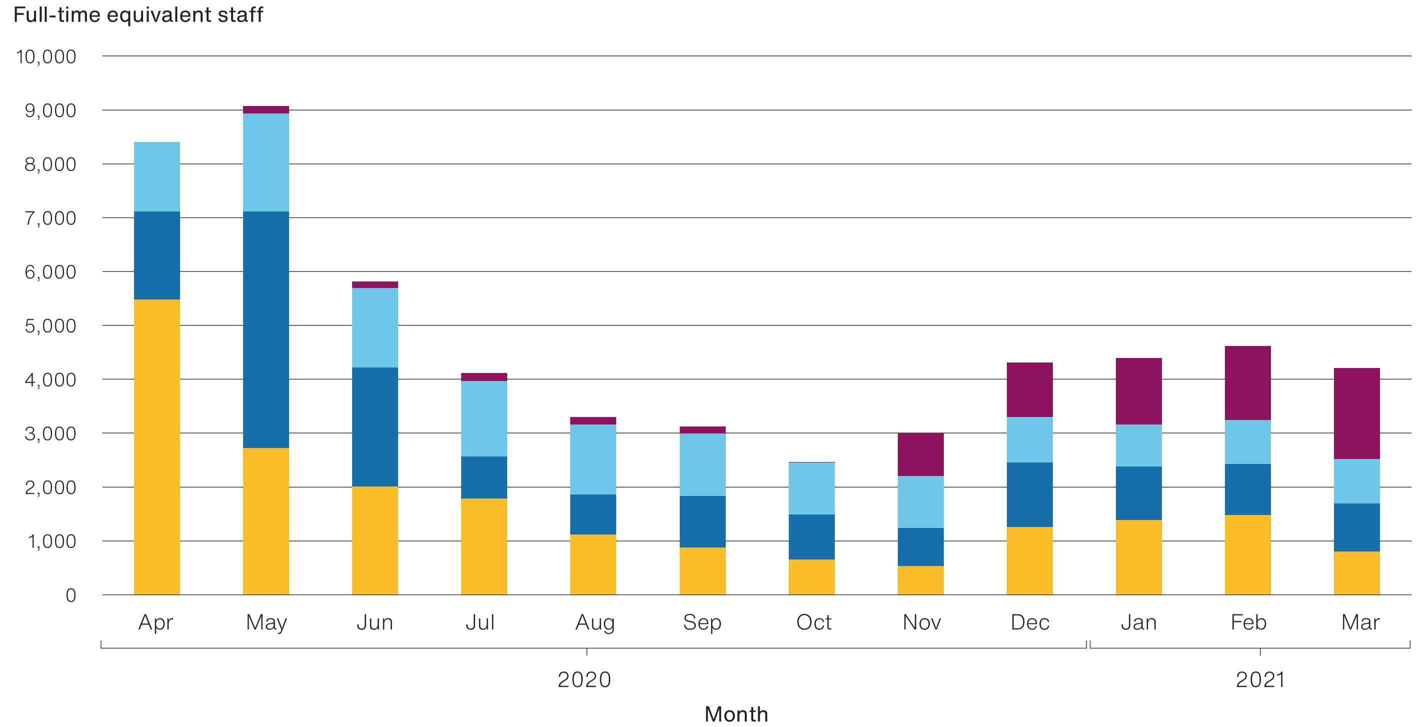
- higher than expected turnover in customer service staff;
- HMRC could not recruit all the compliance staff and digital staff it planned and remain within its budget; and
- delays in recruiting compliance staff and customer service staff, particularly in the final quarter of 2020-21. In November 2020, we reported that HMRC had also experienced problems in recruiting customer service staff in 2018-19 and 2019-20.[32]

30 The number is for all staff rather than full-time equivalents.
31 Comptroller and Auditor General, *HM Revenue & Customs 2019-20 Accounts,* November 2020.
32 Comptroller and Auditor General, *HM Revenue & Customs 2019-20 Accounts,* November 2020, paragraph 1.35.

Figure 15

Permanent and temporary staff working on COVID-19-related work, April 2020 to March 2021

Permanent HM Revenue & Customs (HMRC) staff working on COVID-19-related work declined from a peak in May 2020 with HMRC making greater use of temporary staff from November



	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Temporary staff	0	134	124	145	131	126	1	789	1,005	1,227	1,372	1,684
Other permanent staff	1,287	1,813	1,470	1,408	1,299	1,164	960	965	853	787	822	831
Customer compliance permanent staff	1,636	4,396	2,212	769	748	958	834	706	1,195	990	943	880
Customer service permanent staff	5,483	2,723	2,012	1,796	1,116	875	657	536	1,260	1,391	1,486	811
Total for all staff	**8,406**	**9,066**	**5,818**	**4,118**	**3,295**	**3,123**	**2,451**	**2,997**	**4,312**	**4,395**	**4,623**	**4,206**

Notes

1 Customer Compliance Group (23,900 full-time equivalent permanent staff at year end) and Customer Services Group (21,200) are the largest of HMRC's business groups and together represent around 77% of HMRC's permanent staff. Other covers the smaller business groups, which in total account for around 23% of HMRC's permanent staff.

2 Totals may not sum due to rounding.

Source: National Audit Office presentation of HM Revenue & Customs data

Impact on the estate

2.18 HMRC is now more than half-way through its 10-year Locations Programme, which aims to transform the Department's previous, extensive local office network into one based principally around 13 regional centres. The Programme runs through to 2025-26. In 2020-21 HMRC opened regional centres in Edinburgh, Cardiff, Leeds and Stratford to join those already open in Croydon, Bristol and Belfast. Since the Programme was launched in late 2015, of the 170 local offices open at that time, some 140 offices have been closed (40 of those in 2020-21). The Programme is a key enabler for the following three departmental strategic aims:

- delivering HMRC's wider transformation agenda;
- advancing the civil service-wide Government Hub initiative;[33] and
- exiting the STEPS PFI contract in 2021.[34]

2.19 HMRC spent some £156 million on its Locations Programme in 2020-21. HMRC estimates moving to regional centres will save around £300 million cumulatively up to 2025-26 and will deliver annual cash savings of £74 million in 2025-26, rising to around £90 million from 2028-29. These estimates take into account HMRC's assumption that, following the change in working patterns as a result of the pandemic, the attendance rate at its regional centres will reduce from its original estimate of around 67% of working days to around 50%. HMRC has reported that its response to the pandemic showed that, by making use of its existing technology, it could adopt more flexible ways of working.

2.20 The Infrastructure and Projects Authority (IPA) produced a Project Assessment Review of HMRC's Locations Programme in November 2020. The Review noted that the Programme had moved firmly into the phase of delivering new buildings, exiting buildings no longer needed, transitioning to a new way of working as well as dealing with increasing its scope. The IPA Review concluded that its Delivery Confidence Assessment for the Programme was amber, which it defined as follows: "Successful delivery appears feasible but significant issues already exist requiring management attention. These appear resolvable at this stage and, if addressed promptly, should not present a cost/schedule overrun."

33 The Government Hub initiative aims to provide a network of modern, digitally enabled, shared workspaces for the UK civil service.

34 The STEPS contract was a 20-year private finance initiative deal set up in 2001 to manage HMRC's office estate. We examined the deal in January 2017 in our report *Managing the HMRC estate* (HC 726, Session 2016-17).

2.21 In its January 2021 report on HMRC's performance in 2019-20, the Committee of Public Accounts concluded that HMRC's estate strategy risked becoming out of date and that its long-standing concerns about HMRC's non-breakable long-term property leases had become all the more relevant, and prescient, given the COVID-19 pandemic and the levelling-up agenda.[35] HMRC has signed long-term leases (that is, of 20 years or more) for 12 of its 13 regional sites (the lease for one site, Newcastle, has not yet been signed). In its response to the Committee's report HMRC noted that it believed its estates strategy continued to offer value for money in the light of the impacts of the COVID-19 pandemic on the Department's requirement for office space and on office rents.[36] HMRC told us it is working with the Government Property Agency to ensure any space freed up is made available to other departments who wish to secure long-term space, to support the government's Places for Growth Programme. For example, HMRC has already signed agreements to accommodate 19 departments and more than 4,700 full-time equivalent (FTE) staff across its estate. HMRC expects these numbers to rise to more than 30 departments and more than 7,500 FTE staff across 11 regional centres by autumn 2022.

2.22 HMRC's strategy rests on public sector demand for property mitigating the risk of unused office space, for example:

- the government's commitment in Budget 2020 to move 22,000 civil service roles out of London and to other parts of the UK; and
- the June 2021 Declaration on Government Reform, which stated that more civil servants would work outside of London.

However, HMRC considers that the pandemic has accelerated existing trends around working patterns, such as greater levels of working from home. These trends may have long-term impacts on how offices are used and potentially alter demand for office space.

35 HC Committee of Public Accounts, *HMRC performance 2019-20*, Thirty-Sixth Report of Session 2019–2021, HC 690, January 2021, conclusion 3 and paragraph 16.

36 HM Treasury, Treasury Minutes, *Government responses to the Committee of Public Accounts on the Thirty-Fifth to the Thirty-Ninth reports from Session 2019-21*, CP 409, March 2021.

UK transition and the ending of staged customs controls

2.23 On 31 January 2020 the UK left the EU, no longer participating in the EU's decision-making, and entered a transition period during which existing rules on trade, travel and business between the UK and the EU continued to apply. On 31 December 2020 the transition period ended, and the Northern Ireland Protocol, which sets out the basis on which trade should be conducted in and out of Northern Ireland, came into effect, with 'grace periods' delaying the requirement for some checks. Many of the preparations that government departments were making for the end of the transition period focused on putting in place a minimum operating capability for 'day one' but there were two elements for which departments had not previously undertaken any significant preparations – implementing the Northern Ireland Protocol and introducing a full import control regime.

