HM Revenue & Customs

Annual Report and Accounts

2022 to 2023

HM Revenue and Customs
Annual report and accounts 2022 to 2023

For the period 1 April 2022 to 31 March 2023

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

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Contents

Performance overview

An overview of our performance in financial year 2022 to 2023, including information about our vision, objectives and the way we operate.

Our purpose and vision

HMRC is your tax service. We collect the money that pays for the UK's public services and give financial support to people.

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

Our values

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

Our strategic objectives

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**

Our Charter

The HMRC Charter sets out the standards our customers can expect when interacting with us and the experience we want to deliver. The Charter commits us to:

- getting things right
- making things easy
- being responsive
- treating customers fairly
- being aware of customers' personal situations
- recognising that someone can represent customers

+ **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 corporate services, as set out below.

Our core customer groups	
Customer Services	Supports customers to pay the right tax and get the right benefits and helps those who have built up debt to pay what they owe
Customer Compliance	Ensures the right tax is paid and intervenes when there is a risk of that not happening
Borders and Trade	Supports UK international trade and the collection of taxes and duties on imports, working closely with Home Office Border Force
Customer Strategy and Tax Design	Develops and delivers policy reforms to the UK tax system to support government priorities, underpinned by high quality customer insight and analysis and working closely with HM Treasury

Our corporate services	
Chief People Officer Group	Develops and oversees implementation of HR policies that make HMRC a great place to work, with overall responsibility for our workforce planning, recruitment, talent management and learning activities
Chief Finance Officer Group	Includes our Finance and Commercial functions, as well as Estates and Banking services provided to HMRC and other government departments
Chief Digital and Information Officer Group	Designs, develops and runs digital and information services for our people and our customers while ensuring we hold data in a way that is secure and meets legal requirements
Solicitor's Office and Legal Services	Provides legal services to HMRC
Transformation	Manages HMRC's change portfolio and leads on some of the largest and most complex change programmes
Communications	Provides communications advice, support and services to HMRC and incorporates HMRC's Sustainability Team

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

- Valuation Office Agency (VOA): 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 over 67,500 full-time equivalent employees at the end of financial year 2022 to 2023, 63,700 in HMRC and RCDTS Ltd and 3,800 in the VOA.

+ **Read more about the VOA and RCDTS Ltd on pages 117 to 118.**

+ **Find out about our staff numbers and costs on pages 134 to 135.**

2022 to 2023: our year in numbers

The progress we made towards our vision of being a **trusted, modern tax and customs department** in 2022 to 2023.

Strategic objective 1: Collect the right tax and pay out the right financial support

£814bn
total tax revenues

4.8%
latest UK tax gap estimate for 2021 to 2022

£34bn
additional tax generated through tackling avoidance, evasion and other non-compliance

12.2m
children supported through Child Benefit payments

912,000
customers being supported to pay their tax debt in manageable instalments with Time to Pay

Strategic objective 2: Make it easy to get tax right and hard to bend or break the rules

4.8
HMRC app rating on the Apple app store

56.5m
logins on the HMRC app

99%
businesses over the £85,000 VAT threshold that are registered to file returns using Making Tax Digital-compatible software

72.7%
of our customer correspondence turned around within 15 days

Strategic objective 3:
Maintain taxpayers' consent through fair treatment and protect society from harm

79.2%
customer satisfaction with our phone, webchat and digital services

27
tax avoidance promoters publicly named along with details of their schemes

99,000
fewer HMRC-related telephone scams reported

£165m
recovered from criminal assets

Strategic objective 4:
Make HMRC a great place to work

84%
colleagues feel they are treated fairly at work

86%
colleagues understand how their work contributes to HMRC's objectives

85%
colleagues based outside London

3
new regional centres opened

Strategic objective 5:
Support wider government economic aims through a resilient, agile tax administration system

£718m
of support paid out in Cost of Living Payments to eligible tax credits customers

97.8%
of import declarations being made through our new digital Customs Declaration Service

62%
IT services migrated from legacy data centres, as we move to more resilient cloud platforms

58%
reduction in greenhouse gas emissions since 2017 to 2018

Chief Executive's Review of 2022 to 2023

HMRC is your tax service – we're here to support you to get your tax right and make it hard for the dishonest minority to cheat the system.

As Chief Executive – and someone proud to have spent their entire career in the tax department – I see first-hand every day the vital public service that my colleagues provide. I want to thank them for their hard work during the last financial year.

There's no doubt that our work is important to the nation. The revenue we generate, £814 billion in the financial year 2022 to 2023, is spent by government on the schools, NHS, police and other essential services we all rely on.

We've also successfully maintained a long-term reduction in the UK's tax gap (the difference between the amount of tax that should, in theory, be paid to HMRC and what is actually collected) from 7.5% of total theoretical tax liabilities in 2005 to 2006, to 4.8% in 2021 to 2022.

Of course, we do much more than this. We also help families and the most vulnerable in our society by paying Child Benefit and Tax-Free Childcare and ensuring workers are not paid below the National Minimum Wage, and we help the UK's economic growth with our work on freeports and a customs system that supports the smooth flow of international trade.

Transforming our service to meet changing taxpayer needs

Our aim is to be a trusted, modern tax and customs department – one that collects revenues and keeps the tax gap low while fitting as seamlessly as possible with how people live their lives and run their businesses.

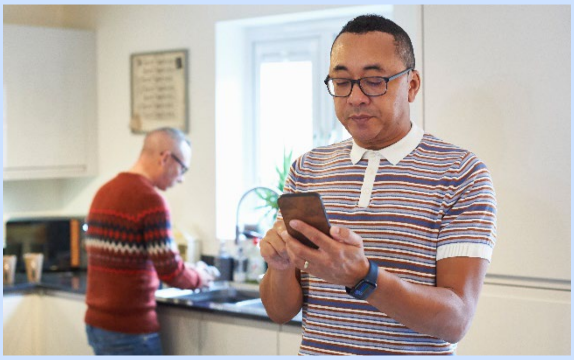
To achieve this, we're becoming an increasingly digital organisation: the vast majority of our customers pay their tax automatically or deal with their tax and customs affairs through online services, without needing to contact us directly – and satisfaction with our digital services was 82.7% in the last financial year.

In 2022 to 2023, more than 8 million VAT returns were successfully submitted using Making Tax Digital-compatible software that talks directly to our systems. This included over 99% of returns from businesses over the £85,000 threshold, and 98% from those under the threshold.

Studies have shown that this change is making it quicker and easier for businesses to manage their tax affairs – and it's predicted to deliver additional

Making tax easier with the HMRC app

More and more customers are using the HMRC app - with over 56 million logins and over 1 million new users in 2022 to 2023. We've developed it to give people simpler access to more information and are regularly adding more services. Customers can view their PAYE tax code and annual tax summary, manage details for tax credits and Child Benefit and use a tax calculator. Self Assessment customers can also file their return and pay their tax bill via the app, with 130,000 having done so as of January 2023.



revenue of over £3 billion for public services up to the end of 2027 to 2028 by reducing taxpayer errors.

Meanwhile, demand for our digital services is growing. Around 97% of Self Assessment customers who completed their returns by 31 January 2023 filed online – and our digital personal and business tax accounts, and the HMRC app, were accessed 198.7 million times in 2022 to 2023, compared with 61.6 million in 2016 to 2017.

But it's also true that 2022 to 2023 was a challenging period for us across many of our traditional phone and post services. Our customer base is growing, with more customers having increasingly complex needs. For example, the number of higher rate taxpayers - who may need more active management in the system - increased by 17% between financial years 2015 to 2016 and 2022 to 2023 and is likely to grow further. We're also seeing more small business customers getting into tax debt, and the average value of customers' debts increasing.

Supporting traders with the new Customs Declaration Service

From 1 October 2022, importers started submitting all their import declarations through our modern Customs Declaration Service (CDS) platform, marking the end of 30 years of using the old Customs Handling of Import and Export Freight (CHIEF) system.

By the end of 2022 to 2023, 38.8 million import declarations had been made on CDS. We are now supporting businesses to declare their exports on CDS as well.

In addition, we face an ever tighter departmental budget, creating significant operational challenges for us. Put simply, it's getting harder to meet our service standards using the same approaches that may have worked in the past.

In response, we're driving forward vital changes to make us more efficient in serving customers and managing their compliance.

The key to doing this is through quicker and easier online services. We want to reduce the volume of contact through phone and post by 30% by 2025 compared with 2021 to 2022, enabling many more customers to resolve their issues quickly and easily online, and freeing us up to help those who need extra support.

In 2023, we're improving the digital experience for our customers by adding a range of services into the HMRC app and online, and updating the way customers interact with their digital account so it fits around their tasks and needs. For example, Child Benefit customers can now complete their claim fully online for the first time ever – and we're adding more digital features including making it easier for customers to change their personal details and request their National Insurance Number online. Although later than originally planned, we're also preparing to extend Making Tax Digital to Self Assessment customers in phases from 2026.

At the same time, we're playing a key role in developing the government's Target Operating Model at the UK border, which will set out a roadmap for new import controls and a technological transformation that makes it easier for traders to fulfil all their import, export and transit obligations. We're also continuing to support traders moving goods between Great Britain and Northern Ireland, in line with the UK's commitments to deliver the Windsor Framework.

We know the tax system can be complex. Following the closure of the Office of Tax Simplification we will make simplifying the tax system integral to our approach to developing tax policy. Simplification is now very much part of our core day to day work.

All these changes will help to make things easier for our customers and support growth for businesses. Crucially, they will also enable us to operate more efficiently and focus our support on those customers who cannot use digital services or have complex needs.

Supporting customers to get their tax right

In the short term, we're reviewing how we deploy our resources to ensure we maximise value for the taxpayer – and this means changing the way we meet customer needs.

I'm disappointed that we didn't hit our key customer service standards this year and I recognise the inconvenience some customers will have experienced at times. You can read more about the reasons for this on pages 33 to 34.

We're working hard to improve all our service levels. For those customers who need direct support through our post services, I'm pleased that in 2022 to 2023 we made a large improvement in the proportion of customer correspondence that we turn around within 15 working days, increasing to 72.7% from 45.5% in 2021 to 2022.

We're determined to do all we can to be responsive and to help customers get things right – but that has to mean migrating an ever-increasing number of our customers onto our digital services and away from our phone lines so we are in a much better position to provide specialist support to those that need it, while improving the customer experience.

Delivering Help for Households

As your tax service, we are able to support many urgent government priorities, the impact of which stretch well beyond the tax system. This year we played a major role in providing Help for Households – including delivering Cost of Living Payments of up to £650 to eligible tax credits customers.

We'll continue this support into 2023 to 2024, with 3 further payments of up to £900 for eligible customers.

As we make these changes, the standards set out in our Charter will remain at the heart of what we do. We're also helping customers to find the answers they need more quickly and easily. For example, customers using our digital assistant are automatically finding the information they are looking for in more than two thirds of cases, with the remainder being handled by HMRC webchat advisers, and our new telephony platform is continuously improving the way we handle phone calls. We've also introduced an online performance dashboard, where customers can check current service levels and processing times, reducing the need for progress chasing calls.

Ensuring the right tax gets paid

To ensure everyone pays the right tax, we have a well-established compliance strategy with 3 elements: preventing non-compliance, promoting good compliance, and being robust in our response to those who bend or break the rules.

The changes we're making to modernise our services, which I've described above, are also vital to this strategy. They aren't just about improving customer experience, they also help to ensure customers pay the right tax at the outset, rather than fixing problems after they happen.

For example, the move to businesses submitting their VAT returns using Making Tax Digital-compatible software from April 2022 is helping to reduce opportunities for calculation and transposition errors. We're also using more targeted campaigns, prompts and nudges, such as highlighting to customers if they enter data that doesn't align with what we expect.

This is all vital to maintaining a low tax gap while achieving ever greater cost efficiency. And we're building on what is already a strong record: each year, around 95% of the tax that's due gets paid, and the vast majority of our customers pay in full and on time.

Tackling tax debt

Amid challenging economic conditions, the level of tax debt has grown since 2019 to 2020. You can read more about this on page 19.

We're supporting customers to get out of tax debt. At the end of 2022 to 2023 we were managing £5.7 billion of debt through time to pay arrangements, in which customers pay off their debt in affordable and sustainable instalments.

Around 90% of these complete successfully. For those who can pay but are not doing so, we introduced penalty and interest reform for VAT from January 2023, to encourage payment on time and quicker debt resolution.

In 2022 to 2023, we delivered £34 billion of compliance yield – our term for money that would have been lost to the Exchequer if not for our compliance work. While it's lower than we aimed for this year, it's higher than the 2 previous financial years. Read more on pages 17 to 18.

Of course, protecting taxpayers from those who bend or break the rules will always remain a vital part of a trusted tax system. We've already invested in over 4,000 new compliance officers in 2021 to 2022. We're also focusing our criminal investigations on serious frauds – and we've seen the average value of our criminal cases rise to £6.2 million, almost 3 times what it was in 2016 to 2017.

Modernising how HMRC works

To achieve our aims, we need the right people, skills and technology combined with the right ways of working using the best tools and data systems. We've taken important steps forward in these areas over the past financial year.

We opened 3 more regional centres in Glasgow, Manchester and Nottingham – taking us to 12 operational centres in total, with 2 more due to open in Newcastle and Portsmouth. We're also sharing office spaces with 12,000 civil servants from 39 other departments and organisations, fully supporting the government's 'Places for Growth' agenda.

These modern workspaces put us in a strong position to create jobs and career opportunities in every part of the UK. Of our over 67,500-strong workforce, 85% are now based outside London, including more than half of our senior civil service roles.

We've also been working hard to make our IT infrastructure more secure and resilient, to underpin our online services. In the last year, we broke up our largest IT contracts into a range of smaller, service-focused ones. This was the culmination of many months of work and gives us greater access to the latest technology. We've also completed 62% of migrations from legacy data centres as we move to cloud-hosting.

We run one of the largest and most complex IT estates in the UK, so updating our technology will always be a continuous process. But thanks to our work this year, our systems will perform better and be easier to update – benefitting customers and colleagues alike.

Looking ahead

We've faced some tough operating conditions during 2022 to 2023 and there is important action we still need to take to meet rapidly changing customer needs and economic circumstances. We also understand the need to work with our customers and stakeholders to fix problems and find shared solutions.

Our long-term aim is clear: offering more and better online services so they simplify things for our customers, doing more to remove the causes of unnecessary customer contact and improving compliance.

I'm confident that by working together according to our values and our Charter principles, we'll continue making a vital difference for our customers and for the UK as a whole.

Jim Harra
Chief Executive and First Permanent Secretary
6 July 2023

Our key performance metrics

Where we have an internal target or service standard, this is shown in brackets

Compliance yield

2022 to 2023	**£34.0bn** (£36bn)
2021 to 2022	**£30.8bn**

Tax credits error and fraud

(2021 to 2022 data is latest available)

2021 to 2022	**4.5%** (5%)
2020 to 2021	**4.7%**

Customer satisfaction

2022 to 2023	**79.2%** (80%)
2021 to 2022	**82.0%**

Customer correspondence cleared within 15 working days

2022 to 2023	**72.7%** (80%)
2021 to 2022	**45.5%**

Net easy

2022 to 2023	**+59.8** (+70)
2021 to 2022	**+65.5**

Telephones: adviser attempts handled

2022 to 2023	**71.1%** (85%)
2021 to 2022	**77.3%**

Debt balance

2022 to 2023	**£45.9bn**
2021 to 2022	**£41.6bn**

Time to Pay arrangements

2022 to 2023	**£5.7bn**
2021 to 2022	**£5.4bn**

Employee engagement index

2022 to 2023	**59%**
2021 to 2022	**59%**

Managing risks to our delivery

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

During 2022 to 2023, we made steady progress in mitigating and managing our key risks. For example, we launched a new customer design standard to ensure the customer is at the centre of future changes. We also completed a national rollout of a new telephony platform to improve customer and staff experience and enhance our analysis and planning.

As one of the largest guardians of personal data in the UK, we take our data protection obligations seriously. By modernising and securing our IT estate, we are working to reduce risks associated with older technology.

During the year, we significantly improved data security and management systems to prevent unauthorised access and improve our ability to delete, supress or stop processing personal data if required. We have enhanced detection and monitoring in our IT systems and raised awareness of phishing scams. We enhanced security for 59 systems with data protection risks and we also migrated 62% of our services from legacy data centres as part of our move to modern strategic hosting platforms, reducing our risk of IT outages.

HMRC's 9 key risks

- Capacity, Capability and Engagement
- Security
- Exploiting Information
- Customer Experience
- External Perception and Loss of Trust
- Data Protection
- Delivering our Change Portfolio
- Funding and Affordability
- Technology Resilience and Reliability

+ **Read more about our risks and mitigations on pages 87 to 91.**

+ **Read more information about our risk management approach on pages 105 and 106.**

Performance analysis

This section provides an analysis of how we delivered against our strategic objectives and the commitments we made for financial year 2022 to 2023. It also includes analysis of our financial performance and key risks.

Strategic objective 1: Collect the right tax and pay out the right financial support

Our first strategic objective reflects our core purpose and is a priority outcome for us as a department. It touches the lives of almost everyone in the UK, including over 5 million businesses and over 34 million individuals – and the money we collect is spent on public services including schools, the NHS and the police.

How we performed

Collecting the right tax

The vast majority of our customers pay their taxes in full and on time, and most do this automatically or deal with their tax and customs affairs through our online services, without needing to contact us directly.

As your tax service, we're here to help and ensure that everyone plays by the same rules. We do this through education, guidance, and digital services, as well as traditional post and phone services for those who need them - and by stepping in to take action when tax is at risk of not being paid. We also protect the tax system from attack by organised criminals who deliberately set out to defraud the UK.

Our approach is underpinned by data analysis, which we use to identify risks and target our interventions.

During financial year 2022 to 2023, we collected total revenues of £814.0 billion (£82.9 billion more than last year, an increase of 11.3%). We saw increased revenues in most tax types. A full breakdown of these is provided in figure 36 on page 83.

Every year, through our work to ensure the correct tax is paid, we collect and protect billions of pounds of 'compliance yield', which is revenue that would have been lost to the Exchequer without our interventions. We set our targets for compliance yield at a level intended to keep the tax gap stable and deliver additional revenues from recent investments in our compliance work.

In 2022 to 2023, we delivered £34.0 billion of compliance yield, which is equivalent to around 4.2% of total revenues. This was below our internal target of £36 billion, but higher than the 2 previous financial years (2020 to 2021 and 2021 to 2022). It is also above 2018 to 2019 and

In focus: managing the UK's tax gap

To understand whether the right tax is being collected, we measure the UK's tax gap on an annual basis: this is the difference between the amount of tax that should, in theory, be paid to HMRC and what is actually collected.

We've maintained a long-term reduction in the UK's tax gap from 7.5% in 2005 to 2006 to our latest tax gap figure (for 2021 to 2022) which was estimated to be 4.8% of total theoretical tax liabilities, or £35.8 billion in absolute terms. This means we successfully brought in 95.2% of all tax due.

HMRC is the only tax authority in the world that measures and publishes tax gap estimates annually in such a comprehensive way. A limited number of countries publish comprehensive tax gap estimates less frequently or for specific regimes. Where tax gap data is published, we compare favourably.

The tax gap from small businesses is the largest proportion of the tax gap by customer group, at 56% in 2021 to 2022. We're focused on helping businesses with a range of tools and services to help them get their tax right, including digital record-keeping, targeted communications and guidance on tax obligations. Read more on pages 31 to 33.

+ **Read our latest tax gap report at www.gov.uk/government/collections/measuring-tax-gaps**

2019 to 2020, once adjusted for the exceptionally large, one-off cases which settled in those 2 years.

Compliance yield outturns are impacted by revenue effects from our interventions in previous years, so we're still seeing the effects of restrictions on activity during the COVID-19 pandemic in 2022 to 2023 performance. We also invested in over 4,000 new compliance officers in 2021 to 2022, providing a strong foundation for future years that will help us in maintaining a stable tax gap – but this has contributed to our performance challenge this year as we redeployed staff to train and support our new officers. It takes around 18 months to train new compliance officers and around 4 years for them to reach full productivity due to the training and experience required in these roles.

Our overall compliance yield measure does not include revenue relating to our compliance work on the COVID-19 support schemes, which is measured separately (see pages 24 to 25).

+ **Read more in our technical notes on compliance yield and 'Tax by different customer groups'**
https://www.gov.uk/government/publications/hmrc-annual-report-and-accounts-2022-to-2023

Supporting customers with tax compliance

A substantial portion of the UK's tax gap is caused by taxpayer error or failure to take reasonable care, rather than deliberate behaviour such as tax evasion or criminal attacks. While there can be individual cases where large amounts of tax are at risk, 56% (£20.2 billion) of the tax gap is attributed to small businesses, with small amounts of tax due from a very large number of taxpayers.

This is why we're improving our systems to help customers pay the right tax at the outset, rather than fixing problems after they happen. We want to make it easy for customers to understand and comply with their obligations, so we can focus our resources where they make the most difference. Key examples include:

- **Digital records for business:** from April 2022, all VAT registered businesses have been required to keep digital records and submit their VAT returns using software that is compatible with our systems (unless exempt) – known as Making Tax Digital for VAT. This is a key element of our strategy to reduce the tax gap: it enables us to collect information directly from customers, closer to real time, and prevents mistakes by reducing opportunities for calculation and transposition errors. This in turn frees up our resources to tackle deliberate tax avoidance and evasion. Similar benefits will be achieved through the delivery of Making Tax Digital for Income Tax Self Assessment (ITSA), which will require certain customers to use accounting software to keep digital records and share regular updates with HMRC (read more on pages 32 to 33).
- **Investigation and detection risking service:** this new system will be up and running in 2023 to 2024 for both VAT and ITSA, with further analysis and risking services to be developed in future. It will improve our data analytics capability and enable more effective risking of 5.5 million VAT and Self Assessment repayment claims each year, with a value of around £100 billion.
- **Targeted messages and campaigns:** we are promoting good compliance by embedding digital prompts in our online customer services and delivering targeted campaigns and communications for particular sectors or groups of customers to help them meet their tax obligations, particularly where we think tax may be at risk. We will do this to encourage awareness before a tax return is completed, address common errors, or highlight new or complex tax rules. This year, our campaigns included contacting foreign companies regarding PAYE errors, reminding landlords and online marketplace sellers to declare their

earnings correctly and contacting employers about meeting National Minimum Wage obligations.

When customers do not comply with the rules, we work with them to put things right and get them on the right track for the future. In 2022 to 2023, we opened 299,000 new compliance checks and completed 280,000 compliance checks. We also take action to tackle businesses and individuals who have tried to cheat the tax system, or who commit serious fraud.

+ **For more detail on our work against serious fraud and economic crime, see pages 43 to 44, and our work to protect society from harm and level the playing field, see page 43.**

Collecting debt

While most of our customers pay what they owe at the right time, we are seeing more customers getting into debt in the current challenging economic conditions, and the average value of customers' debts is increasing. The majority of tax debt is owed by small and medium-sized businesses.

We have seen a steady increase in the level of tax debt in 2022 to 2023. The value of new debt was over 50% higher in 2021 to 2022 compared to the average for the tax years from April 2017 to March 2020. The flow of new debt has remained at this elevated level throughout 2022 to 2023.

Our analysis shows there has been very little change in the proportion of customers filing their tax returns and declaring their liabilities on time, but there has been a reduction in the number of customers paying on time, which is increasing the volume of new debt. This suggests customers remain committed to complying with their tax obligations but are struggling to pay.

The debt balance at the end of March 2023 was £45.9 billion, £4.3 billion higher than the balance at the end of March 2022. This includes £43.9 billion of tax debt (which equates to 5.4% of revenues) and £2.1 billion of tax credits debt (figures in this paragraph may appear not to sum due to rounding). At the end of 2022 to 2023 we were managing £5.7 billion of debt through time to pay arrangements, in which customers pay off their debt in affordable and sustainable instalments (see more detail below).

Even though we are resolving debts at levels significantly above the average for tax years from April 2017 to March 2020, the volume of new debt exceeds the level at which we are able to resolve it. There are many external factors that influence the debt balance which makes it difficult to predict, but we expect it to remain at an elevated level in 2023 to 2024.

In focus: identifying customers who need extra support

We recognise the importance of supporting people in debt who have a physical or mental health condition or are in difficult personal circumstances. All our debt collection officers undertake training to help them identify customers who need extra support. Where appropriate, we refer customers to our Extra Support Team who provide bespoke additional support.

In October 2022, we announced a partnership with the Samaritans, to improve our understanding of customers in vulnerable circumstances, identify existing trigger points in our processes and highlight areas for improvement.

Samaritans are sharing their expertise with our specialist advisers and guiding them on how to help customers in vulnerable circumstances. Where needed, we will signpost customers to specialist emotional support through a dedicated Samaritans helpline.

Helping customers to pay in instalments

We do all we can to help those in temporary financial difficulty who contact us. Our flexible Time to Pay arrangements are designed to collect debt in affordable instalments. By the end of 2022 to 2023, we were supporting 912,000 customers in this way, an increase of around 69,000 customers compared to the end of 2021 to 2022.

Self Assessment customers with debts up to £30,000 (that they can pay off over 12 months) and employers with PAYE debts up to £15,000 (that they can pay off over 6 months) can set up a Time to Pay arrangement online, without having to call us. This will be extended to VAT debts in the summer of 2023.

Tax losses

Sometimes we cannot collect money owed to us. As the debt balance increases, we would expect the amount we cannot collect to also increase. Where we decide we can't collect a debt, it becomes a 'tax loss'. Tax losses in 2022 to 2023 were £3.8 billion, split between remissions of £0.6 billion and write-offs of £3.2 billion.

'Remissions' describes money owed to us which we have decided not to pursue any further – for example, on the grounds of value for money. 'Write-offs' is the term we use for money owed that cannot be collected – for example, due to a company liquidation or personal bankruptcy, or where legal protections for creditors of the business prove insufficient and there are no practical means of pursuing the debt.

Losses (remissions and write-offs) have increased in 2022 to 2023, compared to the 2 previous years, and we expect them to increase further as the elevated levels of debt are pursued and insolvencies held back by the moratorium during the pandemic (which applied to all creditors, including HMRC) begin to take place. Over the coming years, the level of annual losses is expected to be around £800 million higher than the past average of around £4 billion, but that is uncertain as it depends on the behaviour of debtors and the wider economic picture.

Our strategy for collecting tax debt

We have developed a new approach to collecting tax debt over the coming years. Our objective will always be to support customers in financial difficulty to manage their way out of debt quickly and sustainably. If customers don't engage, refuse to pay, or if a business has little chance of recovery, we will take prompt enforcement action to collect the tax due where it is cost effective to do so.

The 4 pillars of our debt strategy are:

- **Prevent:** to prevent debts arising we will promote payment on time - for example, by designing tax policy to minimise the opportunity for debt to arise
- **Tailoring:** we will bring together all relevant information about a debtor to make an informed decision on the best next step to increase the amount of debt cleared
- **Effective and efficient:** we will ensure our steps and processes are as efficient as possible for our staff and for debtors, so debts are cleared as quickly and cheaply as possible
- **Adaptability:** we recognise that there are factors outside our control that affect the debt balance and debtor behaviour, so we will adapt our debt management functions according to the circumstances

We are committed to being a responsible creditor. This means that we clearly articulate the options and their consequences to debtors and, specifically, individuals who are in problem debt. We will continue to champion industry best practice and the Government Debt Standard so we can ensure equitable outcomes for both debtors and HMRC.

We are already making progress in implementing our new strategy, including simplifying and improving our Budget Payment Plan service, which helps Self Assessment customers plan for their upcoming tax payments, and doing more to promote the service. We are also expanding our Self-Serve Time to Pay scheme, to give greater flexibility to people and businesses in managing their debt online which will ensure more debt is in a managed position.

+ **Read about the Government Debt Standard at www.gov.uk/government/publications/government-functional-standard-govs-014-debt**

Delivering financial support

As well as ensuring the right tax gets paid, we also play a vital role in helping individuals and families with financial support – either through established government schemes or in response to urgent priorities identified by the government.

Child Benefit and Tax-Free Childcare

In 2022 to 2023, we provided Child Benefit to more than 7 million eligible families, supporting around 12.2 million children. We have processed over 743,000 claims for Child Benefit this year. We also administer Tax-Free Childcare – and in 2022 to 2023 we saw a continuing upward trend of working parents claiming this. In March 2023, we supported 477,000 families with Tax-Free Childcare for 577,000 children, compared with 384,000 families and 458,000 children in March 2022.

In focus: Our role in supporting Ukrainian refugees

We are actively working with other government departments to ensure that Ukrainian refugees can apply immediately for appropriate financial support, such as Child Benefit, and have correct guidance on their tax obligations in the UK.

By 31 March 2023, we had received 26,182 Child Benefit claims from Ukrainian refugees, with over 25,000 claims in payment for nearly 37,000 children. Together with the Department for Levelling Up, Housing and Communities, we also supported the 'Homes for Ukraine' sponsorship scheme by legislating to exempt the associated payments from tax.

+ **For more detail on our support to the cross-government response to the war in Ukraine, see page 61.**

Cost of Living Payments

In May 2022, the government introduced Cost of Living Payments to qualifying households who receive tax credits from HMRC, or other qualifying benefits from the Department for Work and Pensions. We administered payments of up to £650 for eligible tax credits customers, paying the first payment of £326 (to 1.2 million customers) as of September 2022 and a further payment of £324 (to 1 million customers) as of November 2022.