2.24 The UK government originally intended to implement a new import control regime from 1 January 2021, but in June 2020 announced it would adopt a three-stage phased approach to introducing import controls, with full import controls to be in place by 1 July 2021. It has since announced two further delays with the most recent, in September 2021, setting out plans to introduce controls over the period between 1 January 2022 and 1 July 2022.[37] Staged customs controls will end on 1 January 2022 as previously planned.[38] The UK government also published a command paper in July 2021 setting out challenges with operation of the Protocol and proposals for how to take it forward.[39] It is subsequently in technical talks with the EU Commission about future arrangements.[40] In the meantime, the UK government will continue to operate the Protocol on the current basis.

2.25 HMRC had a significant role in government's preparations for the end of the transition period. It continues to have significant responsibilities in relation to the end of staged customs controls on 1 January 2022, and the arrangements underpinning the implementation of the Northern Ireland Protocol. It is responsible for key customs and border-related programmes, including the Customs Declaration Service, the UK Transition Programme and the Trader Support Service. Throughout 2021, there has been uncertainty around the arrangements for implementing the Northern Ireland Protocol. This presents an ongoing challenge for HMRC to manage in terms of its ability to implement new arrangements and provide support to its customers.

37 GOV.UK, *Government sets out pragmatic new timetable for introducing full import controls for goods being imported from the EU to the UK*, 14 September 2021.
38 From 1 January 22 traders will not be able to delay making customs declarations and must make a full customs declaration when importing goods into the UK.
39 HM Government, *Northern Ireland Protocol: the way forward*, July 2021.
40 Parliament.UK, *Northern Ireland Update*, 6 September 2021, available at: https://questions-statements.parliament.uk/written-statements/detail/2021-09-06/hlws257

2.26 We have reported previously on preparations HMRC, and other government departments with activities at the UK border, have been making for EU Exit. Our most recent report, published in November 2020, concluded that departments had built on their 'no-deal' planning and had made progress in implementing changes to systems, infrastructure and resources.[41] However, we also noted that significant risks remained, particularly in relation to the arrangements required to implement the Northern Ireland Protocol. We found that the most significant strategic risks to the operation of the border were unchanged from our previous reports, namely business readiness, EU member states imposing controls, and arrangements relating to Northern Ireland. We have reviewed the final state of government's preparedness at the border for the end of the transition period and its preparations for the introduction of full import controls, and plan to publish a report shortly.

2.27 The number of people working on transition has increased since 2019-20. HMRC's Annual Report shows that 8,100 staff worked on transition activities in 2020-21, compared with 6,100 the previous year. Those staff worked in a wide variety of roles including compliance activity, customer support, policy development, digital support and staffing of inland checking sites. During 2020-21 HMRC budgeted £977 million for work relating to EU transition and spent £936 million.

Building a trusted, modern tax administration system

2.28 In July 2020 the government published its vision for the future of the UK tax system – *Building a trusted, modern tax administration system*.[42] This set out its ambitions for the future of tax administration in the UK and 10-year strategy to improve HMRC's digital infrastructure so that it was more resilient, effective and easier for taxpayers to use. HMRC sees real-time information as being at the core of an effective and modern tax system. HMRC has acknowledged that, across the world, a digital tax system of this kind is increasingly the norm, with some countries already taking more decisive, faster steps (such as Australia, Denmark, Finland and New Zealand). A key part of HMRC's 10-year strategy – the Making Tax Digital programme – is discussed further below.

41 Comptroller and Auditor General, *The UK border: preparedness for the end of the transition period,* Session 2019–2021, HC 371, National Audit Office, November 2020.

42 HM Revenue & Customs, *Building a trusted, modern tax administration system*, July 2020.

2.29 As we reported last year, HMRC has had to adjust and reprioritise its previous plans for transformation to reflect unforeseen developments, such as EU transition and higher-than-expected customer demand.[43] HMRC is likely to face an additional challenge to its 10-year modernisation strategy as a result of the pandemic, although it is difficult at this stage to predict what that impact will be. Although HMRC has not set specific long-term targets for its 10-year strategy, it has set out the following benefits: a better experience for taxpayers and businesses; reducing the tax gap and wider benefits for businesses; and greater resilience and responsiveness in times of crisis. The new framework will also support HMRC's aim to make it easy to get tax right and harder to get wrong and help build trust in a tax system that is seen as fair and even-handed. In July 2021 HMRC published its Outcome Delivery Plan for 2021-22.[44] The Plan sets out its initial steps in delivering HMRC's 10-year strategy but does not include any specific targets.

2.30 The Committee of Public Accounts has previously expressed concern about whether HMRC will have the resources to match its long-term responsibilities, needs and ambitions. In January 2021 the Committee recommended HMRC review its priorities to ensure it had sufficient capacity and resources to manage its workload effectively.[45] In May 2021 HMRC confirmed that, although the year ahead would be challenging, particularly in providing good levels of customer service, it was confident it had made the right choices to live within the funding provided, while maintaining performance and both running and transforming its IT and physical estates.[46]

43 Comptroller and Auditor General, *HM Revenue & Customs 2019-20 Accounts,* November 2020, paragraphs 2.33 to 2.35.
44 HM Revenue & Customs' Outcome Delivery Plan for 2021-22 was published on the internet on 15 July 2021.
45 HC Committee of Public Accounts, *HMRC performance 2019-20,* Thirty-Sixth Report of Session 2019–2021, HC 690, January 2021, conclusion 4.
46 HMRC's response was through a letter from Jim Harra, HMRC's Chief Executive and First Permanent Secretary, to Meg Hillier, Chair of the Committee of Public Accounts.

Making Tax Digital

2.31 When the government first announced the idea of digital tax accounts in 2015 it was envisaged that most individuals and small businesses would have one by 2020.[47] The Making Tax Digital initiative – the requirement to keep tax records and submit returns digitally – sought to deliver on this ambition. However, following stakeholder feedback about the pace of change, the government decided in 2017 to slow the roll-out of Making Tax Digital, with the initial requirement to join in 2019 limited to VAT traders with turnover above the VAT threshold (£85,000). Since 2019 more than 1.5 million businesses have started using Making Tax Digital to manage their VAT affairs. HMRC plans to extend Making Tax Digital to all VAT-registered businesses from April 2022 and, from April 2024, to businesses and landlords with business income of more than £10,000 a year which are liable for Income Tax.[48] HMRC's consultation on what Making Tax Digital should look like for Corporation Tax closed in March 2021.

2.32 HMRC originally expected the Making Tax Digital for Business programme, digital record-keeping and quarterly digital reporting, to generate a total of £920 million in additional tax revenue to 2020-21. The government's July 2017 decision to focus initially on VAT only meant that HMRC reduced its estimate of the additional tax revenue raised to £480 million by 2020-21. HMRC estimates that by 2020-21 the programme had generated additional revenue of £265 million, some £215 million (45%) less than the forecast, mainly because of the economic effects of COVID-19 and revised tax gap estimates. HMRC now estimates that the total additional tax revenue over the Making Tax Digital programme's investment lifecycle (including penalty reform) to 2027-28 will be £2.9 billion.

2.33 HMRC reported that the cost of the Making Tax Digital for Business programme between 2016-17 and 2019-20 was £244 million. It estimates the cost of the next phase of the programme was £113 million in 2020-21 and will be a further £528 million between 2021-22 and 2025-26.

47 HM Revenue & Customs, *Making tax easier: The end of the tax return,* March 2015.

48 In September 2021 the government said that in recognition of the challenges faced by many UK businesses and their representatives over the past year, and stakeholder feedback, it would delay the introduction of Making Tax Digital (MTD) for Income Tax Self Assessment by a year, to the tax year beginning in April 2024. It also said general partnerships will join MTD for Income Tax Self Assessment in the tax year beginning in April 2025, and the date at which all other types of partnerships will be required to join will be confirmed later.

2.34 HMRC recognises that customers will generally face extra costs from the extension of Making Tax Digital (such as the cost of new software and the associated administrative cost of integrating digital record-keeping into the business) but expects these will be partially offset by wider benefits (such as automation of previously manual tax processes). HMRC has estimated the additional costs taxpayers will face as a result of the extension of Making Tax Digital as follows:

- for the approximately 1.1 million VAT taxpayers with a taxable turnover below the VAT threshold – a one-off transitional cost of £173 million and an administrative saving of £7 million a year; and
- for the approximately 4.2 million Income Tax Self Assessment businesses and landlords – a one-off transitional cost of around £1,383 million and an administrative cost of around £152 million a year.[49]

Resilience and security of IT systems

2.35 In 2019-20 HMRC reported that it had critical levels of technical debt on its IT estate and was more vulnerable to cyber and security threats. Technical debt is the risk associated with older legacy IT systems.[50] In January 2021 the Committee of Public Accounts concluded that the Department had spent too much of its IT budget on patching up legacy systems rather than modernising them.[51] In March 2021 HMRC responded that its plan to tackle legacy IT had focused on the following areas:

- rationalising the department's IT estate;
- addressing high-priority technical debt to replace out-of-support and old components, to enhance core system security and strengthen perimeter controls protecting the department's IT systems;
- migrating systems to the cloud, to help to reduce costs; and
- consolidating system delivery, to reduce costs and improve security.[52]

49 HMRC published more details of the basis of its cost estimates in policy papers on the extension of Making Tax Digital for VAT on 7 September 2021 and for Income Tax Self Assessment to Businesses and Landlords on 23 September 2021.

50 The Cabinet Office report *Organising for Digital Delivery* (22 July 2021) defined technical debt as "The situation where important operational services are provided by out of date 'legacy systems' often built on obsolete technical platforms or using programming languages that are no longer widely supported. This brings a number of challenges including very high 'keeping the lights on' maintenance costs, data and cyber-security risks, and an inability to develop new functionality on technologies or systems that are no longer widely supported."

51 HC Committee of Public Accounts, *HMRC performance 2019-20*, Thirty-Sixth Report of Session 2019–2021, HC 690, January 2021, conclusion 5.

52 HM Treasury, *Treasury Minutes: Government responses to the Committee of Public Accounts on the Thirty-Fifth to the Thirty-Ninth reports from Session 2019-21*, Cm 409, March 2021, page 14.