The estimated levels of error and fraud in the 2022 to 2023 Cost of Living Payments were very low, between 0.1% (£0.6 million) and 0.3% (£1.7 million). This is attributable to the design of these payments, which minimised the risk of non-compliance while ensuring people received the financial support they needed as quickly as possible. This included working with the Department for Work and Pensions to avoid duplicate payments to the same household.

Tax credits

Tax credits are designed to support families with children, tackle child poverty and help to make sure that work pays more than welfare. We provided Child Tax Credit and/or Working Tax Credits to around 1.15 million families and 2.13 million children in 2022 to 2023.

From April 2022, these tax credits were permanently closed to all new claims, with all future benefits paid through Universal Credit, administered by the Department for Work and Pensions. Since 2013, 1.75 million customers have moved from tax credits to Universal Credit following a change in their circumstances. From May 2022, we started to migrate the remaining 1.2 million customers. This activity is expected to scale up from April 2023 to a peak of around 80,000 migrations per month. We expect to have completed all the migration activity by March 2025. Within this time frame we also expect to complete the migration of around 30,000 eligible customers from tax credits to Pension Credit. This leaves only a small number of tax credit customers ineligible to claim Universal Credit, for example, International Cases and those without a National Insurance Number. Activity is under way to ensure legislation is in place for April 2025 that effectively closes tax credits.

Tackling error and fraud in financial support and tax relief

While effective financial support for individuals and targeted tax relief for businesses plays an important role in supporting the economy, we are always focused on ensuring the system is trusted, fair, and protected from harm caused by mistakes or intentional fraud.

Tax credits and Child Benefit

Our approach to tackling error and fraud in tax credits and Child Benefit payments is increasingly focused on prevention – guiding customers to meet their obligations voluntarily and manage their awards more effectively through education and reminder campaigns.

Our target is to keep overpayments as a result of error and fraud 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 for tax credits relates to 2021 to 2022. Our estimate suggests that we met our expectation, with an error and fraud overpayment rate of 4.5% (£0.51 billion) of paid entitlement, compared to a final estimate of 4.7% (£0.73 billion) in 2020 to 2021.

Tax credits underpayments occur when the finalised award value is lower than the customers actual entitlement. The latest estimate for underpayments in 2021 to 2022 is 0.4% (£40 million), decreasing in percentage terms from the 2020 to 2021 estimate of 0.8% (£120 million).

Our estimate of the overall level of Child Benefit overpaid due to error and fraud in 2022 to 2023 is 0.8% of total Child Benefit expenditure (£90 million), compared to the 2021 to 2022 estimate of 0.9% (£105 million). The 2022 to 2023 estimate will be the last produced using our current methodology, from 2023 to 2024 we will change the method of measuring Child Benefit error and fraud to a monthly sampling approach. This will make it easier to assess the duration of error and fraud as we will assess eligibility within each month, rather than the full year.

+ **Read more about tax credits error and fraud in the Principal Accounting Officer's report, on page 115.**

Research and development tax reliefs

We administer research and development (R&D) tax reliefs, which support companies that work on innovative projects in science and technology. The reliefs are vital to the government's economic strategy: they help drive innovation, growth and productivity. Therefore, it is important that the support they provide is timely and effectively targeted.

We have recently significantly updated our methodology for estimating the level of non-compliance in these schemes, with the latest estimates for Small and Medium Enterprises (SME) produced using a random enquiry programme. This introduces a lag into our estimates due to the timing of Corporation Tax returns and the time it takes to carry out a compliance enquiry. Our estimate of the overall level of error and fraud for both schemes for 2020 to 2021 is 16.7% (£1.13 billion), higher than the previously published estimate of 3.6% (£336 million) for 2020 to 2021. The level of error and fraud in 2020 to 2021 is 24.4% (£1.04 billion) for the SME scheme and 3.6% (£90 million) for the RDEC (Research and Development expenditure credit) scheme. Expenditure on R&D reliefs during the year was £6.8 billion (see note 5.1.5 on page 256 in the Resource Accounts).

We found fraud indicators in under 10% of claims examined in the random enquiry programme and these claims accounted for under 5% of the total value claimed. To be classified as fraud, a caseworker needs to have found evidence that the claimant deliberately set out to misrepresent their circumstances to get money to which they were not entitled. This indicates that the majority of non-compliance is down to other behaviours. As with other regimes, the term 'error and fraud' encapsulates this full range of behaviours, from mistakes and failure to take reasonable care through to deliberate non-compliance.

We remain committed to ensuring that tax reliefs are used in the right way. In 2021, the government announced a package of measures to help address concerns that the level of non-compliance in the R&D schemes was too high. This included measures to increase the quality of information we receive upfront from claimants, and the creation of our cross-cutting Anti Abuse Unit. Further changes to relief rates were announced in 2022, with the aim of reducing the SME scheme's exposure to abuse.

The impact of these measures is not reflected in the above estimate for 2020 to 2021 as the measures were not in place during that financial year. These measures have been designed to significantly reduce error and fraud following their implementation. The full impact will not be known until all legislative changes take effect and evaluations have taken place.

In April 2022, we identified irregular claims considered to be a criminal attack on the R&D payable tax credit regime. In response, we implemented additional measures including further payment identification and verification controls and have since refused £85 million of suspected fraudulent claims and issued over 2,500 letters challenging suspect claims. Additionally, we have arrested 9 people suspected of conspiring to submit £16 million of fraudulent claims.

We will set out our compliance approach in more detail in an R&D Compliance Action Plan, which we will publish this summer.

+ **Read more about research and development error and fraud in the Principal Accounting Officer's report, on page 115.**

+ **Our tax relief statistics are published at https://www.gov.uk/government/collections/tax-relief-statistics**

COVID-19 financial support schemes

The COVID-19 financial support schemes ended during 2021 to 2022, so there was no significant expenditure related to them in 2022 to 2023, but we continued to recover the amounts overpaid owing to error and fraud.

We published estimates of error and fraud for the COVID-19 financial support schemes in our 2021 to 2022 Annual Report and Accounts. Since then, we have completed a second random enquiry programme for the Coronavirus Job Retention Scheme (CJRS), conducted a new random enquiry programme and have more complete Self Assessment tax return data for the Self-Employment Income Support Scheme (SEISS) and have newly available insight from operational compliance activity for both schemes.

Across the full lifecycle of the CJRS, SEISS and Eat Out to Help Out financial support schemes (covering 2020 to 2021 and 2021 to 2022), the total value of error and fraud is now estimated to be between £3.3 billion (3.3%) and £7.3 billion (7.4%), with a most likely estimate of £5.0 billion (5.1%). This is an increase from last year's previously published (provisional) estimate (between £3.2 billion (3.3%) and £6.4 billion (6.5%), with a most likely estimate of £4.5 billion (4.6%)) but less than the original estimate in 2020 to 2021 (between £4.5 billion (5.5%) and £8.0 billion (9.9%), with a most likely estimate of £5.8 billion (7.2%)). These will be our final estimates of error and fraud for the COVID-19 financial support schemes.

At the Spring Budget 2021, the government announced a 2-year investment of over £100 million in the Taxpayer Protection Taskforce. The intention of the Budget measure was to provide additional resources to tackle fraud within the COVID-19 support schemes and, over a period of time, ensure that there would be no impact on our tax compliance results. The funding enabled us to recruit and train new colleagues to backfill those staff redeployed onto COVID-19 support scheme compliance work. By September 2023, we expect to have deployed over 2,500 staff against the Budget expectation of 2,440 staff.

Up to the end of 2022 to 2023, we opened 46,000 individual compliance checks, exceeding the Budget 2021 target of opening 30,000 interventions in this time period.

The taskforce had recovered £520 million by the end of March 2023. This is below the original expectation of between £800 million and £1 billion due to individual recoveries per customer being lower than originally expected, there being less evidence of error and fraud than initially estimated, and due to the majority of errors being low value. We are well on track to meet the revised expectation of between £525 million and £625 million by the time the taskforce transitions to 'business as usual' activity in September 2023.

As with our approach to non-compliance in the tax system, we address the majority of fraudulent COVID-19 scheme claims through cost-effective civil investigation procedures. Where appropriate we will conduct criminal investigations and seek criminal prosecutions if it is in the public interest, particularly where the behaviour is very serious or where a criminal prosecution will act as a strong deterrent.

Since the start of the schemes and by the end of March 2023, we have commenced 47 criminal investigations into suspected fraud in the COVID-19 support schemes, which are now at various stages, and made a total of 75 arrests. These investigations often include fraud against more than one financial support scheme, and broader tax fraud, and can involve a large number of companies, claims and suspects.

As planned, in March 2023, we began transitioning the work of the taskforce to business-as-usual tax compliance work that will be concluded by September 2023. Moving the work of the taskforce into business-as-usual compliance activity is the most efficient way to ensure we protect and recover taxpayers' money, and will allow us to deal with all aspects of potential non-compliance together, including those related to the COVID-19 support schemes.

The table below sets out the post-payment compliance activity we have undertaken for each of the COVID-19 support schemes from 2022 to 2023.

Table 1: 2022-23 post-payment compliance activity results[1]

	Number of One to Many nudge letters	Value of One to Many Disclosures	Number of One to One activities[3] opened	Number of One to One activities closed	Value of One to One Enquiries
CJRS	-	-	8,391	7,981	£88.8m
SEISS[2]	-	£0.8m[4]	3,199	6,101	£26.7m
SEISS non-filers[5]	48,624	-	51,639	45,888	£166.9m
Eat Out to Help Out Scheme	-	-	6	471	£10.9m
Total	**48,624**	**£0.8m**	**63,235**	**60,441**	**£293.5m**

1 Figures may not sum due to rounding.
2 Following an internal review the total number of SEISS cases opened during 2021 to 2022 was 15,656 and total number of SEISS cases closed was 14,427.
3 One to One activity includes compliance interventions and officers assessments.
4 Value of disclosures are as a result of residual activity from 2021 to 2022.
5 In addition to COVID-19 scheme compliance recoveries, HMRC took steps to ensure that SEISS payments were correctly declared on Self Assessment tax returns. This resulted in additional Income Tax compliance yield received through Self Assessment returns of £128.2 million. These amounts are reported within the key performance metrics on page 28.

\+ **More detail on our approach to estimating the level of error and fraud from COVID-19 financial support schemes can be found in our supporting technical publication at https://www.gov.uk/government/publications/hmrc-annual-report-and-accounts-2022-to-2023**

Our commitments: strategic objective 1

In financial year 2022 to 2023, alongside all our activity to collect the right tax and pay out the right financial support, we made 12 specific commitments in this area. The table below details our progress against each commitment at the end of the financial year.

Status at the end of 2022 to 2023		
On track or complete ✔	Risk to delivery ⚠	Not on track ✖

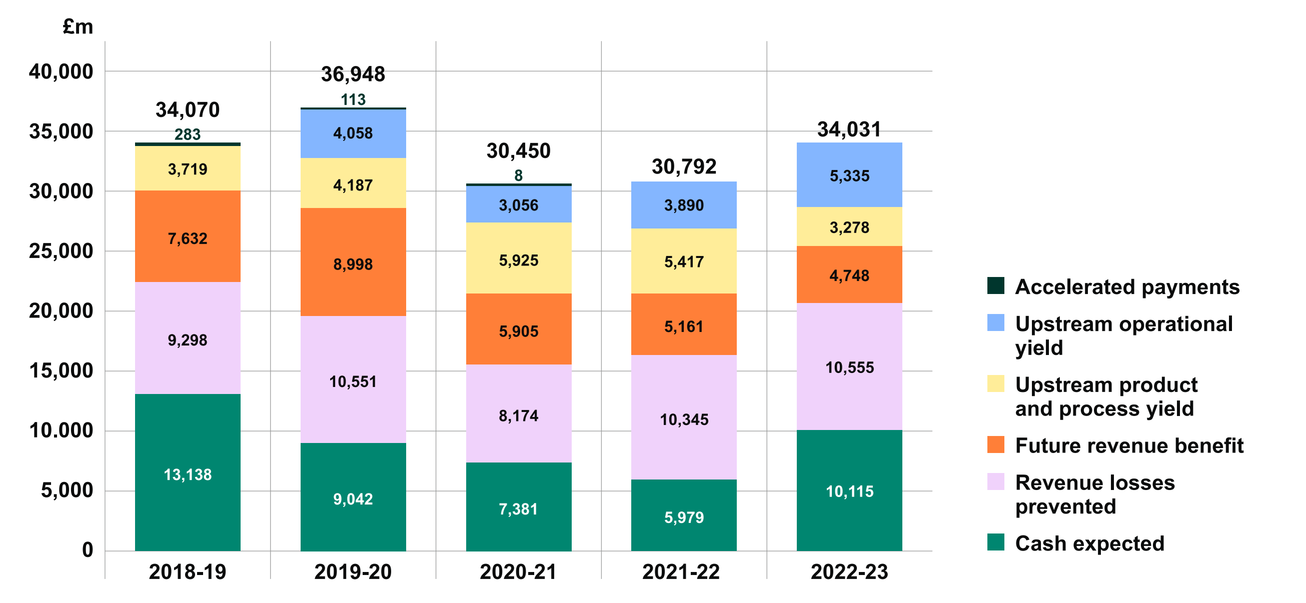
Commitment	What we delivered	Status
Taxpayer Protection Taskforce (TPT)	We did not meet the initial expectation to recover between £800 million to £1 billion across the lifecycle of the taskforce. This is due to lower amounts of error and fraud in the schemes than originally estimated, and a large volume of low value errors. The taskforce will have recovered between £525 million and £625 million by the time it transitions to 'business-as-usual' activity (September 2023), in line with revised operational expectations. The taskforce had recovered £520 million by end of March 2023. Read more on page 24.	✖
Deliver £1.1 billion additional tax compliance yield between 2020-21 and 2024-25	We met our additional yield expectation for 2022 to 2023 by expanding our tax compliance campaigns and projects. We remain on track to deliver the amount included in the OBR's latest forecast for the scorecard period ending 2024 to 2025.	✔
Individual Savings Account (ISA) Compliance	We met our commitment to fully resource and train our ISA Compliance Team by April 2022 in response to recommendations in the Gloster Report (an independent investigation into the Financial Conduct Authority's regulation and supervision of London Capital & Finance). During 2022 to 2023, the team completed audit work as expected.	✔
New anti-evasion and other measures to tackle the tax gap	We implemented measures to tackle tax abuse in the construction sector. We also continued working to introduce legal powers for tougher sanctions on illicit tobacco sales, as well as plans to strengthen transfer pricing documentation requirements for large multinational companies, helping to prevent profit shifting to avoid tax. This is in line with the Organisation for Economic Co-operation and Development (OECD)'s Transfer Pricing Guidelines.	✔
Manage Time to Pay	We continued to offer customers in financial difficulty 'Time to Pay' arrangements, where appropriate, extending our Self-Serve Time to Pay service to Employers PAYE customers, with a plan to extend this to VAT customers in 2023 to 2024.	✔

Debt Respite Scheme	In 2022 to 2023, 4,930 customers used our Breathing Space scheme to pause all creditor actions for up to 60 days. The second phase of the scheme (Statutory Debt Repayment Plan) allowing customers to repay their debts, usually over an agreed 3-to-10-year period, has been paused while the government reviews the Personal Insolvency Framework.	
Support the introduction of Universal Credit	We continued to support the Department for Work and Pensions with the introduction of Universal Credit (UC), with managed migration of tax credit recipients to UC to be completed by March 2025. This included delivering IT and guidance to support UC migration and updating records with National Insurance Credits data. Read more on page 22.	
Modernise our IT estate	We continued to modernise our IT estate by taking full advantage of cloud hosting, so our systems are up to date and compliant with security and data requirements. This will make our systems perform better, be more resilient, and be easier to update and continues our commitment to protect customers' data. Delays to some IT programmes led to slippage into 2023 to 2024. Read more on page 61.	
Plastic Packaging Tax	On 1 April 2022, we introduced the UK's new, world-leading tax on plastic packaging containing less than 30% recycled plastic. The tax supports the government's resources and waste strategy. This year we focused on helping customers understand the new tax and their obligations.	
Economic Crime Levy	We laid Economic Crime Levy (ECL) Regulations in Parliament and published guidance to support businesses within the scope of ECL. We continued to work on the IT needed to enable ECL reporting and payment to be introduced by September 2023. The Amber RAG reflects the number of IT updates that need to be made and tested in a compressed period before September 2023.	
Health and Social Care Levy	We implemented a 1.25 percentage point increase to the main rates of National Insurance contributions from 6 April 2022, ahead of the proposed Health and Social Care Levy being introduced from 6 April 2023. In September 2022, the government cancelled the levy. The 1.25 percentage point increase was reversed with effect from 6 November 2022.	
Residential property developer tax	We implemented the new tax on the UK residential property development sector to help to pay for the costs of removing unsafe cladding in residential buildings in England and updated the Company Tax return to make it easier for those within scope to declare their profits and tax due.	