2.36 In 2020-21 HMRC reported that the age and extent of its legacy IT has provided particular challenges for its compliance with the UK General Data Protection Regulation and associated security obligations. HMRC reports that, during the past two years, it has decommissioned more than three-quarters of the 166 IT services that it had identified as being obsolete. It plans to tackle the rest during 2021-22. HMRC has been working with the Information Commissioner's Office (ICO) to consider the implications of a 2020 review, commissioned by HMRC, into its legacy technical infrastructure and the steps it is taking to deliver the actions arising from that review.[53]

2.37 Legacy IT is a problem facing government as a whole, not just HMRC. A Cabinet Office report published in July 2021 on digital delivery found that "almost 50% of current government IT spend (£2.3 billion out of a total central government spend of £4.7 billion in 2019) is dedicated to 'keeping the lights on' [...] activity on outdated legacy systems".[54]

2.38 It is difficult to successfully implement large-scale digital business change. In our report *Challenges in implementing digital change*, published in July 2021, we drew attention to why this is the case.[55] Our findings were grouped into two main themes: initiating for success – looking at whether programmes start out with an understanding of whether the ambition is achievable; and setting up for effective delivery – looking at whether the right conditions are in place before programmes commence in earnest. We identified lessons for government digital programmes in six categories, which are essential to get right at the outset:

- understanding aims, ambition and risk;
- engaging commercial partners;
- approach to legacy systems and data;
- using the right mix of capability;
- choice of delivery method; and
- effective funding mechanisms.

53 The ICO is the UK's independent body set up to uphold information rights.
54 Cabinet Office, *Organising for Digital Delivery,* 22 July 2021.
55 Comptroller and Auditor General, *The challenges in implementing digital change*, Session 2021-22, HC 575, National Audit Office, July 2021.

Part Three

Employment support schemes: error and fraud

3.1 This part of the report covers the reasons and context for the Comptroller and Auditor General's (C&AG's) qualified audit opinion in relation to error and fraud in the main COVID-19 support schemes, which comprise: the Coronavirus Job Retention Scheme (CJRS); the Self-Employment Income Support Scheme (SEISS); and Eat Out to Help Out (EOHO).

3.2 The C&AG has qualified his opinion on the regularity of HM Revenue & Customs' (HMRC's) 2020-21 financial statements due to the material level of error and fraud in each of the main COVID-19 support schemes.

3.3 The explanation for the qualified opinion for these areas of expenditure is supported by:

- an overview of HMRC's estimates for error and fraud, and the limitations of those estimates;
- the causes of, and developments in tackling, error and fraud in each of these areas of expenditure; and
- future challenges HMRC will need to consider in identifying, measuring and recovering overpayments arising from error and fraud in the schemes.

3.4 Paragraphs 2.4 to 2.10 in Part Two of this report outline the eligibility criteria and expenditure incurred for the CJRS and SEISS schemes in 2020-21, together with HMRC's role in administering them. The legislative basis for the schemes is the Coronavirus Act 2020, Section 76 of which gave HM Treasury powers to direct HMRC "to have such functions as the Treasury may direct in relation to coronavirus or coronavirus disease". Since the Coronavirus Act 2020 received Royal Assent on 25 March 2020, HM Treasury has issued a series of directions for each phase of the three schemes, setting out the scope and eligibility criteria.[56]

56 HM Treasury directions are available as follows: for CJRS from Treasury Direction made under Sections 71 and 76 of the Coronavirus Act 2020 at www.gov.uk/government/publications/treasury-direction-made-under-sections-71-and-76-of-the-coronavirus-act-2020; for SEISS from Treasury Direction made under Section 76 of the Coronavirus Act 2020 at www.gov.uk/government/publications/treasury-direction-made-by-the-chancellor-under-sections-71-and-76-of-the-coronavirus-act-2020; and for EOHO from Treasury Direction made under Sections 71 and 76 of the Coronavirus Act 2020 at www.gov.uk/government/publications/treasury-direction-made-by-the-chancellor-under-sections-71-and-76-of-the-coronavirus-act-2020.

Qualification of the C&AG's audit opinion on the regularity of the COVID-19 support schemes

3.5 Under the Government Resources and Accounts Act 2000, the C&AG is required to 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 that the financial transactions recorded in the financial statements conform to the authorities that govern them (the C&AG's regularity opinion).

3.6 As set out in paragraph 3.4, the framework of authorities for the CJRS, SEISS and EOHO schemes are the Coronavirus Act 2020 and HM Treasury directions issued under that Act. Where error and fraud results in overpayment or underpayment to grant recipients who were either not entitled to support, or were paid at a different rate from that specified in the HM Treasury directions, the transaction does not conform with Parliament's intention and is irregular.

3.7 Note 4.2 of HMRC's Resource Accounts sets out its estimate of the level of error and fraud present in each of the schemes for the 2020-21 reporting period, details of which are outlined in **Figure 16**.

3.8 In forming his regularity opinion, the C&AG:

- evaluated the control processes HMRC has designed and implemented to prevent and detect error and fraud in the schemes, recognising the pace at which they were delivered and the resulting trade-offs between financial controls and making payments on a timely basis;
- considered the existence of other sources of information which provide evidence of the level of error and fraud present in the schemes, for instance the emerging results of HMRC's post-payment compliance processes; and
- evaluated the detailed input data, methodology, assumptions and judgements applied by HMRC to produce its estimates.

3.9 Based on this work, the C&AG considers the level of error and fraud present in each of the COVID-19 support schemes to be material and has qualified his regularity opinion in that respect. As set out below, HMRC's estimates are subject to a considerable level of uncertainty and, as a result, the actual levels of error and fraud in the schemes could differ significantly.

Figure 16

HM Revenue & Customs' (HMRC's) current most likely estimates of error and fraud in the COVID-19 support schemes

HMRC's current most likely estimate (MLE) of the level of error and fraud in the 2020-21 COVID-19 support scheme payments is £5.8 billion, of which £5.3 billion relates to the Coronavirus Job Retention Scheme[1]

Scheme	2020-21 expenditure	HMRC's MLE of the value of error and fraud	HMRC's MLE of the rate of error and fraud
	(£m)	(£m)	(%)
Coronavirus Job Retention Scheme	60,677	5,279	8.7
Self-Employment Income Support Scheme	19,716	493	2.5
Eat Out to Help Out	840	71	8.5
All schemes combined	**81,233**	**5,843**	–

Note

1 HMRC's estimates of the likely levels of error and fraud in the COVID-19 support schemes are largely based upon insights from: HMRC administrative data; internal and external surveys; pre-payment verification checks; and experience from error and fraud rates in other tax and benefit streams it administers. HMRC has made limited use of direct evidence of error and fraud from inspection of individual claims, such as post-payment compliance checks. As a result, HMRC's estimates are subject to significant uncertainty.

Source: HM Revenue & Customs Resource Accounts 2020-21 and National Audit Office analysis of HM Revenue & Customs data

Estimated levels of error and fraud in the COVID-19 support schemes

3.10 HMRC's priority from the start of the pandemic, as directed by ministers, was to get support to those who needed it as quickly as possible to protect jobs. As a consequence, while HMRC recognised that error and fraud was likely to occur in the COVID-19 support schemes it understood the pace of implementation, and the need to process payments quickly, would reduce some opportunities to mitigate error and fraud. In that respect, HMRC's strategy was largely based on preventing error and fraud before making payments where possible, and tackling abuse of the schemes through its compliance work after the payments were made. Based on our review of the controls implemented by HMRC during 2020-21, the C&AG does not consider that they were adequate in preventing and detecting material levels of error and fraud in payments made under the schemes.

3.11 HMRC's planning assumptions indicated that error and fraud could range from 5% to 10% for the CJRS scheme and 1% to 2% for the first tranche of the SEISS scheme.[57] For EOHO, HMRC's planning assumption was 5% to 10%. It did not publish this assumption. HMRC's current most likely estimate of the aggregate level of error and fraud in the COVID-19 support schemes is £5.8 billion, of which £5.3 billion relates to the CJRS scheme (Figure 16). HMRC's current estimates of the most likely rates of error and fraud are 8.7% for CJRS, 2.5% for SEISS and 8.5% for EOHO. Its current upper and lower-level estimates of the rate of error and fraud for 2020-21 are higher than the planning assumptions it set, being 6.7% to 12% for the CJRS scheme, 1.8% to 3.2% for SEISS and 5.1% to 11.8% for EOHO (**Figure 17**).

Figure 17

HM Revenue & Customs' (HMRC's) current estimates of the range of error and fraud in the COVID-19 support schemes

HMRC currently estimates that the level of error and fraud present in the 2020-21 COVID-19 support scheme payments could range between £4.5 billion and £8.0 billion (between 5.5% and 9.9% of total COVID-19 support scheme expenditure in 2020-21)[1]

Scheme	Lower percentage of scheme expenditure	Lower	Most likely percentage of scheme expenditure	Most likely	Upper percentage of scheme expenditure	Upper
	(%)	(£m)	(%)	(£m)	(%)	(£m)
Coronavirus Job Retention Scheme	6.7	4,065	8.7	5,279	12.0	7,281
Self-Employment Income Support Scheme	1.8	355	2.5	493	3.2	631
Eat Out to Help Out	5.1	43	8.5	71	11.8	99
All schemes combined	**5.5**	**4,463**	**7.2**	**5,843**	**9.9**	**8,011**

Note

1 HMRC's estimates of the likely levels of error and fraud in the COVID-19 support schemes are largely based upon insights from: HMRC administrative data; internal and external surveys; pre-payment verification checks; and experience from error and fraud rates in other tax and benefit streams it administers. HMRC has made limited use of direct evidence of error and fraud from inspection of individual claims, such as post-payment compliance checks. As a result, HMRC's estimates are subject to significant uncertainty.

Source: HM Revenue & Customs Resource Accounts 2020-21 and National Audit Office analysis of HM Revenue & Customs data

57 Comptroller and Auditor General, *Implementing employment support schemes in response to the COVID-19 pandemic*, Session 2019–2021, HC 862, National Audit Office, October 2020.