Key performance metrics: strategic objective 1

Figure 1: Compliance yield[1]

Compliance yield is revenue collected and protected that would otherwise have been lost to the Exchequer through error or deliberate non-compliance such as tax avoidance or evasion. It consists of a number of components as shown below.



1 Numbers may appear not to sum due to rounding.

Accelerated payments: Disputed amounts of tax that people using tax avoidance schemes are required to pay up front within 90 days, and an estimate of the behavioural change caused by this policy. In figure 1 these are incorporated within cash expected and upstream product and process yield from 2021 to 2022.

Upstream product and process yield: Estimated annual impact on net tax receipts of legislative changes to close tax loopholes and changes to our processes which reduce opportunities to avoid or evade tax.

Future revenue benefit: Estimated effect of our past compliance work on customers' compliance in the current tax year.

Revenue losses prevented: Revenue that we prevented from being lost to the Exchequer.

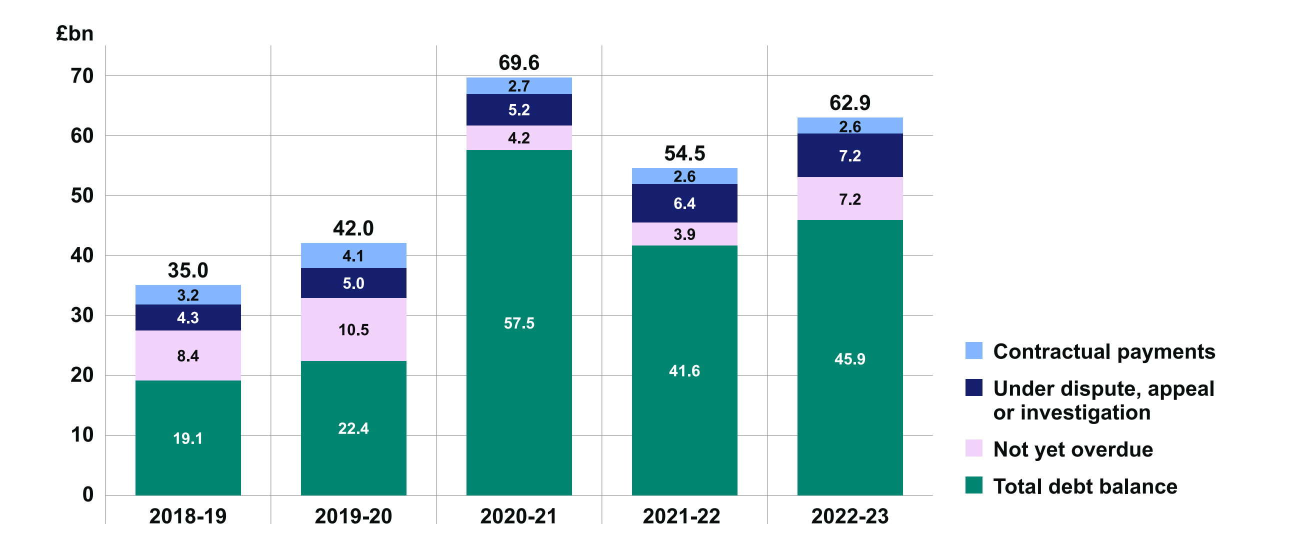
Upstream operational yield: (Categorised with cash expected until 2019 to 2020) Estimated impact of operational activities undertaken to promote compliance and prevent non-compliance before it occurs. Does not include yield from legislative or process changes.

Cash expected: Additional revenue due when we identify past non-compliance, with a reduction to reflect revenue that we estimate will not be collected.

+ **Read more in our technical note on compliance yield at https://www.gov.uk/government/publications/hmrc-annual-report-and-accounts-2022-to-2023**

Figure 2: Receivables

When individuals and businesses owe taxes, duties, or tax credits to HMRC, we call these amounts 'receivables' for accounting purposes (this becomes a debt if the amount owed becomes overdue for payment and is not under appeal). At 31 March 2023, gross receivables amounted to £62.9 billion, compared to £54.5 billion at 31 March 2022, consisting of £60 billion for taxes and duties owed to HMRC (see Trust Statement on page 208) and £3.0 billion for tax credits owed to HMRC (see Resource Accounts on page 250).[1]



1 Figures in this paragraph may appear not to sum due to rounding

Figure 3: Total debt balance (including as a % of overall revenue)

This chart shows the trend of our total debt balance between 2018 to 2019 and 2022 to 2023 and tax debt as a proportion of overall tax revenue.

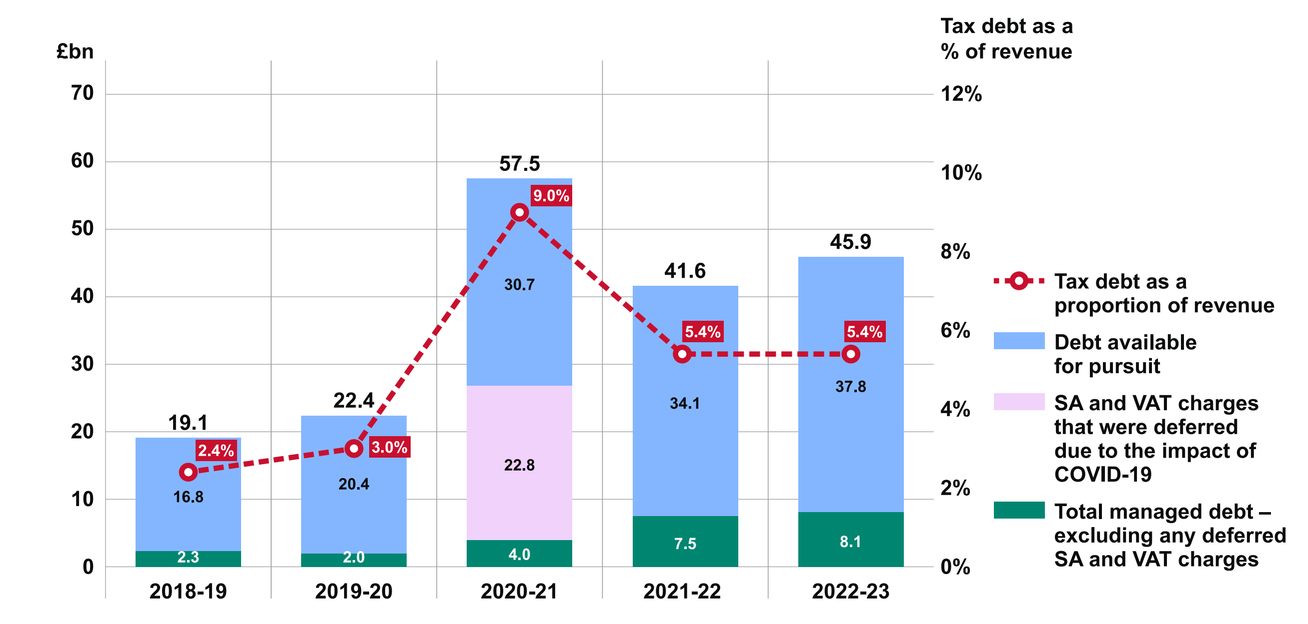
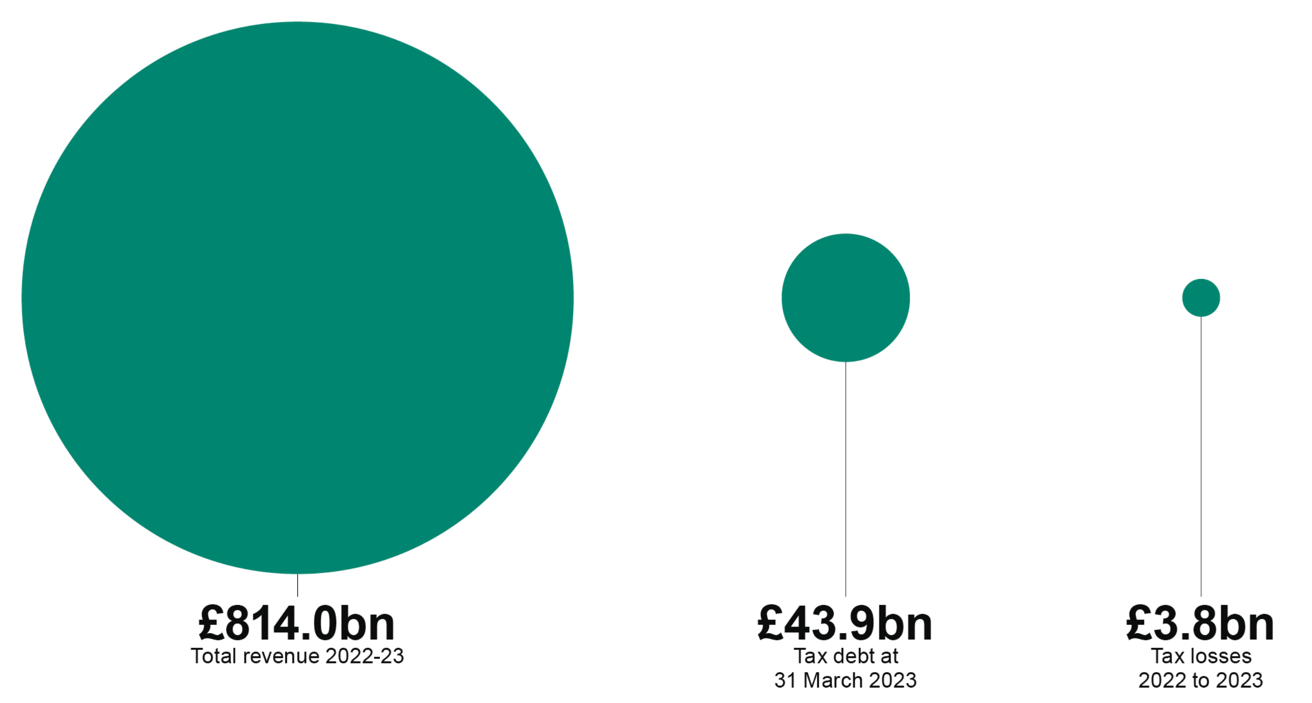


Figure 4: Tax debt and tax losses compared to revenue

This chart shows a comparison of tax debt to total tax revenue.



Strategic objective 2: Make it easy to get tax right and hard to bend or break the rules

We want to make tax and customs straightforward for customers – making things easy, preventing non-compliance and being here to support when people need it. This chapter reports on how we performed across our service channels, as well as our progress in transforming the system to fit more seamlessly with the way people run their businesses and lives.

How we performed

Our customer base is growing and more of our customers have increasingly complex needs. Over time, this is creating increased demand for our services and putting more pressure on the tax gap. At the same time, there are pressures on government spending – and our 2021 Spending Review settlement commits us to greater efficiencies as a department. Rightly, every pound we spend needs to deliver value for money.

All these factors taken together are making it harder to meet our service standards, especially when combined with the typical short-term challenges and demand spikes we face as an operational department. We're responding with a clear strategy to modernise the tax administration system: simplifying things for our customers, improving guidance and removing the causes of unnecessary contact.

6 ways we are improving our services

- Introducing quicker and easier digital services via the HMRC app and online in 2023 to 2024, with improved digital accounts designed around customers' needs and tasks.
- Making it easier for customers to view their personal details and notify us of a change to their circumstances so they automatically update all the HMRC services they use.
- Enabling customers to store their National Insurance details in a chosen device such as a digital wallet, so they can easily locate them when needed without the need to call.
- Introducing a new Direct Debit Variable Payment Plan that allows employer PAYE customers to complete a direct debit instruction once, rather than set up monthly single payments. Over 77,500 businesses have used this since October 2022.
- Using Open Banking technology for customers to authorise payment from their bank to HMRC – with all the correct details auto-populated in a couple of easy and secure steps
- Supporting GOV.UK One Login, so customers need only prove their identity once to use most government services. In 2022 to 2023, we adopted part of this service early, so customers using our online services have an alternative way to prove their identity.

Making tax easier through digital services

To deliver the modern, efficient service that our customers expect, it's vital that we help more people and businesses to engage with the tax and customs system in ways that are easy, fair, less prone to error or fraud, and closer to real-time.

Use of our digital channels is increasing fast – overall, our personal and business tax accounts, and app, were accessed almost 200 million times in financial year 2022 to 2023 compared with 61.6 million times in 2016 to 2017.

These services provide a quick and easy way for customers to carry out simple tasks like finding their national insurance number or Unique Taxpayer Reference, as well as more substantive tasks like claiming a tax refund or filling out and submitting a tax return. When customers use our online services, satisfaction is generally high at over 80% - indicating the ease and speed with which they meet customer needs.