3.12 In our March 2021 good practice guide we set out that material levels of fraud and error should be measured regularly using robust estimation techniques.[58] In our October 2020 report *Implementing employment support schemes in response to the COVID-19 pandemic*, we also highlighted that the scale of error and fraud was likely to be considerable, particularly for CJRS, but that HMRC did not expect to have a complete assessment of the total error and fraud in the COVID-19 support schemes until the end of 2021 at the earliest. We recommended that HMRC assess the total value of error and fraud more quickly; and explore the feasibility of starting assessment activity earlier for future schemes so that some testing is undertaken while schemes are live.[59]

3.13 HMRC's current estimates have made only limited use of more robust, direct evidence of error and fraud from inspection of individual claims, which can come, for instance, from post-payment compliance checks or a random enquiry programme. This is partly due to the timing of its post-payment compliance activity commencing too late for the results of it to inform the estimates in HMRC's 2020-21 accounts. HMRC told the Committee of Public Accounts that random enquiry programmes do not suit every circumstance.[60] It also said there are some forms of compliance risk that are less likely to be detected through a random enquiry because of their nature and characteristics. HMRC considers other evidence sources can give better insights in these cases. It considered that random enquiry programmes were also expensive and HMRC indicated that it needed to balance the cost against the potential revenue loss or level of incorrect overpayments. HMRC plans to produce more robust estimates of the level of error and fraud in CJRS and SEISS in 2022 (see the 'Other developments' section below).

3.14 Making robust estimates of error and fraud is inherently difficult, and HMRC's current estimates for the COVID-19 support schemes are subject to significant uncertainty. HMRC characterises the relative strength of its estimates, and the evidence base which supports them, on a scale of 'strong' to 'mild', defined as:

- **strong** – good-quality data which should be presented as such, including as a basis for comparison with external estimates or to make strategic decisions with more confidence;
- **adequate** – treat with some caution, and present with appropriate caveats. Estimates may change with further refinement and receipt of further data; and
- **mild** – treat with caution and present with clear caveats setting out the limitations of the data. Estimates most likely to change on receipt of further data.

58 National Audit Office, *Good practice guidance: Fraud and Error*, March 2021.
59 See footnote 57.
60 Letter from Jim Harra, Chief Executive, HMRC, to Meg Hillier MP, Chair of the Committee of Public Accounts, 7 May 2021.

3.15 Applying those definitions, HMRC has assessed the EOHO and CJRS estimates as 'mild' and the SEISS estimate as "adequate overall, with elements of mild evidence". In addition to the absence of direct evidence of error and fraud from post-payment compliance checks on individual claims, other key factors driving the level of uncertainty include:

- the estimates are based on HMRC's assessment of risk factors that could give rise to error and fraud. HMRC's planned compliance activity could identify new areas of risk or differences in the balance of risks. HMRC judges there is a lower likelihood that new risks are identified as it considers its risk assessment process has been thorough in exploring the ways grant rules could be avoided or broken;
- the external survey data HMRC used were not designed specifically to develop the estimates so interpreting and applying the survey results in that context involved significant judgements. HMRC commissioned its own survey (Populus Omnibus) to inform some of the inputs to adjust its CJRS estimate;
- HMRC has used error and fraud rates observed in other tax and benefit streams as proxies for likely levels of error and fraud in the COVID-19 support schemes. While HMRC considers doing so is a reasonable approach, the validity of those proxies will only be known once the results of HMRC's compliance activity become available; and
- as HMRC continues to develop its compliance approach, what it determines to be erroneous or fraudulent and, therefore, capable of being recovered, may change, particularly for SEISS where the scheme eligibility criteria require claimants (and HMRC) to exercise a level of judgement and interpretation around how they had been impacted by the pandemic.

HM Revenue & Customs' assessment of the causes of error and fraud in the COVID-19 support schemes

3.16 HMRC has identified three broad areas of risk which it has considered in developing its estimates of the level of error and fraud present in the COVID-19 support schemes:

- **Organised crime** – organised criminals fraudulently accessing the schemes, either directly, or through other businesses or individuals.
- **Opportunistic fraud** – deliberate manipulation of legitimate claims to access more funds than the recipient is entitled to or to claim when ineligible.
- **Errors** – unintentional errors by either the claimant or HMRC resulting in under- or overpayments.

3.17 The proportion of error and fraud related to these sources of risk in HMRC's estimates for each of the schemes is shown in **Figure 18**.

Figure 18

HM Revenue & Customs' (HMRC's) current assessment of the nature of error and fraud present in each of the COVID-19 support schemes

HMRC's current estimates indicate that the level of error and fraud present in the 2020-21 COVID-19 support schemes is mainly driven by opportunistic fraud[1]

	Estimated rates of the causes of error and fraud – most likely estimate[2]			
Scheme	Organised crime	Opportunistic fraud	Errors	Total
	(%)	(%)	(%)	(%)
Coronavirus Job Retention Scheme	0.3	6.1	2.3	**8.7**
Self-Employment Income Support Scheme	0.7	1.8	0.0	**2.5**
Eat Out to Help Out	0.6	6.3	1.5	**8.5**

Notes

1 HMRC's current estimates of the likely levels of error and fraud in the COVID-19 support schemes are largely based upon insights from: HMRC administrative data; internal and external surveys; pre-payment verification checks; and experience from error and fraud rates in other tax and benefit streams it administers. HMRC has made limited use of direct evidence of error and fraud from inspection of individual claims, such as post-payment compliance checks. As a result, HMRC's estimates are subject to significant uncertainty.

2 Causes of error and fraud are defined as follows: organised crime – organised criminals fraudulently accessing the schemes, either directly or through other businesses or individuals; opportunistic fraud – deliberate manipulation of legitimate claims to access more funds than the recipient is entitled to or to claim when ineligible; and errors – unintentional errors by either the claimant or HMRC resulting in underpayments or overpayments.

3 Some numbers do not sum due to rounding.

Source: National Audit Office analysis of HM Revenue & Customs data

Coronavirus Job Retention Scheme (CJRS)

3.18 In October 2020 we reported that there were likely to be considerable amounts of CJRS error and fraud, particularly from employees working while being claimed for furlough by their employer.[61] Subject to the limitations set out at paragraphs 3.14 and 3.15, HMRC's current estimates confirm that employees working, either voluntarily or at the direction of their employer, while being claimed for furlough is the main source of error and fraud in CJRS. Across 2020-21, it accounted for around two-thirds of HMRC's current most likely estimate of error and fraud in CJRS of 8.7%. HMRC's estimates indicate there may have been a reduction in this type of error and fraud after July 2020 (when flexible furlough was introduced) and, as a consequence, a reduction in the overall rate of CJRS error and fraud.[62] The other main risk areas which HMRC has identified are inflated claims, furlough payments claimed by employers but not paid over to their employees, and errors made in processing claims in the claimant's favour (all around one-tenth of the most likely estimate of error and fraud for 2020-21).

Self-Employment Income Support Scheme (SEISS)

3.19 Subject to the limitations set out in paragraphs 3.14 and 3.15, HMRC's estimates indicate that around two-thirds of error and fraud in the SEISS scheme arose from individuals claiming one or more grant payments but not meeting the scheme eligibility criteria as they had ceased trading by 2019-20.

3.20 HMRC's current estimate of error and fraud in the SEISS scheme assesses the risk of claims by people who were not adversely affected by the pandemic as negligible. HMRC told us that it recognised from the outset of SEISS that strictly enforcing the 'adversely affected' eligibility condition would be difficult given the challenge of evidencing how well a person's business would have performed if not for the pandemic. The Treasury Direction also set out a broad definition of 'adversely affected' by coronavirus when SEISS was introduced. The definition was tightened for the third grant by the introduction of a requirement for applicants to confirm that they had suffered a significant reduction in trading profits. Accordingly, there is a risk that the scheme's rules allowed some grants to be paid in 2020-21 to people whose business was not significantly adversely affected by the pandemic.

61 Comptroller and Auditor General, *Implementing employment support schemes in response to the COVID-19 pandemic*, Session 2019–2021, HC 862, National Audit Office, October 2020, paragraphs 18 and 22.

62 From July 2020, furloughed employees could work for any amount of time or shift pattern, with employers claiming CJRS grant for employee hours not worked.

Eat Out to Help Out (EOHO)

3.21 The EOHO scheme ran for one month in August 2020, with eligible claims accepted up to the end of September 2020. Subject to the limitations set out in paragraphs 3.14 and 3.15, HMRC's estimates indicate that the main sources of the 8.5% error and fraud rate for the scheme were inflation of claims made by restaurants and food outlets (around half the total) and claims made by businesses which did not meet the eligibility criteria (around one-fifth). HMRC does not intend to carry out a random enquiry programme for Eat Out to Help Out. It considers the value of error and fraud is too low, and the opportunity to learn lessons from what is a one-off scheme is not sufficient, to make a random enquiry programme cost-effective. HMRC's current estimate of the rate of fraud is comparable to its estimate for CJRS, where it is carrying out random enquiries.

Other developments

Compliance activity and action being taken to recover overpayments

3.22 HMRC initially planned to use its tax compliance staff to tackle error and fraud in the COVID-19 support schemes. In October 2020, we recommended that HMRC consider how to cut recruitment and training time so it could use new staff, and that it direct sufficient resources to recover overpayments and fraudulent payments where cost-effective to do so.[63] Since our report, HMRC told us that it has redesigned some of its processes, enabling some compliance work, in particular verification of identity and risk assessment of claims, to be undertaken by temporary staff after a short period of training.

3.23 In March 2021 the government announced that it would establish a Taxpayer Protection Taskforce of 1,265 HMRC staff to tackle fraud within the COVID-19 support schemes, at a cost of more than £100 million. HMRC told us that the Taskforce will support: post-payment compliance work, including risk profiling and 'nudge' contacts with taxpayers to encourage compliance; investigations; criminal prosecutions; and insolvency activity resulting from fraud on COVID-19 schemes. HMRC is looking to recover around £1 billion from the work of this taskforce over two years.