An increasing number of customers are using the HMRC mobile app – with more than 1 million new users and more than 56 million logins in 2022 to 2023. It lets people view their PAYE tax code and annual tax summary, manage details for tax credits and Child Benefit, file their Self Assessment return, pay their tax bill and use a tax calculator, all from smartphones or tablets.

Since February 2022, Self Assessment customers have been able to pay their tax bill using Open Banking via the HMRC app, making 177,000 payments totalling over £240 million. Since November 2022, employers with eligible PAYE debt can also make arrangements online via our Self-Serve Time to Pay service, with over 1,000 payment plans with a value of £4.2 million set up online and over £650,000 received in upfront payments by the end of March 2023. Our customers rate the app highly, with a current rating of 4.8 out of 5 (Apple app store) and 4.7 stars out of 5 (Google play store).

We want to go much further in using new and improved online services to make it easier for individuals and small businesses to get things right first time and find the support they want without the need to call us. We're already replacing old paper-based processes with modern, digital services. For example, during 2022 to 2023 we enabled Child Benefit claimants to view their claim details and proof of entitlement online whenever they need it, rather than calling us and waiting up to 15 days for a letter. This means customers can access grants and Local Authority Services quicker, and without having to call us or wait for a paper letter.

In 2022 to 2023 we worked towards delivering a major milestone, launching a new online Child Benefit claim service in May 2023. This enables most parents to complete the process fully online and receive payment within days rather than weeks. Later this year, we'll be providing an improved digital experience and bringing together more digital services in the HMRC app and online.

Modernising the tax return process

We're modernising the tax return process and giving more customers the ability to file via compatible software that talks directly to our systems. Our aim is to save businesses time on tax administration and improve accuracy in tax returns by reducing avoidable errors.

Transforming VAT returns

As of April 2022, using Making Tax Digital (MTD)-compatible software became the standard way for VAT-registered businesses to file their tax returns. This was a significant change for businesses and a big milestone for us.

Nearly 2 million VAT-registered businesses now keep their records and file their returns in this way. Our latest data shows that over 99% of returns from VAT-registered businesses over the £85,000 VAT threshold did so using MTD-compatible software, as did 98% of returns from those under the threshold (up from 52% in April 2022, due to a sustained communications campaign). In total, we have processed over 25 million VAT returns via this route to date.

A peer reviewed evaluation based on the VAT returns of 400,000 businesses showed that filing with MTD-compatible software is helping to ensure the right amount of tax is collected from businesses and reducing opportunities for error or miscalculation. It is predicted to deliver revenue of over £3 billion up to the end of 2027 to 2028.

Further studies show that two-thirds of businesses felt that using MTD-compatible software has reduced the potential for mistakes in at least one aspect of their record-keeping, while 80% of businesses said that they found the process of filing through MTD-compatible software easy. Evidence also points to the use of MTD-compatible software encouraging businesses to digitalise other elements of their business due to the productivity benefits.

The future of Self Assessment returns

In December 2022, the government announced that, from April 2026, self-employed individuals and landlords with income of more than £50,000 will have to keep digital records and submit their Income Tax Self Assessment information to HMRC through MTD-compatible software. Customers with an income between £30,000 and £50,000 will need to do this from April 2027.

Introducing the requirement to keep digital records and submit Income Tax Self Assessment information via MTD-compatible software is a crucial part of our strategy for modernising the tax system. Postponing the introduction of MTD for Income Tax Self Assessment means we have more time to test and develop the service with the software industry and agents, to ensure we deliver the best possible experience for users. This extra time will also enable us to provide opportunities for the self-employed, landlords and agents to get involved in testing before it's mandated.

+ **Read more at:** www.gov.uk/government/publications/evaluating-additional-tax-revenue-from-making-tax-digital-for-vat/evaluating-additional-tax-revenue-from-making-tax-digital-for-vat

Supporting our customers to get tax right

Although we are seeing increasing numbers of customers using digital channels to resolve their tax affairs, we recognise that some customers continue to need direct support through services like phone or post. Our Charter sets out the standards of service that customers can expect from us – read more on page 40.

We want our customer service performance to meet our service standards and at the beginning of 2022 to 2023 we had an ambitious plan to achieve this, which included stretching efficiency improvements. We were able to deliver some, but not all, of these improvements meaning service levels during the year

In focus: How do customers rate their experience with us?

We conduct regular surveys of our customers on their experience with us, using the findings to gain insight, better understand our customers' needs, and take action to improve our operational performance. Overall experience ratings were unchanged amongst Individuals, Small Businesses and Agents compared with 2021.

Here is how small businesses, individuals and agents rated HMRC as an organisation in 2022:

Ease of dealing with tax issues:

Individuals	**57% positive**
Small Businesses	**73% positive**
Agents	**44% positive**

Overall experience of dealing with HMRC over the last 12 months:

Individuals	**65% positive**
Small Businesses	**74% positive**
Agents	**45% positive**

Ease of finding information from HMRC:

Individuals	**57% positive**
Small Businesses	**60% positive**
Agents	**46% positive**

+ **Read our full Individuals, small business and agents survey at:** www.gov.uk/government/publications/hmrc-individuals-small-businesses-and-agents-customer-survey-2022 weren't always where we wanted them to be. Other factors have added further pressure, such as higher than expected inflation, while the decision to freeze tax thresholds means that over time there are more customers with complex tax affairs requiring active management in the tax system.

Although most of our customers pay their tax automatically through PAYE or online without needing to contact us, we still handle a very large amount of customer contact each year. In 2022 to 2023, we had over 38 million phone contacts and over 16 million items of correspondence where customers require a response. We're here to support every customer who needs it, but much of the contact we receive isn't necessary – for example, around two thirds of all Self Assessment calls can be resolved by customers themselves online. That's why, in this challenging environment, we need to enable and direct those customers who can to self-serve using digital services in the first instance. This is vital in order for us to focus our adviser-led services, such as phone lines, on those who have complex circumstances, are unable to engage with us digitally or otherwise need extra help.

While we make this transition, it remains difficult at times to match our resource levels with demand for our phone and post services, particularly when other short-term factors also impact on operational delivery. For example, as we embedded our new telephony platform which will improve the customer experience, we saw longer call handling times, which alongside some IT outages led to repeat calls and increased demand on our services. Some of our necessarily fast-paced and ambitious automation activity has not come online as quickly as planned.

We also need to respond to changing behaviour of those within the tax system. Throughout the year, we received unpredictable levels of submissions from some High Volume Repayment Agents, often in bulk and often including large numbers of ineligible claims. During these periods, it was difficult to allocate our resource effectively, which delayed our response to other claims and had knock-on consequences for the rest of our correspondence performance.

A key factor in managing the level of customer demand is ensuring that we respond to correspondence before customers call us to chase progress – this simply adds to the pressure on our phone lines. In 2022 to 2023, we made considerable progress in improving the proportion of customer correspondence that we turn around within 15 working days, increasing from 45.5% across 2021 to 2022 to 72.7% - much closer to the 80% service standard we aim to achieve. We turned around 89.4% of our customer correspondence within 40 days, up from 64.1% in 2021 to 2022, but below our service standard of 95%.

While we maintained the proportion of callers wanting to speak to an adviser who were able to do so at 2021 to 2022 performance levels (77.3%) for several months of the year, due to the factors already described, our final average for the end of the year was below this at 71.1% - lower than our service standard of 85%.

We are taking a number of other actions to reduce the need for customers to contact us via phone and post. For example, our digital assistant automatically helps customers to find the information they are looking for and links the customer to an adviser through webchat if it can't locate the answer. Around 66% of customers who use the assistant don't need further support.

In January 2023, we trialled sending a direct website link by text to customers who phone us with simple, routine queries, like finding out their reference number or resetting a password. Following positive feedback, we've also expanded access to our new online performance dashboard, so all customers can use it to check current service levels and processing times to find out when to expect a response from us, without having to call.

Where customers do need to get in touch over the phone, we've introduced a new system that uses features such as intelligent voice recognition to improve and simplify the customer experience. Migrating our telephony services onto this new platform has enabled us to streamline the range of helpline numbers that customers use to contact us.

Since the end of 2022 to 2023, we have taken additional steps to manage our customer helplines more efficiently. For example, from 12 June 2023, we piloted a new seasonal model for our Self Assessment helpline, closing it for 3 months during this quieter time of year so that our expert advisors can focus on other priority areas of work, and in turn reduce the need for customers to call looking for progress updates on those issues. Self Assessment support is still available via webchat, online services and increased capacity in our Extra Support Team, so that customers who really do need to speak to us about Self Assessment still can.

Our commitments: strategic objective 2

In the financial year 2022 to 2023, alongside all our activity to make it easy to get tax right and hard to bend or break the rules, we made 5 commitments in this area. The table below details our progress against each commitment at the end of the financial year.

Status at the end of 2022 to 2023		
On track or complete ✔	Risk to delivery ⚠	Not on track ✘

Commitment	What we delivered	Status
Contact Engagement Programme	We successfully decommissioned our legacy telephony system and rolled out a modernised platform to improve our telephony and customer service tools that has handled over 14.8 million calls up to the end of March 2023.	✔
Making Tax Digital for VAT	We met our commitment to roll out Making Tax Digital for VAT-registered businesses with a turnover below £85,000, who were mandated to use it from April 2022. Filing through this software is now the norm for 99% of VAT customers.	✔
Making Tax Digital for Income Tax Self Assessment (ITSA)	In December 2022 the government announced more time for customers and HMRC to prepare for Making Tax Digital for ITSA. Our focus is on enabling MTD-compatible software for ITSA from April 2026, making the filing of tax returns easier, fairer, less prone to error and closer to real time. We are reviewing whether or how the service can be shaped to meet the needs of small businesses. Read more on page 33.	⚠
Single customer account	The Single Customer Account programme is providing customers with simple, secure and personalised services on the HMRC app and online. We have delivered a new online Child Benefit claims service and launched online features to view Child Benefit payments, get proof of entitlement or change bank details – so customers no longer need to call for these. This improves the customer experience and reduces costs to taxpayers. We need to deliver more services to meet our ambition for more customers to shift to digital services.	⚠
Unique Customer Record	The Unique Customer Record will give a holistic view of every customer, unlocking greater potential for us to support customers who need help and identify those trying to avoid doing the right thing. We have embedded more effective governance to standardise and improve data quality, and how we access it. We also carried out our first test of a new 'data matching' tool, using over 1 million customer records - a crucial first step in merging data to provide a single view of each customer. After refining the tool's capabilities, we will test it on a further 8 million records. This commitment is Amber due to a delay in delivering some milestones this year.	⚠

Key performance metrics: strategic objective 2

Figure 5: Customer experience: Net Easy for digital, webchat and telephony contact

In 2020, we introduced a new performance metric called Net Easy. This metric is based on a survey offered to customers after every telephone and digital interaction asking the question: ‘How easy was it to deal with us today?’. The score represents the total of positive responses minus the total of negative responses, to achieve a net score. Whilst our overall score of +59.8 is below our service standard of +70, our expectation for this measure was always uncertain with limited data to benchmark our performance.

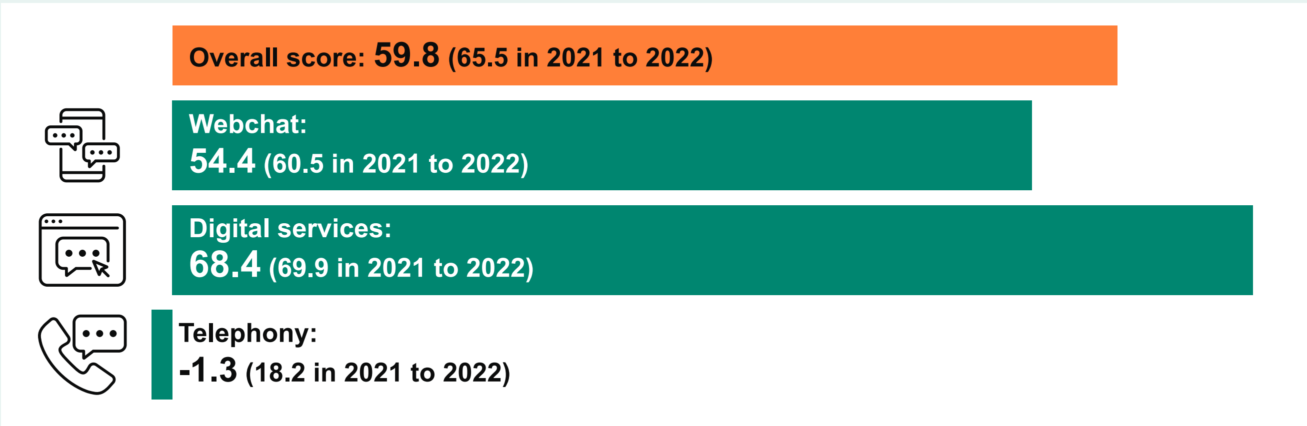
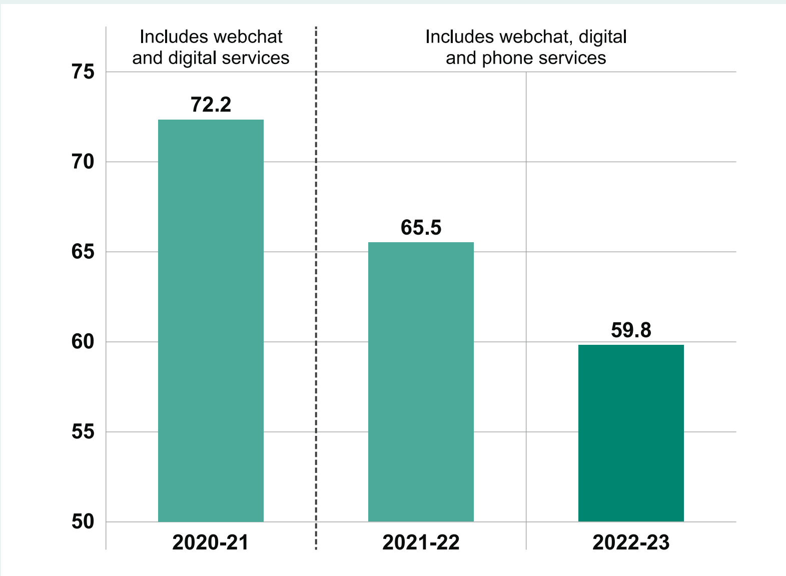


Figure 6: Customer experience - 3-year trend for Net Easy for Digital, Webchat and Telephony contact

We started tracking Net Easy on our digital interactions in 2020 to 2021, expanding the scope to include telephone interactions in 2021 to 2022. The chart below shows the trends for each category over that period.



Webchat adviser attempts handled

The proportion of customers requesting a webchat who were then able to chat to an adviser remained consistent throughout 2022 to 2023 and averaged 94.7% for the year, a slight increase from 2021 to 2022.