63 Comptroller and Auditor General, *Implementing employment support schemes in response to the COVID-19 pandemic*, Session 2019–2021, HC 862, National Audit Office, October 2020, paragraphs 20 and 23.

3.24 In order to ensure that financial support reached businesses and individuals on a timely basis during the pandemic, HMRC set a 72-hour limit for processing claims for CJRS, SEISS and EOHO, from receipt of the claim to the payment being made. Where claims were identified by HMRC's risk assessment processes as requiring investigation it sought to undertake some pre-payment verification checks before releasing the payment. However, HMRC told us that the volume of claims received meant this was not possible in all instances. From the start of the schemes to June 2021, HMRC paid 157,000 claims, totalling £710 million, without having completed those checks (**Figure 19**). Over the same period, HMRC completed pre-payment risking on 22,170,000 claims with a claim value of £93.2 billion. HMRC told us it monitors all claims that were not subject to pre-payment verification checks. Where it finds the claims are fraudulent or linked to criminal activity, it blocks the payment of any subsequent claims from the applicant.

3.25 HMRC has now commenced its post-payment compliance work on the COVID-19 support schemes, the results of which we will consider as part of the 2021-22 audit. Based on HMRC data available to date, it has recovered £98 million in overpayments having closed 1,603 compliance cases (**Figure 20**).

3.26 In October 2020, we recommended that HMRC increase the emphasis on using preventative controls for tackling error and fraud. It subsequently published a list of those employers who claimed through the CJRS, to help tackle fraudulent claims.[64] It also made employees directly aware of their furlough status through their personal tax accounts.

Figure 19

COVID-19 support scheme claims paid by HM Revenue & Customs (HMRC) where pre-payment verification checking was incomplete

From the start of the schemes to June 2021, HMRC paid 157,000 claims with a value of almost £710 million where the 72-hour window for payment meant its pre-payment verification checking procedures were incomplete

Scheme	Number of claims released where pre-payment verification checks were incomplete	Value of claims released where pre-payment verification checks were incomplete
		(£m)
Coronavirus Job Retention Scheme	66,795	483.8
Self-Employment Income Support Scheme	89,773	204.7
Eat Out to Help Out	269	21.4
All schemes combined	**156,837**	**709.9**

Source: National Audit Office analysis of HM Revenue & Customs data

64 Comptroller and Auditor General, *Implementing employment support schemes in response to the COVID-19 pandemic*, Session 2019-2021, HC 862, National Audit Office, October 2020, paragraph 23. Employers with a valid reason can ask HMRC not to publish details about their claim.

Figure 20

Amounts recovered by HM Revenue & Customs (HMRC) as result of post-payment compliance checks undertaken

HMRC had closed 1,603 cases and recovered £98 million from its post-payment compliance work to the end of July 2021

Scheme	Overpayments recovered	Number of closed cases
	(£m)	
Coronavirus Job Retention Scheme	89.1	842
Self-Employment Income Support Scheme	8.4	756
Eat Out to Help Out	0.5	5
Total	**98.0**	**1,603**

Source: National Audit Office analysis of HM Revenue & Customs data

Improving the quality of estimates for error and fraud

3.27 We and the Committee of Public Accounts have criticised the speed with which HMRC has estimated error and fraud in the COVID-19 support schemes.[65] In June 2021, the Committee concluded that HMRC's and other government departments' lack of urgency to robustly measure error and fraud had hindered their efforts to tackle it. HMRC is expecting the evidence base available to measure error and fraud in the schemes to improve over time. In its evidence to the Committee, HMRC explained that it intended to undertake a mandatory random enquiry programme (MREP) for CJRS, the results of which it expects to be available in early 2022.[66] The data this generates, along with the post-payment compliance checks, should help HMRC to develop a more statistically robust estimate of the level of error and fraud in CJRS. HMRC told us it plans to make a more robust estimate in the first part of 2022.

3.28 HMRC is not currently intending to undertake MREPs for SEISS and EOHO as it does not judge this approach to be a suitable or cost-effective way of generating useful data for assessing error and fraud in those schemes. Instead, for SEISS, HMRC expects to be able to refine its error and fraud estimates using the full year of 2020-21 Self Assessment tax return data which become available in early 2022. HMRC has yet to set a date for when it will have revised estimates. HMRC told us it does not expect to obtain significant new data or information on error and fraud for EOHO as it was a short-term intervention which is now closed. We will be considering HMRC's updated estimates of error and fraud across the COVID-19 support schemes as part of our 2021-22 audit.

65 Comptroller and Auditor General, *Implementing employment support schemes in response to the COVID-19 pandemic*, Session 2019-2021, HC 862, National Audit Office, October 2020, paragraph 19, HC Committee of Public Accounts, *COVID-19: Support for jobs*, Thirty-Fourth Report of Session 2019–2021, HC 920, December 2020, page 6 and HC Committee of Public Accounts, *Fraud and error*, Ninth Report of Session 2021–22, HC 253, June 2021, page 6.

66 Letter from Jim Harra, Chief Executive, HMRC, to Meg Hillier MP, Chair of the Committee of Public Accounts, 7 May 2021.

Part Four

Personal Tax Credits and Corporation Tax research and development reliefs

4.1 This part of the report covers the reasons and context for the Comptroller and Auditor General's (C&AG's) qualified audit opinion in relation to error and fraud in Personal Tax Credits (tax credits) expenditure and Corporation Tax research and development reliefs.

4.2 The C&AG has qualified his opinion on the regularity of HM Revenue & Custom's (HMRC's) 2020-21 financial statements due to the material level of error and fraud in tax credits expenditure and Corporation Tax research and development reliefs.

4.3 The explanation for the qualified opinion for each of these areas of expenditure is supported by:

- an overview of HMRC's estimates for tax credits and Corporation Tax research and development reliefs error and fraud;
- the causes of, and developments in tackling, error and fraud in each of these areas of expenditure; and
- future challenges, including the replacement of tax credits with Universal Credit and the improvements the Department is making to its estimates of error and fraud in Corporation Tax research and development reliefs.

Personal Tax Credits

4.4 HMRC is responsible for: administering tax credits to support families with children and to help ensure that work pays more than welfare; and making payments to claimants on time, and in full, in accordance with legislation and the related regulations.

4.5 In 2020-21 HMRC spent £15.1 billion on tax credits, representing 12.1% of total expenditure of £124.7 billion recorded in HMRC's 2020-21 Resource Accounts. Tax credits supported around 1.9 million families and around 3.5 million children.

Qualification of the C&AG's audit opinion on the regularity of tax credits expenditure

4.6 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 that the financial transactions recorded in the financial statements conform to the authorities that govern them (the C&AG's regularity opinion).

4.7 The Tax Credits Act 2002 specifies the eligibility criteria for tax credits and how 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.

4.8 In the C&AG's opinion, the overall value of overpayments and underpayments due to error and fraud in tax credits remains material by reference to the related expenditure, and the qualification of his audit opinion reflects that.

4.9 The C&AG has considered the level of error and fraud in Child Benefit and concluded that this is not material in the context of his regularity opinion. The estimated rate of error and fraud in Child Benefit has decreased to 0.8% (£90 million) of related expenditure of £11.5 billion for 2020-21, from 0.9% (£105 million) in 2019-20 (note 5.2 to the Resource Accounts). For 2020-21, the C&AG considers that this level remains immaterial with reference to the related expenditure.

Tax credits

4.10 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 following 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 every year since they were introduced. Tax credits are gradually being replaced by Universal Credit which is administered by the Department for Work & Pensions (DWP).

4.11 Error and fraud have a real cost. Overpayments arising from error and fraud increase costs for taxpayers and reduce the public resources available for other purposes. Underpayments mean that claimants do not get the support they are entitled to.[67] Even where payment errors are later corrected, this can lead to additional administrative work and uncertainty for claimants.

Estimated level of error and fraud in tax credits

4.12 HMRC's latest estimate of the level of error and fraud in tax credits relates to 2019-20. This is because, under the normal tax credits annual cycle, awards for 2019-20 were finalised between April and July 2020 following the end of the tax year, or in January 2021 for claimants required to submit a Self Assessment return for income tax purposes. It is only after all claims are finalised that HMRC can complete the required testing to estimate the level of error and fraud.

4.13 HMRC estimates that in 2019-20 error and fraud resulted in overpayments of tax credits of 5.0% of expenditure, compared with 4.9% in 2018-19 (**Figure 21** and note 5.1.3 to the HMRC Resource Accounts).[68] Errors in tax credits resulting in underpayments amounted to 0.8% of expenditure, an increase of 0.1% from the rate in 2018-19. These rates equate to overpayments of £880 million from an estimated 490,000 claims, a reduction of £220 million compared with 2018-19 and underpayments of £150 million from an estimated 350,000 claims, a reduction of £20 million compared with 2018-19.

4.14 The estimated overpayment rate in 2019-20 of 5.0% was lower than HMRC's forecast of 5.4%. HMRC's analysis suggests that the tax credits population was more stable in 2019-20 than its forecasts anticipated. HMRC considers that this increased stability is due to the continued exit from the tax credits regime of those with frequent changes of circumstance and whose claims, therefore, present a higher risk of error and fraud.

4.15 In forming his opinion on the regularity of tax credits expenditure, the C&AG has considered whether the error and fraud rates for 2019-20 provide sufficient and appropriate evidence that error and fraud remains a material issue in 2020-21. Based on its current forecasts, HMRC expects that the error and fraud rate will remain broadly the same for 2020-21, although the actual level of error and fraud will not be published until June 2022. The C&AG has, therefore, qualified his opinion based on HMRC's 2019-20 estimate and its forecast of error and fraud for 2020-21.