Figure 7: Telephony adviser attempts handled

Telephony Adviser Attempts Handled Percentage (AAH) is one of our core customer service performance metrics. It measures the proportion of callers that successfully got through to an adviser after hearing the automated messages and choosing to speak to an adviser. In 2022 to 2023 we received over 38 million phone calls (of which 28 million were handled either by an adviser or our automated systems) compared to receiving 35 million in 2021 to 2022.

Historically we have reported against customer facing telephone numbers (such as tax credits, PAYE and SA) only. From 2021 to 2022, to enable HMRC to provide a complete picture of our telephony performance, we now include all HMRC helplines (for example, phone lines used when a call is transferred from an advisor for further back-office support number or lines used by Debt Management for customers to respond directly to following a campaign).

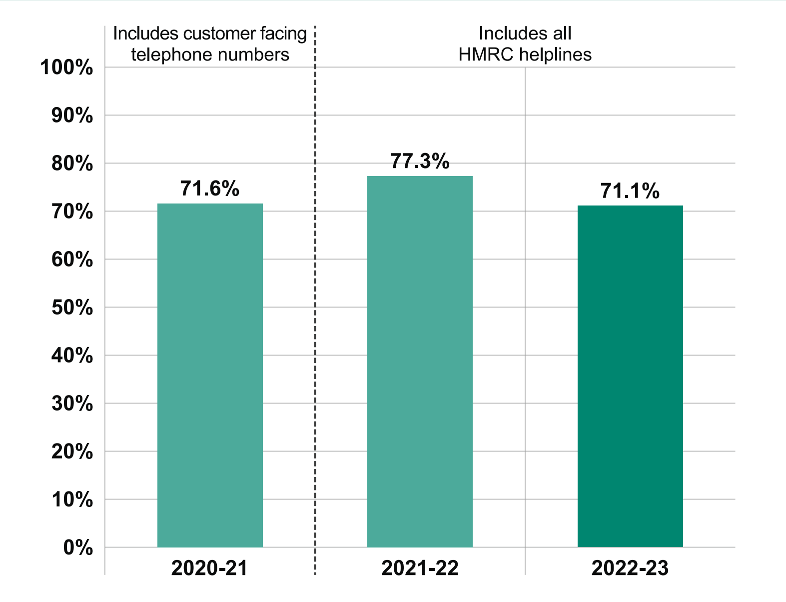
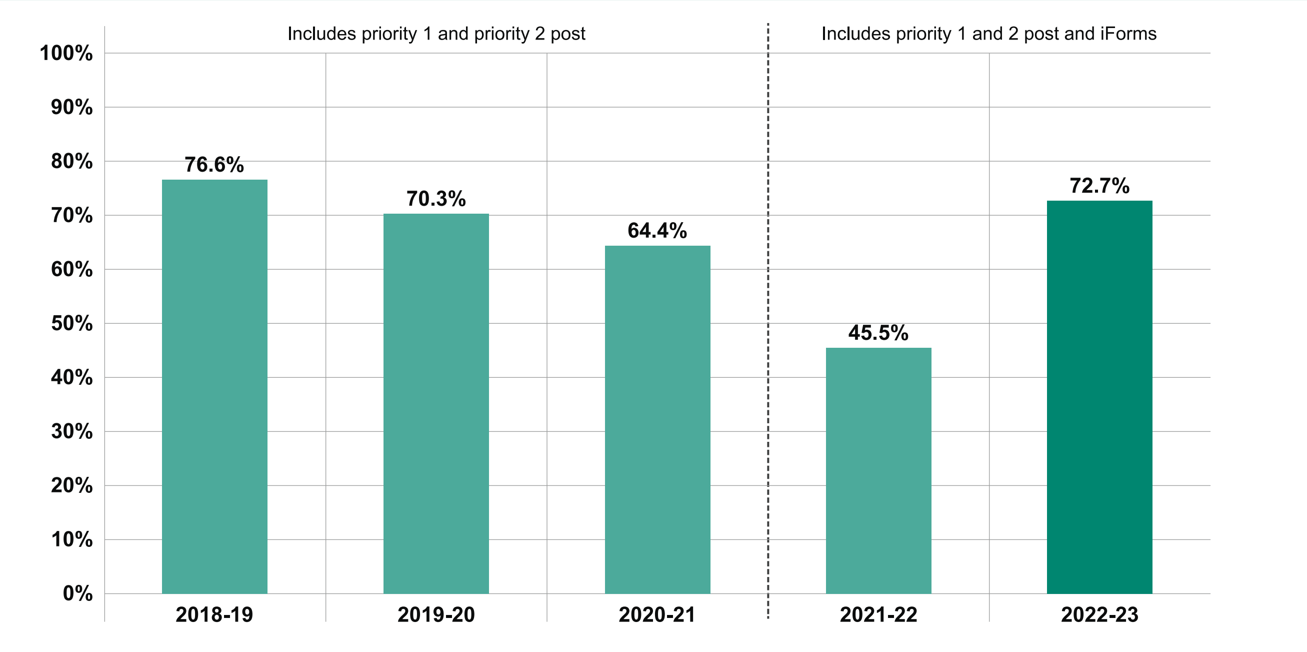


Figure 8: % of customer correspondence responded to within 15 working days of receipt

In 2022 to 2023 we received a total of 19 million post items and 2.8 million iForms, compared to 16.3 million post items and 2.3 million iForms in 2021 to 2022 respectively. Out of the total customer correspondence received this year, 16 million required a direct response from HMRC. The proportion of these turned around within 15 working days of receipt was 72.7% across the year.



Strategic objective 3: Maintain taxpayers' consent through fair treatment and protect society from harm

We have a responsibility to be impartial and ensure that everyone plays by the same rules. This chapter sets out our work to build public trust and maintain taxpayer consent through the way we operate, as well as our work to protect society from harm by tackling deliberate wrong-doing.

How we performed

Building public trust

Public trust is crucial for us to operate effectively and ensure the correct tax is paid. It's vital that we support our customers when they're trying to get things right and we're committed to making our systems, services and processes inclusive and fair for all customers, recognising people's different personal situations.

Embedding our Charter standards

The HMRC Charter sets out the standards of service and behaviour that our customers should expect from us, including how we will support customers who need extra help and how we will keep customer data secure. Our Charter Annual Report describes our progress in embedding the Charter standards and our priorities to further improve our customers' experience of interacting with us. We continue to make good progress but have more work to do to truly embed our Charter standards across the department. In 2022 to 2023 work included:

- introducing new and improved guidance to improve the clarity, and tone of our communication with customers, supporting them to get things right
- continuing to help colleagues develop the skills they need to deliver the Charter standards through our work to embed the Compliance Professional Standards into our compliance work
- ensuring our customers who need extra help are identified at the earliest opportunity, and signposting those going through a difficult time to appropriate support such as the Samaritans – see page 19.

\+ **Read our Charter Annual Report for 2021 to 2022 at www.gov.uk/government/collections/your-charter-annual-reports**

In focus: Do customers have confidence in HMRC?

The figures below show how small businesses, individuals and agents rated HMRC in 2022. Positive ratings of confidence in HMRC by small businesses and agents have decreased since 2021, with a smaller drop for individuals. We will be conducting an agent contact review to identify specific areas for improvement.

Confidence in the way HMRC does its job:

Individuals	**43%**
Small Businesses	**54%**
Agents	**35%**

HMRC applies penalties and sanctions equally:

Individuals	**34%**
Small Businesses	**39%**
Agents	**49%**

\+ **Read our full Individuals, small business and agents survey at: www.gov.uk/government/publications/hmrc-individuals-small-businesses-and-agents-customer-survey-2022**

\+ **Read our 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**

Using our powers appropriately

We work to ensure that our powers are applied appropriately and fairly, with oversight and safeguards to maintain and build public trust. We have partnered with agents and their representatives to implement and deliver the 21 commitments set out in the February 2021 report 'Evaluation of HMRC's implementation of powers, obligations and safeguards introduced since 2012'. An update report on the work undertaken to deliver the commitments was published recently as part of Tax Administration and Maintenance Day.

+ **Read 'Evaluation of HMRC's implementation of powers, obligations and safeguards introduced since 2012' at www.gov.uk/government/publications/evaluation-of-hmrcs-implementation-of-powers-obligations-and-safeguards**

Protecting 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.

Increasing transparency

We aim to increase transparency and build public trust by publishing data and information on how we perform our role as the UK's tax and customs authority. This includes metrics that are published quarterly, including customer experience, debt management, customs and compliance measures, as well as findings from our external research programme and a wide range of official and national statistics.

We published our Evaluation Framework and Evaluation List in November 2021, setting out our approach to monitoring and evaluation and how we gain an understanding of whether policies, programmes and projects have been effective and achieved expected outcomes. We will continue to update the list of our future evaluation publications regularly, to maintain transparency.

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

+ **Read our Evaluation Framework at www.gov.uk/government/publications/hmrc-evaluation-framework**

+ **Read our Evaluation List at www.gov.uk/government/publications/hmrc-evaluation-list**

Resolving customer complaints

We want to get our services right for customers first time but when this doesn't happen, we have a straightforward and accessible complaints process. Although we saw improvements across key aspects of our customer service delivery throughout 2022 to 2023, delays in operational services remained the main driver for complaints (see page 33). We saw a rise in complaints, with new complaints up by 13.7% compared to last year and our average response time increasing from 29.6 days in 2021 to 2022 to 33.4 days in 2022 to 2023. Although higher than we would like, we improved our average response times in the final 6 months of the year.

The Adjudicator's Office provides an independent service to investigate individual complaints that have gone through our internal complaints process but remain unresolved. We work with the Adjudicator's Office to shape how we respond to and learn from complaints and provide them with early insight on customer feedback and issues arising from complaints. In March 2023, we launched a new Complaints Handling, Analysis and Reporting Tool, developed in collaboration with the Adjudicator's Office, to enhance our recording of complaints and generate more robust insight to help us improve our service.

If a customer remains dissatisfied after referral to the Adjudicator's Office, their MP can refer their complaint to the Parliamentary and Health Service Ombudsman (PHSO). Only 9 complaints about HMRC were taken up by the PHSO in 2022 to 2023 for a detailed investigation. We have worked in partnership with the PHSO and other government departments to support the development and launch of the PHSO UK Central Government Complaint Standards. These standards provide colleagues across government with principles and guidance for best practice in complaint handling. We have agreed to pioneer these standards, enabling us to play a leading role in their further development.

+ **Read our response to the Adjudicator's annual report 2021 to 2022 at www.gov.uk/government/news/hmrc-and-the-valuation-office-agency-response-to-the-adjudicators-office-2022-annual-report**

In focus: Protecting customers claiming tax repayments

We want to ensure that taxpayers pay the right amount of tax and can easily access refunds they are entitled to. Taxpayers can use repayment agents to make claims for repayments of tax, and many are happy with the service they receive from such agents. However, between January 2022 and October 2022, we received over 2,200 complaints about the activity of some repayment agents, mainly regarding:

- the use of assignments, which legally transfer the benefit of the taxpayer's repayments to the agent
- taxpayers not being made aware of, or fully understanding, the terms and conditions to which they are agreeing
- taxpayers being unaware that they are dealing with a third party and not HMRC

We are taking action to deal with agent misconduct. To get this right, we consulted on ways to protect consumers claiming income tax and PAYE repayments using a repayment agent. In June 2022, we launched a 12-week consultation 'Raising standards in tax advice: Protecting customers claiming tax repayments', on how to tackle the unique issues associated with poor repayment agents and consider ways to better protect taxpayers.

After analysing the responses, we published the 'Summary of Responses and Next Steps' in January 2023 and are taking steps to improve transparency and customer protection in the repayment agent market, including:

- legislating to render void assignments for income tax repayments from 15 March 2023 as stated in this year's budget
- introducing new transparency requirements in the HMRC Standard for Agents
- undertaking further work to strengthen the evidence that a claim has been made with a customer's consent
- introducing a new requirement from 2 May for paid agents to register with HMRC via our agent services account if they want to continue to submit claims for income tax repayments

We work to monitor agents and challenge them when there are potential concerns about their practices. We will take action if a Repayment Agent does not adhere to the HMRC Standard for Agents - including suspending claim processing until any issues are resolved, to protect taxpayers and the tax system.

Penalty reform

We're introducing a fairer and more proportionate approach to applying penalties to customers who miss a submission deadline or pay tax late, so that we only penalise the small minority who are persistently late to pay and submit returns – not those who make the occasional error.

Our aim is to help customers get things right before monetary penalties are applied. The points-based system for late returns will not punish customers who occasionally miss a deadline. For late payment penalties, we actively encourage those customers to settle payments immediately or set up a Time to Pay arrangement where necessary.

Our new approach to penalties was launched for VAT on 1 January 2023 and will be extended to Income Tax Self Assessment in the next few years, in line with the timetable for when these customers will be expected to submit returns using Making Tax Digital-compatible software.

Protecting society from harm

Tax fraud and criminal attacks on the tax system undermine our economy, create unfair competition for legitimate businesses and rob our public services of much-needed funds. They also support crimes that harm communities across the UK.

We use a range of powers and specialist investigation capabilities where we believe that a business or individual is trying to cheat or defraud us. These enable us to uncover even the most complex and determined frauds and bring the perpetrators to account.

Taking action against serious fraud and economic crime

While most people abide by the law, some deliberately and dishonestly set out to defraud HMRC by evading tax, stealing public funds or cheating the system in other ways.

Most of our work to tackle tax fraud makes use of our civil powers. These allow us to obtain the information we need to identify and collect unpaid tax, while imposing financial penalties on those responsible (up to 200 percent of the tax due in some cases).

When a fraud is particularly serious, when we want to send a strong deterrent message, or when our civil powers aren't enough to uncover the truth or recover the tax that is at stake, we have the option to use criminal investigation powers. We reserve complete discretion to conduct a criminal investigation in any case.

We focus criminal investigations on the most harmful organised crime and serious frauds, where they have the most impact. As a result, in 2022 to 2023:

- the average value of our criminal cases has increased from £2.3 million in 2016 to 2017 to £6.2 million
- our serious fraud investigators initiated 396 new criminal cases and more than 12,500 civil investigations into suspected fraud

In focus: enforcing UK strategic export compliance

The UK's system of export controls and licensing for military and dual use goods is administered by the Department for Business and Trade – but HMRC has responsibility for enforcing UK export controls and trade sanctions.

Dual use goods are those which can be used for both civilian and military purposes. In 2022, a UK company pleaded guilty after we investigated a suspected deliberate evasion of UK export licensing controls concerning a shipment of dual use controlled chemicals. We have more investigations underway to make sure military and dual use items do not end up in the wrong hands.

- 240 prosecutions were brought as a result of HMRC criminal investigations, securing 218 convictions with a success rate of 91% in court
- we recovered £165 million in criminal assets using UK proceeds of crime legislation

In our capacity as a statutory Anti-Money Laundering Supervisor, we delivered 3,279 supervisory interventions, issued over £5.5 million in fines and suspended or cancelled the registration of 27 businesses – playing an important part in tackling economic crime.