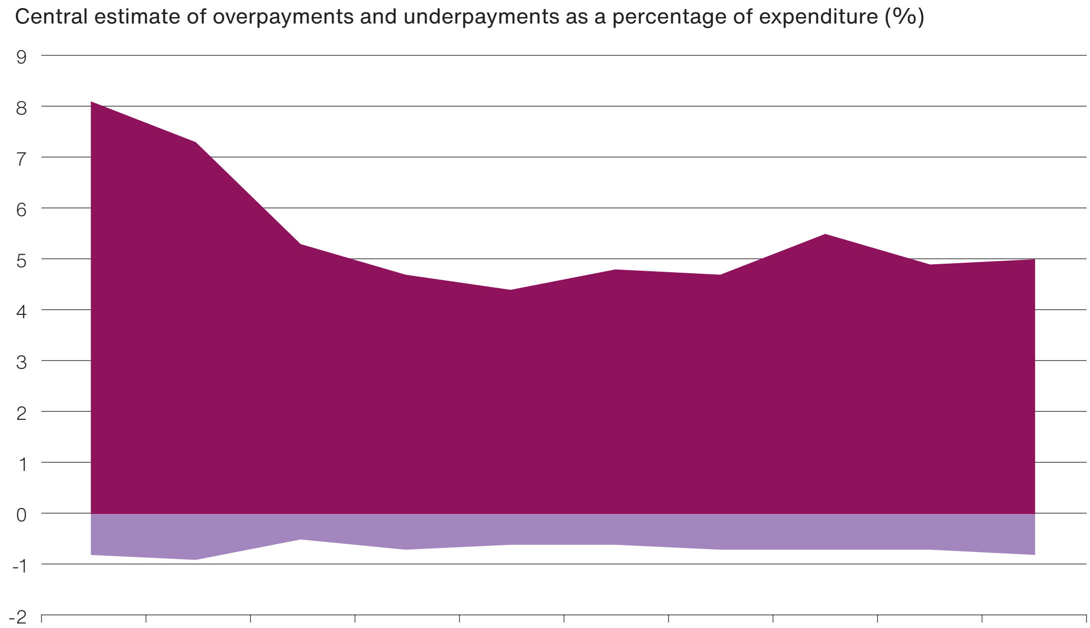
67 HMRC's published statistics refer to error and fraud resulting in overpayments – where claimants have received more than their entitlement and this has not been corrected before finalisation – as "error and fraud favouring the claimant", and error resulting in underpayments – where claimants have received less than their entitlement – as "error and fraud favouring HMRC". We use the terms overpayments and underpayments in Part Four 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.

68 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 Three.

Figure 21

Overpayments and underpayments as a percentage of total tax credits expenditure, 2010-11 to 2019-20

HM Revenue & Customs' (HMRC's) central estimate of the overpayment rate increased by 0.1 percentage points between 2018-19 and 2019-20. The overpayment rate has been no more than 5% for six of the last seven years



	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Overpayments (%)	8.1	7.3	5.3	4.7	4.4	4.8	4.7	5.5	4.9	5.0
Underpayments (%)	-0.8	-0.9	-0.5	-0.7	-0.6	-0.6	-0.7	-0.7	-0.7	-0.8

Note

1 Estimates for 2019-20 are provisional. Final estimates will be published next year alongside the provisional 2020-21 estimates.

Source: National Audit Office analysis of HM Revenue & Customs data

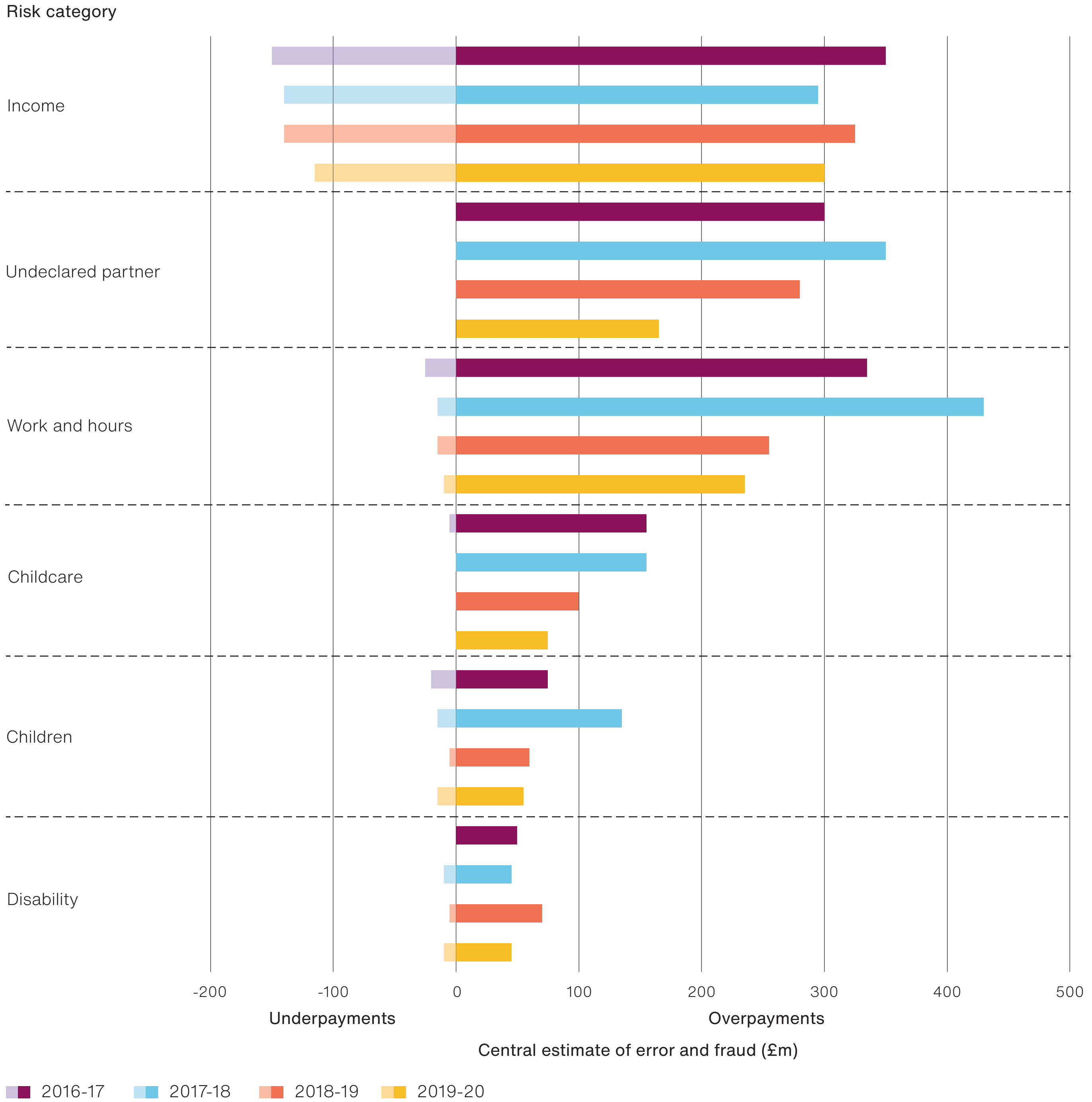
Causes of, and developments in tackling, error and fraud

4.16 HMRC categorises error and fraud by several different types to assess the main causes (**Figure 22** overleaf). It estimates that £300 million of overpayments are attributable to the income risk category in 2019-20, a reduction of £25 million from 2018-19. HMRC's analysis suggests that misreporting of income by claimants is now responsible for more than one-third (34%) of overpayments, up from 30% in 2018-19. An estimated £165 million of overpayments are attributable to the undeclared partner risk category in 2019-20, a reduction of £115 million compared with 2018-19. In contrast to income, undeclared partner overpayments now only contribute to 19% of overpayments, down from 25% in 2018-19. HMRC believes its ongoing 'nudge' campaigns, designed to increase reporting of changes in circumstances relating to new or previously undeclared partners, has contributed to this fall. In addition, movement of claimants with less stable relationships to Universal Credit is thought to have reduced the residual risk in tax credits.

Figure 22

HM Revenue & Customs' (HMRC's) tax credits overpayments and underpayments by category for 2016-17 to 2019-20

The largest decrease in 2019-20, from 2018-19, was in HMRC's estimate of the undeclared partner category (£115 million reduction in overpayments), while the income category remains the largest cause of error and fraud (overpayments £300 million, underpayments £115 million)



Source: National Audit Office analysis of HM Revenue & Customs data

4.17 COVID-19 has affected the administration of tax credits, contributing to the increase in error and fraud observed in 2019-20 and expected in 2020-21. As a result of HMRC redeploying staff to frontline customer service work and COVID-19 support schemes, some compliance activity on high-risk claims was not undertaken during 2020-21. The redeployment contributed to a greater reduction in compliance resource than would have occurred naturally from the caseload reduction; down from 1,000 full-time equivalents in 2019-20 to 488 in 2020-21. Compliance activity includes official checks to ensure declarations are accurate and post-payment investigations to ensure awards are correct. Fewer checks and investigations lead to more erroneous and fraudulent payments going undetected. HMRC's revised estimate of the impact of the reduction in compliance activity is an increase in error and fraud in 2019-20 of £90 million. Furthermore, during the 2020 renewals window, all claims were auto-renewed except for those that had previously been allocated to the High-Risk Renewals (HRR) compliance campaign. This was to enable further resource redeployment and allow claimants to receive the £20 per week COVID-19-related uprating of Working Tax Credit within six weeks of 6 April 2020. It meant that fewer claimants than usual were required to reply to HMRC to confirm the accuracy of the details held about them, for example annual income and working hours. HMRC estimates that this contributed to around £54 million of error and fraud in 2019-20.

4.18 COVID-19 is also expected to have an impact on the level of error and fraud in 2020-21. HMRC introduced an easement for some claims with childcare entitlement during the pandemic through to 7 September 2020. This was in recognition of initial uncertainties about the lockdowns necessitated by the pandemic, and what the impacts would be on childcare provision. It was intended to avoid disadvantaging customers by ensuring that the awards of those still incurring childcare costs but not receiving the services (due to the enforced closure of providers) were not adjusted downwards. HMRC estimates that error and fraud will increase by around £40 million as a result of claimants not informing HMRC where they had ceased paying their childcare provider in full or in part. HMRC also introduced an easement to ensure that those temporarily working reduced hours or furloughed due to the pandemic were treated as working their normal pre-pandemic hours. HMRC estimates this will lead to a reduction in error and fraud of £46 million in 2020-21.