A key aspect of our approach to serious fraud is strong partnership with other organisations. We regularly exchange data with domestic law enforcement partners such as the Police, the National Economic Crime Centre and others, to support cross-government efforts to tackle risks. This year we received 43,516 requests for HMRC intelligence and information from those partners.

Our international relationships also help us to address the increasingly global nature of tax crime, enabling us to dismantle international smuggling chains and return tax fugitives to the UK. We work closely with the Organisation for Economic Co-operation and Development (OECD) and are a founding member of the Joint Chiefs of Global Tax Enforcement (J5), an alliance of tax authorities from the UK, US, Netherlands, Canada and Australia to share tools, data, technology and expertise to tackle global tax crime.

Tackling tax avoidance

Tax avoidance involves trying to bend the rules to gain a tax advantage that was never intended. We took strong action this year to challenge the promoters of mass marketed tax avoidance schemes, contacting individuals within weeks of knowing they may have entered an employment-based avoidance scheme, advising them of the risk and giving them the opportunity to get out.

Using new Finance Act 2021 and 2022 powers, we named 27 promoters and 5 directors alongside details of the 31 tax avoidance schemes they were promoting. We also issued 13 stop notices requiring them to stop selling or promoting a scheme. Penalties of up to £1 million can be issued for failure to comply, and the government recently announced proposals to make non-compliance with a stop notice a criminal offence.

In focus: preventing phoenixism

Phoenixism is where the same business and/or directors trade successively through a series of companies, each becoming insolvent or wound up in turn, only to continue the same business as a new, separate company – with the deliberate intent to evade paying debts.

We estimate that phoenixism accounts for 10-15% of total losses reported in the Annual Report and Accounts between financial years 2017 to 2018 and 2019 to 2020. These estimates are subject to change as we refine our methodology.

Our approach to countering phoenixism is to use our data and information to target those people behind the abuse and prevent it occurring or reoccurring. Tools we use include taking securities and making referrals for disqualification from acting as director. We will measure the outcomes of our activity and publish information on our performance and impact on this risk in our next annual report.

+ **Read more about our work to address marketed tax avoidance at www.gov.uk/government/publications/use-of-marketed-tax-avoidance-schemes-in-the-uk**

Tackling the hidden economy

The hidden economy is largely made up of low-value undeclared income that might seem harmless to some but represents around 6% (£2.1 billion) of the overall tax gap in 2021 to 2022. This has a significant impact on the UK's public funding and undermines honest taxpayers.

This year the government introduced legislation to extend tax checks to some public sector licences to Scotland and Northern Ireland, making the award of these licences conditional on applicants completing a tax registration check. These requirements will take effect from October 2023, extending existing rules for licences in England and Wales which came into effect in April 2022, and enable us to complete more than 120,000 checks to tackle the hidden economy.

Criminal attacks and phishing

We are constantly vigilant against criminal attacks on our systems and we actively prevent fraudsters from accessing them through strengthened identity verification and authentication. Using the latest data analytic tools, we're identifying and stopping fraud before losses occur and targeting the criminal groups behind these attacks.

In 2022 to 2023, we identified and responded to a significant criminal attack on the VAT system. By deploying additional counter-fraud controls we were able to identify and cancel around 131,000 fraudulent attempted VAT registrations and repayments, helping prevent the loss of £1.83 billion in attempted VAT repayment fraud.

We introduced a new anti-phishing tool in August 2022, to help us deal with referrals from customers and intelligence from multiple sources. This helped increase the number of malicious sites identified from 6,104 in 2021 to 2022 to 24,504 in 2022 to 2023, enabling HMRC branded phishing sites to be removed, preventing harm to our customers.

We have also assisted UK Finance and Lloyds bank with the design and implementation of tailored fraud alerts for customers.

The past year has seen a downward trend in the number of HMRC related telephone scams, with 99,000 fewer scams reported to us in 2022 to 2023 than in 2021 to 2022.

Combating internal fraud, bribery and corruption

Protecting society from harm also extends to being alive to any internal threats. Our zero-tolerance approach to fraud, bribery and corruption is set out in our 'Counter internal fraud, bribery and corruption' strategy, along with a policy and fraud response plan describing our response to these threats. Our Chief Finance Officer has accountability for the policy, which applies to all our employees, suppliers, contractors and business partners.

In focus: enforcing the National Minimum Wage

Our work to protect society from harm extends beyond the tax system. All businesses, irrespective of their size or business sector, are responsible for paying at least the correct minimum or living wage to their employees and we enforce this on behalf of the Department for Business and Trade.

We consider all complaints from workers, proactively conduct enforcement activities and deliver educational activity to support employer compliance. This year we closed a total of 3,192 interventions and delivered targeted communication campaigns that reached nearly 12 million workers and employers, from which we identified arrears of £13.7 million for more than 108,000 workers.

Our commitments in 2022 to 2023: strategic objective 3

In financial year 2022 to 2023, alongside all our activity to maintain taxpayers' consent and protect society from harm, we made 6 specific commitments in this area. The table below details our progress against each commitment at the end of the financial year.

Status at the end of 2022 to 2023		
On track or complete ✔	Risk to delivery ⚠	Not on track ✘

Commitment	What we delivered	Status
HMRC Charter	We made good progress in using our Charter standards throughout HMRC, although feedback from our colleagues and customers tells us there is more we must do and it may take several years to fully embed the Charter into all we do. Read more on page 40.	⚠
Consolidating anti-evasion and avoidance measures and powers	We continued our work to ensure that our use of powers builds trust and that safeguards are effective for taxpayers, publishing an evaluation of our progress at Budget 2023. Read more on page 41.	✔
Preventing revenue loss from serious fraud	We prevented revenue loss from serious fraud in excess of £3.5 billion. Read more about our approach to serious fraud on page 43.	✔
Tackling criminality by pursuing illicit financial transactions	We met our commitment to tackle the enablers of serious fraud, focusing on the illicit financial transactions that underpin tax crime and impact HMRC supervised sectors. We also exceeded our commitment in the number of anti-money laundering compliance supervisory interventions conducted.	✔
Tackling promoters of tax avoidance	We continued to tackle promoters of tax avoidance in line with our promoters strategy, published in March 2020, including naming promoters and the schemes they promote using new powers introduced in Finance Act 2021 and 2022. Some new promoters joined the market during 2022 to 2023, which limited our overall impact. Read more on page 44.	⚠
Longer prison terms for egregious tax fraud	As announced at Spring Budget 2023, in 2023 to 2024 the government plans to introduce draft legislation to double the maximum prison term from 7 years to 14 years for individuals convicted of the most egregious examples of tax fraud.	✔

Key performance metrics: strategic objective 3

Figure 9: Customer experience - customer satisfaction for digital, webchat and telephony contact

Our current key measure of how we are maintaining taxpayer consent is through overall customer satisfaction, which was 79.2% in 2022 to 2023. When we break this down further to the satisfaction levels on each of our different channels – phone, webchat and digital – we can see that the ever-increasing number of customers using our online services to manage their tax affairs are generally very satisfied with them.

Overall score: 79.2% very satisfied or satisfied (82% in 2021 to 2022)

Webchat:
75.7% very satisfied or satisfied (78.3% in 2021 to 2022)

Digital services:
82.7% very satisfied or satisfied (83.6% in 2021 to 2022)

Telephony:
54.1% very satisfied or satisfied (65.5% in 2021 to 2022)

Figure 10: Customer experience - 5-year trend for customer satisfaction for digital, webchat and telephony contact

We started tracking Net Easy on our digital interactions in 2020 to 2021, expanding the scope to include telephone interactions in 2021 to 2022. The chart below shows the trends for each category over that period.

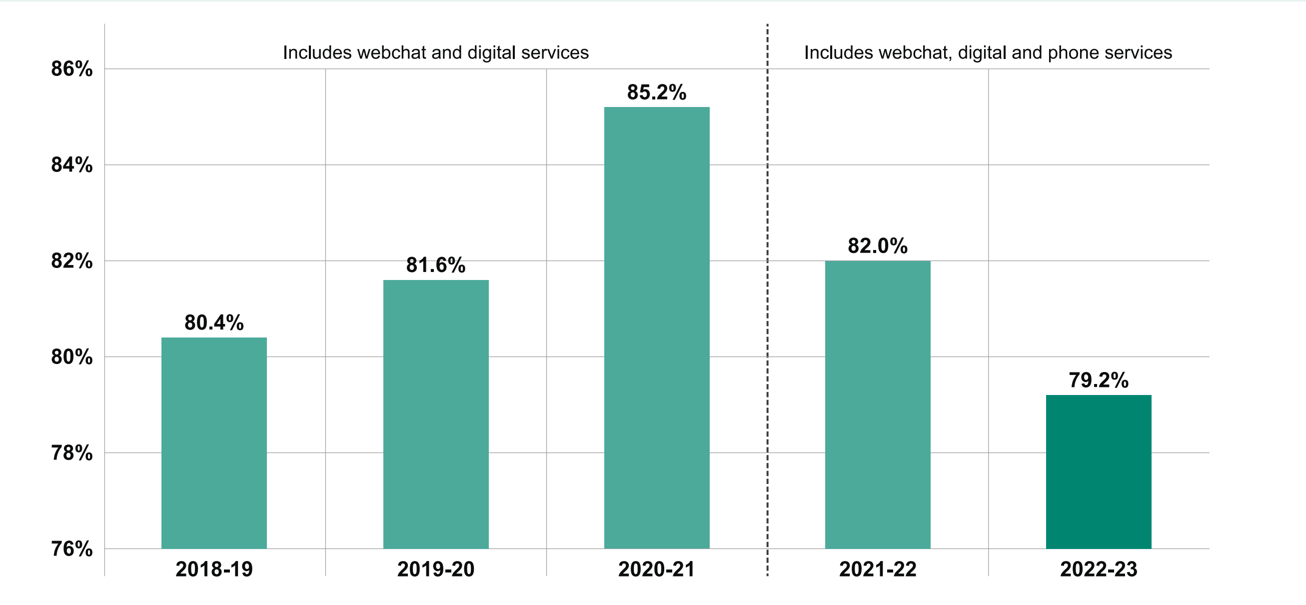
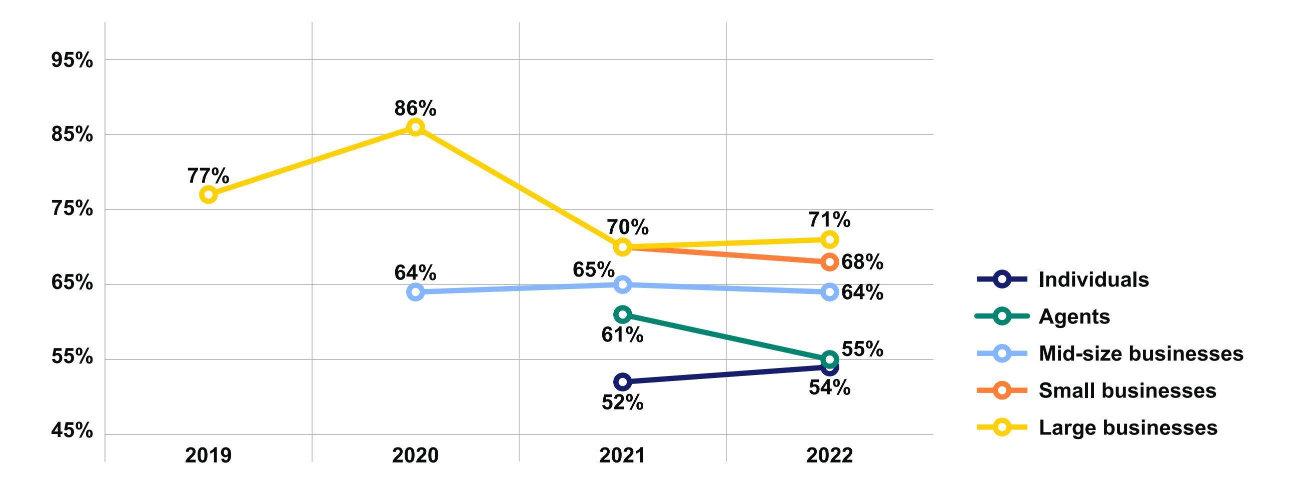


Figure 11: Trust in HMRC

The graph below shows how small, large and mid-size businesses, individuals and agents rated us when asked whether HMRC is an organisation they trust. We introduced this question into our customer surveys in different years.

More than half of Individuals and Agents surveyed reported that they trust HMRC as an organisation in 2022. For Individuals this is consistent with 2021 and for Agents there has been a decrease in 2022 compared to 61% in 2021.

In 2020, there was a significant increase in the percentage of Large Businesses having trust in HMRC (from 77% in 2019 to 86% in 2020). In 2021, this decreased significantly to 70% has since remained consistent.



Strategic objective 4: Make HMRC a great place to work

We want to make HMRC a great place to work, so we're working hard to make sure that every colleague has the opportunity to develop new skills and grow their career in a modern inclusive environment, equipped with the tools, systems and technology that allow them to deliver effectively for our customers.

How we performed

Our 5 pillars for a great place to work

To make HMRC a great place to work, we're focusing our activity in 5 areas, based on feedback from colleagues and external insight:

- connection to purpose
- a great environment
- enabling colleagues to do their best work
- an attractive employment offer
- a continuous learning culture

Connection to purpose

HMRC's purpose is unique, so it is important for every colleague to understand their connection and contribution to it. We want colleagues to feel proud and confident in the work they do.

We reinforce colleagues' connection to our purpose by sharing their achievements with others which, in turn, helps them to deliver a great customer experience and builds public confidence in HMRC.

We celebrate these achievements in various ways, such as through our annual People Awards and Customer Service Champion Awards. Feeling connected is also about understanding the bigger picture of HMRC's work, so we share regular updates on HMRC's priorities and performance and encourage team discussions on the difference every colleague's work makes to supporting customers and delivering HMRC's objectives. Each year we conduct a people survey to gauge the experience and engagement of people working in HMRC. Two thirds of colleagues completed the 2022 People Survey – an improved response rate of 8 percentage points on 2021. 86% of respondents said they understood how their work contributes to HMRC's wider objectives.

The Employee Engagement Index in the People Survey measures how connected colleagues feel to HMRC's purpose, and how motivated and proud they feel in their work. Our score for 2022 was 59% - maintaining our 2021 score. Acting on insight from colleague feedback will help us to improve as an organisation and create a working environment we can all thrive in.

A great working environment

We're working hard to build a strong working environment for everyone at HMRC, where colleagues can come together easily to collaborate, learn and feel part of a diverse and inclusive organisation.

Our locations strategy, announced in 2015, remains key to this, and to all our departmental objectives. Throughout the UK we're establishing safer, more modern workspaces with high-speed digital infrastructure that provide opportunities for smarter working, innovation and greater collaboration.