4.19 HMRC expects under-reporting of income by claimants to remain the highest risk category and contributor to error and fraud in 2020-21. The increased use of auto-renewals in 2020 means there is greater potential for divergences between actual income and that recorded on the tax credits system. HMRC believes the return to the business-as-usual renewals process in 2021 will mitigate this risk, as around 780,000 claimants (compared with around 100,000 in 2020) were required to reply to their renewal pack and confirm their income for 2020-21. This includes claimants for whom HMRC suspects it does not hold full income details, for example where the household contains a self-employment income or where other income sources have previously been declared.

4.20 As part of HMRC's strategy for tackling error and fraud in tax credits, it is continuing to focus on preventative action to reduce the burden on traditional compliance activities, to manage staff capacity for other work and to improve the customer journey. This includes proactive claimant 'health checks' whereby award details are reviewed with claimants when they contact the Department via telephone about an unrelated matter. HMRC does not anticipate being able to fund significant tax credits projects either from existing budgets, because of other priorities, or from new funding from HM Treasury.

Future challenges

Replacement of tax credits by Universal Credit

4.21 Under current plans Universal Credit will fully replace tax credits by the end of the 2024-25 financial year (**Figure 23**). HMRC remains 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.

4.22 Claimants move over to Universal Credit in one of two ways:

- **Natural migration** occurs when a tax credits claimant has a relevant change in circumstances that impacts their claim. Their tax credits award comes to an end and they move across to Universal Credit. Claimants can also voluntarily apply for Universal Credit, for example where they believe they will be better off.
- **Move to Universal Credit** is a process managed by DWP to move claimants across where no change in circumstance has occurred that would lead to natural migration.

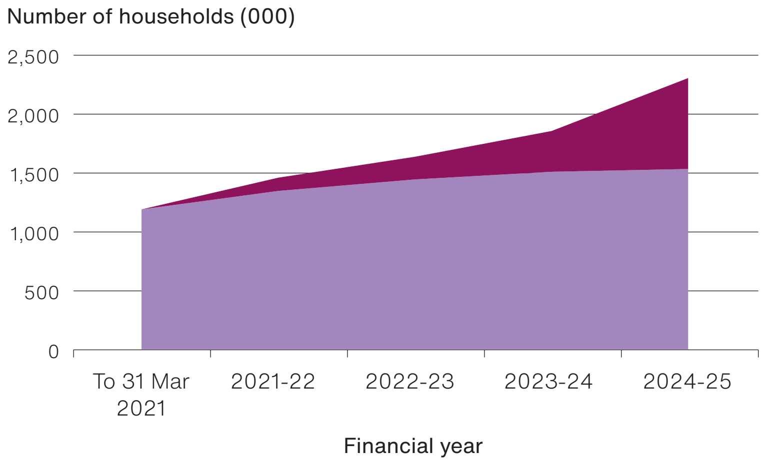
4.23 The impact of the pandemic on DWP meant that it paused the Move to Universal Credit project throughout 2020-21. The project is expected to resume in January 2022. Natural migrations to Universal Credit spiked at the start of the pandemic but returned to business-as-usual levels by the end of 2020-21. A claim being made to Universal Credit was the reason for tax credits entitlement ending for 84,000 claims in April 2020 compared with an average of 21,000 per month for the rest of 2020-21 and 35,000 per month during 2019-20. A total of 10.3% of new Universal Credit claimants between March and September 2020 were tax credits customers, compared with 9.2% in the period 1 January to 17 March 2020.

4.24 The increased number of tax credits awards finalising during the year is starting to present a challenge for HMRC's compliance operating model and the measurement of error and fraud. HMRC will need to tailor the sequencing of compliance campaigns to maximise the detection of error and fraud related to such cases and minimise losses. It will also need to ensure that any assumptions made about migrating claimants can be validated, so that its published error and fraud rates remain statistically representative of the tax credits population.

Figure 23

Planned transfer of tax credits claimants to Universal Credit

Most natural transitions have already taken place whereas the majority of managed transitions through the Move to Universal Credit project will take place during 2024-25



Move to Universal Credit (cumulative, 000)	0	114	193	344	772
Natural transitions (cumulative, 000)	1,188	1,344	1,441	1,509	1,532

Notes

1 Numbers are for Great Britain only. Northern Ireland is not included.

2 Households moving from tax credits to Universal Credit may be single or joint claims.

3 Data to the end of March 2021 are actual transfers. Data from March 2021 are forecast values.

4 Values exclude 'nil awards' which will not be transferred and will be removed from HM Revenue & Customs' caseload.

5 Natural transitions 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. Move to Universal Credit is the transfer of existing claimants of tax credits (and other legacy benefits) to Universal Credit.

6 Department for Work & Pensions revised their methodology for forecasting transfers to Universal Credit in 2020. The new forecast incorporates more recent figures for the tax credits caseload and exits from in-payment tax credits and changes to the schedule of Move to Universal Credit transfers, accounting for the effects of the COVID-19 pandemic. This has caused a significant reduction in forecast transfers to Universal Credit since the equivalent figure was published in last year's report.

Source: National Audit Office analysis of HM Revenue & Customs and Department for Work & Pensions information

4.25 HMRC received some complaints from claimants who claimed Universal Credit prior to and during various stages of the COVID-19 pandemic based on unclear information and incorrect advice provided by advisers, the government and on gov.uk, resulting in early migration to Universal Credit and financial loss. As a result, changes have been made to HMRC and Universal Credit advice websites, to ensure customers understand that making a claim for Universal Credit irreversibly ends any tax credits award whether the Universal Credit claim is successful or not. HMRC has also improved its internal guidance and communications to front-line staff to help them provide consistent and clear advice. Redress of £186,554 has been paid to 61 customers where HMRC had made a mistake or misadvised the customer.

4.26 HMRC and DWP agreed to pause the transfer of tax credits debt to DWP at the start of the pandemic, with transfers resuming in late October 2020. At the point transfers resumed, the debt stock consisted of around 800,000 debts with a value of around £780 million. The collection of tax credits debt from claimants was also paused between April 2020 and June 2020 and December 2020 to April 2021. The clearance of the backlog of paused debt remains ongoing. HMRC acknowledges that as a result of the pause some recoveries against the paused debts may not be collected, though the exact amount is not directly measurable.

4.27 Since tax credits debt started to transfer to DWP in 2016, a total of £2.65 billion of debt had transferred by the end of March 2021. HMRC's latest forecast suggests that a further £3.56 billion of debt is still to transfer. It is important that HMRC and DWP continue to work together to manage this process and ensure adequate records of this debt are transferred to enable recovery once the tax credit systems are shut down.

Corporation Tax research and development reliefs

4.28 HMRC is responsible for administering Corporation Tax research and development reliefs, which support companies that work on innovative projects in science and technology. The reliefs can be claimed by a range of companies that seek to research or develop an advance in their field. There are two separate schemes: the SME scheme for small or medium-sized enterprises; and the research and development expenditure credit (RDEC) scheme, mainly for larger companies. The SME scheme provides an extra deduction from companies' taxable income for research and development expenditure. Both schemes allow loss-making companies to receive a cash tax credit paid by HMRC.

4.29 Both schemes are operated by HMRC in parallel with its administration of the Corporation Tax system, the revenues from which are reported in the HMRC Trust Statement. Expenditure on the schemes is reported in HMRC's Resource Accounts, which reflects that they, unlike most other types of tax relief, can result in cash payments (credits) to companies.

4.30 Note 5.1.4 to the Resource Accounts records Corporation Tax research and development relief expenditure incurred by HMRC of £9.3 billion in 2020-21 (£8.8 billion in 2019-20). Of this, some £3.8 billion (£3.9 billion 2019-20) relates to the RDEC scheme and £5.5 billion (£4.8 billion 2019-20) to the SME scheme.

Qualification of the C&AG's audit opinion on the regularity of Corporation Tax research and development reliefs

4.31 The Corporation Tax Act 2009 specifies the eligibility criteria for research and development reliefs that can be claimed. Where error and fraud results in overpayment or underpayment of Corporation Tax research and development reliefs to large businesses and small and medium-sized enterprises who are either not entitled to these reliefs or are paid at a different rate from that specified in the legislation, the transactions do not conform with Parliament's intention and are irregular.

4.32 Using the evidence available from existing risk-based compliance activity, the Department has estimated the level of error and fraud that it expects is present within Corporation Tax research and development reliefs as £336 million or 3.6% of related expenditure in 2020-21 (2019-20 – £311 million or 3.6% of related expenditure).

4.33 In forming his regularity opinion, the C&AG:

- evaluated the control processes HMRC has designed and implemented to prevent and detect error and fraud in these reliefs, including how cases are risk-assessed and selected for compliance review;
- considered what evidence these controls provided about the likelihood of error and fraud occurring in the claims that have not been subject to review by HMRC; and
- evaluated the detailed input data, methodology, assumptions and judgements applied by HMRC to produce its estimate.

4.34 Based on this work, the C&AG considers the level of error and fraud present in Corporation Tax research and development reliefs to be material and has qualified his regularity opinion in that respect.

Estimated levels of error and fraud in Corporation Tax research and development reliefs

4.35 As set out in his 2019-20 audit certificate, the C&AG asked HMRC to provide an estimate of the level of error and fraud in Corporation Tax research and development reliefs. The C&AG qualified his regularity opinion on those reliefs for the first time on that basis. The factors arising from the C&AG's audit risk assessment that prompted this remain relevant to his 2020-21 conclusions and included:

- HMRC's assessment through its 'Strategic Picture of Risk' which highlighted a significant increase in the level of expenditure on these schemes that may be at risk of abuse;
- the significant growth in the schemes in recent years, as evaluated in the C&AG's report *The management of tax expenditures* (HC 46, February 2020), although expenditure declined in 2020-21; and
- an increase in public reporting of instances of abuse of these schemes.

4.36 As part of its compliance processes, HMRC undertakes case reviews of individual claims under the schemes where they are assessed as at risk. These reviews can result in claims being reduced or rejected by HMRC, or modified or withdrawn by the company making the claim. In establishing its estimate of the level of error and fraud in Corporation Tax research and development reliefs, HMRC undertook an analysis of the results of compliance activity it completed in 2018-19 and 2019-20.

4.37 HMRC's current estimate of error and fraud in Corporation Tax research and development reliefs is based upon an assessment of observed outcomes of compliance cases together with a series of judgements. This includes an assumption that unreviewed cases have a lower rate of error and fraud. This is because HMRC considers that these cases have been assessed as lower risk through risk profiling. These judgements are limited by the quality and availability of data in respect of cases that have not been subject to review by HMRC. Based on our analysis of HMRC data, reasonable variations in these judgements could have a significant impact on the range of estimated error and fraud. The methodology adopted by the Department and the assumption of lower risk in unreviewed cases also means that its current estimate does not fully consider causes of error and fraud other than those detected by existing controls. While the Department's best estimate of error and fraud is subject to uncertainty, the cumulative evidence suggests that the level of error and fraud is material to that expenditure stream.

4.38 As part of our 2019-20 audit we made a series of recommendations in our Management Letter to HMRC around improving its approach to tackling and measuring error and fraud in Corporation Tax research and development reliefs. Those recommendations were accepted by HMRC and included:

- gathering sufficient evidence to perform a robust assessment of the risks that give rise to fraudulent or erroneous claims;
- assessing and improving the risk assessment process for claims made by taxpayers; and
- introducing controls to address the risks identified, including through the development of a random enquiry programme and using that as a basis for assessing the quality of the existing compliance approach.

4.39 HMRC has already made some progress in addressing those recommendations, most notably in commencing the development of a mandatory random enquiry programme (MREP) for small and medium-sized enterprises. The scope of the programme is comparable with other similar random enquiry programmes used by HMRC to inform its estimates of error and fraud. The MREP is not sufficiently progressed to inform HMRC's error and fraud estimate for 2020-21. The results of this programme and the impact on the error and fraud estimate is contingent on sufficient case closures. In the event that the results are not available in time for the 2021-22 accounts preparation, the Department is expecting to be able to use them to support its estimate of error and fraud for the 2022-23 period onwards.

4.40 We understand that the MREP is not being applied to large businesses claiming Corporation Tax research and development reliefs. HMRC considers that an MREP for those businesses is not required because its compliance model means each business has a dedicated customer compliance manager with ongoing engagement to assess compliance. HMRC intends to review its approach to the estimate of error and fraud for large business cases for 2021-22. In 2020-21 this involved reviewing some £1.9 billion of claims from large businesses out of total of £2.2 billion (86%) compared with £1.4 billion out of a total of £2 billion (70%) in 2019-20. The Department continues to improve its coverage of large business claims which is welcome, although we would encourage it to continue to enhance the process for focusing on significant risks within the cases that it reviews.

Other key developments

4.41 The government opened a stakeholder consultation exercise around Corporation Tax research and development reliefs in March 2021. The consultation is exploring the nature of private-sector research and development investment in the UK, how that is supported or otherwise affected by the research and development relief schemes, and where changes may be appropriate. The consultation process is not yet complete, and we will consider the impact on these reliefs in future years.

4.42 HMRC has taken several further steps to improve taxpayer compliance with Corporation Tax research and development reliefs. These include:

- recruiting a further 100 compliance officers to support its approach to tackling abuse of Corporation Tax research and development reliefs. Most of these officers will be deployed to case reviews involving one-to-one enquiries into research and development claims, while around 20 will support the mandatory enquiry programme on the small and medium-sized enterprises scheme;
- introducing routine claims processing checks, supported by standardised operating procedures for casework to ensure consistency. It has also improved training on risk identification, which includes the use of a risk matrix to understand risks and prioritise them using a scoring system to ensure that the Department is tackling the highest areas of risk;
- establishing a revised risk screening process for claims submitted by companies and developing a feedback mechanism to ensure findings from compliance work are reflected in future risk assessments; and
- from 1 April 2021, HMRC has introduced a new limit on the payable credit for small and medium-sized enterprises with the aim of addressing abuse.

4.43 We welcome the progress made by HMRC, and will examine its efficacy in tackling abuse of the Corporation Tax research and development reliefs and improving the measurement of error and fraud in our 2021-22 report.

Appendix One

Our audit approach

Methods

1 This report is our factual commentary on HM Revenue & Customs' (HMRC's) performance during 2020-21 and the key strategic issues it is addressing. We prepared our commentary using evidence collected between April and September 2021.

Scope

2 This report covers:

- HMRC's performance against its 2020-21 objective of collecting revenues and managing compliance, and looks at the main components of the £608.8 billion raised during 2020-21 (Part One);
- HMRC's approach to the strategic challenges it faces, specifically: HMRC's implementation of the government's response to the COVID-19 pandemic and the impact of COVID-19 on its operations; UK transition and the ending of staged customs controls; and HMRC's plans to build a trusted and modern tax administration system (Part Two);
- the basis of the Comptroller and Auditor General's (C&AG's) qualification of his opinion on the regularity of HMRC's Resource Accounts in relation to error and fraud in the COVID-19 support schemes (Part Three); and
- the basis of the C&AG's qualification of his opinion on the regularity of HMRC's Resource Accounts in relation to Personal Tax Credits (tax credits) and error and fraud in Corporation Tax research and development reliefs (Part Four).

3 In producing this report, we drew on a variety of evidence sources.

Parts One and Two

Document review and data analysis:

4 For Parts One and Two, we reviewed the supporting information for HMRC's Trust Statement and Resource Accounts, as part of our financial audit. We analysed the supporting internal data and performance information prepared by a variety of business units within HMRC, in particular from the Customer Compliance Group, the Customer Services Group, the Knowledge, Analysis and Intelligence directorate and the team responsible for transformation. This included a review of:

- business cases;
- board meeting minutes;
- risk assessments;
- communication strategies;
- guidance documentation;
- performance monitoring dashboards; and
- evaluation reports.

5 Our review focused on information in those documents relevant to the period between 1 April 2020 and 31 March 2021.

6 Our analytical review examined the numbers in HMRC's financial statements, plus supporting information provided during the financial audit, and in performance statistics published regularly by HMRC, such as its quarterly performance updates. We reviewed the following documents published by HMRC: *Building a trusted, modern tax administration system* (HMRC's 10-year vision for the future of the UK tax system, published in July 2020); *Tax relief statistics* (published in October 2020 and May 2021); its *Outcome Delivery Plan for 2021-22* (published in July 2021); and *Measuring Tax Gaps 2021* (published September 2021). We also reviewed the following documents published by the Office for Budget Responsibility: *Fiscal sustainability report* (July 2020); and *Fiscal risks report* (published in July 2021).

7 We also relied on evidence from our value-for-money reports relevant to the work of HMRC. These are listed in Appendix Two.

Interviews with departmental staff

8 We interviewed staff from HMRC's business groups responsible for a range of areas including compliance, customer services, finance, transformation and those responsible for implementing HMRC's response to COVID-19. We carried out 19 semi-structured and unstructured interviews. The semi-structured interviews were carried out virtually, typically lasted one hour and detailed notes were taken. We recorded interview notes in Sharepoint to facilitate comprehensive and consistent analysis. We undertook these interviews to understand better, in relation to the team's area of responsibility:

- the roles of each team;
- HMRC's objectives;
- HMRC's views on current issues;
- the risks to achieving HMRC's objectives;
- HMRC's part in implementing the government's response to the COVID-19 pandemic and the impact of COVID-19 on its operations; and
- to corroborate the evidence collected from our document review.

Parts Three and Four

9 Parts Three and Four rely principally on evidence collected as part of our financial audit work on the employment support schemes, Corporation Tax research and development reliefs and tax credits. This work is done 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'*. As part of this work we reviewed HMRC's error and fraud statistical analysis. We interviewed key staff and reviewed documents including early analysis of the impacts of COVID-19 on error and fraud, and an update on HMRC's strategy for tax credits.

Appendix Two

Our value-for-money and wider work

1 Since April 2020 we have published several reports relevant to the work of HM Revenue & Customs (HMRC):

- National Audit Office, *Departmental Overview: HM Revenue & Customs 2019*, March 2020.

  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.

- Comptroller and Auditor General, *Tackling the tax gap*, Session 2019–2021, HC 372, National Audit Office, July 2020.

  Examines the effectiveness of HMRC's approach, in partnership with HM Treasury, in reducing the tax gap, the difference between the amount of tax theoretically owed and the amount collected.

- Comptroller and Auditor General, *Implementing employment support schemes in response to the COVID-19 pandemic*, Session 2019–2021, HC 862, National Audit Office, October 2020.

  Examines the implementation of the Coronavirus Job Retention Scheme and the Self-Employment Income Support Scheme.

- Comptroller and Auditor General, *HM Revenue & Customs 2019-20 Accounts*, November 2020.

  The Comptroller and Auditor General's report on the 2019-20 accounts of HMRC.

- Comptroller and Auditor General, *The UK border: preparedness for the end of the transition period*, Session 2019–2021, HC 371, National Audit Office, November 2020.

  Describes government's progress in implementing changes required to manage the border after the end of the transition period.

- Comptroller and Auditor General, *Environmental tax measures*, Session 2019–2021, HC 1203, National Audit Office, February 2021.

  Examines how HM Treasury and HMRC manage tax measures that have an impact on the environment.

Appendix Three

Historical fraud and error rates in Personal Tax Credits

Figure 24
Historical fraud and error rates in tax credits

	Error and fraud as a percentage of finalised entitlement			
	Year of error and fraud analysis programme	Lower bound	Central estimate	Upper bound
		(%)	(%)	(%)
Overpayments	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	5.0	5.5	6.1
	2018-19	4.4	4.9	5.3
	2019-20	4.5	5.0	5.5
Underpayments	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	0.6	0.7	0.8
	2018-19	0.6	0.7	0.9
	2019-20	0.7	0.8	1.0

Source: National Audit Office analysis of HM Revenue & Customs data

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