This year we opened 3 regional centres in Glasgow, Manchester and Nottingham and closed 10 outdated smaller offices. Along with our other regional centres, these new estates enable colleagues to work together as part of a professional community and create opportunities and career paths in every area of the UK. Our Belfast, Cardiff and Edinburgh regional centres also provide a home for UK ministers in the devolved nations, that can be used to host full Cabinet meetings.

Moving to hybrid working has enabled us to reduce our office space, saving public money. At the end of March 2023, we had let around 49,000 square metres of space in our offices to 39 other departments and organisations, accommodating over 12,000 FTE colleagues from these departments alongside HMRC and Valuation Office Agency colleagues. Sharing high quality, flexible office space with other departments enables smarter working, saves money and offers improved career paths for our employees.

But a great environment is not built on excellent workplace facilities alone. We recognise the importance of creating an inclusive culture that allows every colleague to be their best at work and which fully reflects the society we serve.

Our activity in 2022 that contributed to this included:

- strengthening our approach to equality, diversity and inclusion by developing evidence-based inclusion priorities and success measures, for implementation in 2023
- delivering the remaining aspects of our Respect at Work programme – which identifies and removes barriers to living according to our commitments of being fair, kind and human
- conducting research to better understand what we can do to ensure the Newcastle regional centre better reflects the region's ethnic minority[1] labour market, as a pilot for other regional centres

In focus: building safe, healthy workplaces

Our managers and colleagues are supported by comprehensive health and safety arrangements, guidance and learning, with access to in-house and third-party professional support and advice.

To ensure we have effective health and safety arrangements for colleagues, we have trained a network of 531 Display Screen Equipment (DSE) assessors. At the end of 2022 to 2023, 93% of employees have completed our on-line DSE - using mobile devices training.

Throughout 2022 to 2023 we have focused on ensuring our workplaces remain safe and healthy for all occupants. We have reviewed the Occupied Building Risk Assessment (OBRA) to ensure a consistent approach in how we manage our workplaces. We have put in place new arrangements to provide statutory first aid and Incident Marshall cover in our workplaces using British Standard 9999.

We encourage employees 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. As an employer, we report incidents in specific categories to the Health and Safety Executive (HSE), under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDOR).

In 2022 to 2023, there was a 28% increase in RIDDOR incidents reported to HSE (23 this year compared to 18 reports in 2021 to 2022). The number of non-RIDDOR incidents reported also increased by 49% (1,322 this year up from 890 in 2021 to 2022).

+ Read Annex 4 on page 291 for a breakdown of incident reports

1 The term ethnic minority includes colleagues who declared their ethnicity as Black, Asian, Chinese or mixed ethnic background.

- delivering a departmental race equality programme, that includes the development of online inclusion learning for all colleagues to be launched in 2023
- ongoing delivery of inclusive design and digital and physical accessibility in our workplaces

In addition to this, responses in the 2021 People Survey showed that we have made significant progress in reducing the level of bullying, harassment and discrimination rates for ethnic minority, disabled and LGBO (an aggregated category that includes people who declared their sexual orientation as gay man, gay woman/lesbian, bisexual or ‘other’) colleagues, and this has stayed relatively stable in 2022. However, we acknowledge that there is more that can be done to ensure that all colleagues are treated with equal respect, and so tackling bullying, harassment and discrimination remains an area of focus for us.

+ **Read HMRC’s equality objectives at www.gov.uk/government/publications/hmrc-equality-objectives-2020-to-2024/hmrc-equality-objectives-2020-to-2024**

+ **Read HMRC’s gender pay gap report at https://www.gov.uk/government/publications/hmrc-and-valuation-office-agency-gender-pay-gap-report-and-data-2022**

Enabling colleagues to do their best work

We’re taking action to make sure that everyone at HMRC has access to the right tools and support to enable them to do their best work. We aim to provide everything needed to do a professional job and deliver high-quality services to our customers, from clearly defined roles and expectations to modern and efficient facilities, good quality data, processes and technology.

For example, we have put in place new IT contracts that give colleagues better access to the latest technology and make our IT infrastructure more secure and reliable. Updating our IT estate is a sizeable and complex task, but it will benefit both colleagues and customers as in the longer-term systems will perform better, incur less ‘down-time’ and be easier to update.

In October 2022 we also launched a new intranet, designed using data about the information and services colleagues use the most, so everyone can find what they need more quickly and easily. Also in 2022 to 2023, we resumed and re-prioritised our strategic workforce planning, identifying the skills and capabilities we need to deliver our longer-term objectives, with work now focused on developing an organisation-wide strategic workforce plan.

An attractive employment offer

We want our people to feel rewarded for the great work they’re doing and to have an employment offer that supports flexibility in how, where and when they work. This helps us retain talent and attract new talent, so we have the right skills to deliver for customers.

We modernised our pay and contracts in 2021 to make our working arrangements and terms and conditions simpler, fairer and more consistent. The changes made it easier to deploy colleagues where they’re needed most, provided better pay, and gave greater choice and flexibility in how, where and when they work, where roles allow.

Like many organisations, we view flexibility of work location as an important part of an attractive employment offer. Most colleagues now have the option to work from home for a portion of the time, depending on business needs. This flexibility promotes an inclusive environment, and enables our employees to balance their work and personal commitments appropriately. And having listened to feedback from colleagues, in January 2023 we launched a trial giving colleagues the option to sell back some of their annual leave, bringing us into line with other government departments who offer this.

The wellbeing of our employees is paramount. We have continued to promote help available for colleagues to manage their health and wellbeing through regular communications, and provide easy access to information and support through our 'Help for You' intranet pages. This year we have particularly focused on helping colleagues to access services and support around financial wellbeing and cost of living concerns by promoting the help available through our Employee Assistance Programme and the Charity for Civil Servants.

In focus: building careers across the UK

We have been moving roles out of London – since 2020, we have reduced the overall size of our London footprint from 16% to 15% and only have 2% of our staff based in our central London headquarters. Of our Senior Civil Service roles, 52% are now based outside London, which already exceeds the 50% Places for Growth target. We have effective control measures to maintain this and we are committed to moving a further 2,500 FTE roles out of London by 2030 (500 by 2025).

A continuous learning culture

We want everyone at HMRC to feel in control of their own personal learning and development, giving them the knowledge, skills and experience they need to unlock their full potential and follow attractive and rewarding career paths.

So, we're building a continuous learning culture that promotes and encourages opportunities for personal and career development, such as providing apprenticeships and online learning modules. The number of applicants for our accelerated development programmes has more than doubled this year, from 624 to 1,264.

In 2022 to 2023 we updated our leadership development strategy and launched a new programme, Leadership within the Enterprise, to help leaders develop their capability and confidence in systems thinking. In 2022 to 2023, 70 leaders participated in the pilot programme.

We launched new learning activity this year that gives colleagues a deeper understanding of the HMRC Charter and what it means for our customers. We're training all colleagues who are new to customer compliance work to a set of professional standards which embody the Charter, to help make sure that we're consistently focusing on the customer and how customers are treated. And colleagues in customer services roles can benefit from a new digital learning hub developed this year to support them in their roles.

Our approach to whistleblowing

Our commitment to creating a great place to work includes making sure that people can speak up if they feel that things are not right. We want people to feel safe and supported, know that their concerns will be taken seriously and dealt with quickly, and be assured that they will be kept informed.

Over the last year we have:

- improved our 'In-confidence' anonymous reporting system, creating a better user interface and more space for colleagues to report whistleblowing concerns, as well as new guidance to support people to speak up

- reached thousands of colleagues during the HMRC ‘Speak Up Week’ in 2022, with a broadened remit to cover counter fraud and personal security
- continued promoting the work of Nominated Officers who offer support to our people on whistleblowing concerns.

Whistleblowing case numbers in 2022 to 2023 are in line with those from 2021 to 2022 but are still far lower than numbers prior to the COVID-19 pandemic, when we would have seen around 150 cases annually. With case numbers remaining low, it is difficult to identify systemic issues or trends. We will work further to understand how we can support whistleblowing in a hybrid home-office working environment.

Table 2: Whistleblowing cases

Financial year	2022-23	2021-22
Total cases	88	61
Number categorised as whistleblowing	22[1]	15

1 At year end 16 cases are still under investigation and not yet categorised as whistleblowing

Our commitments in 2022 to 2023: strategic objective 4

In financial year 2022 to 2023, alongside all our activity to make HMRC a great place to work, we made 1 specific commitment in this area. The table below details our progress against our commitment at the end of the financial year.

Status at the end of 2022 to 2023		
On track or complete ✔	Risk to delivery ⚠	Not on track ✖

Commitment	What we delivered	Status
Transform our estate	We opened a further 3 regional centres in Nottingham, Glasgow and Manchester, enabling more than 10,350 HMRC employees to move into these new offices. We also closed a further 10 offices within the planned timescales. Read more on page 50.	✔

Key performance metrics: strategic objective 4

We are developing our approach to measuring our performance against this strategic objective, with a wider suite of measures, while using the Employee Engagement Index as a key indicator.

The following tables set out our employee data across a range of diversity characteristics. Workforce diversity characteristics other than sex are voluntarily reported by colleagues and the declaration rate varies by characteristic, so the data reported below excludes colleagues who have not declared diversity information. We publish workforce diversity data and equality information in our annual report on compliance with the public sector equality duties at www.gov.uk/government/collections/equality-and-diversity#equality-act-2010

Figure 12: Proportion of employees who are female

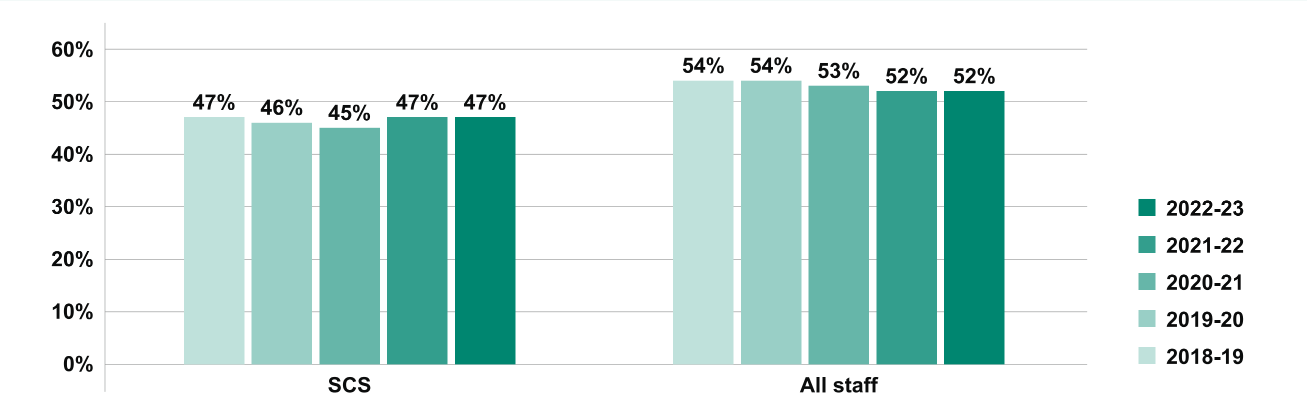


Figure 13: Declared proportion of employees with a disability

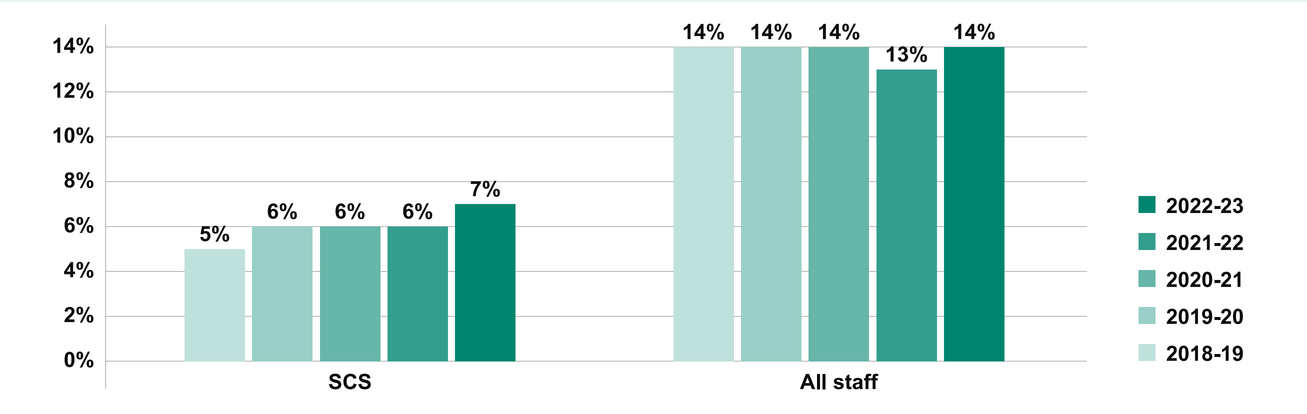


Figure 14: Declared proportion of ethnic minority employees

The term ethnic minority 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.

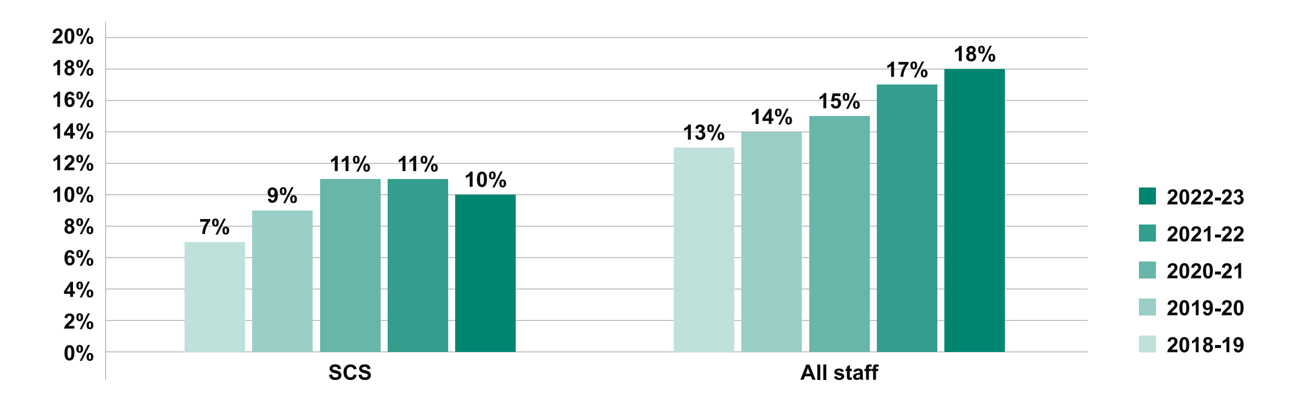


Figure 15: Declared religious belief status of employees - Yes

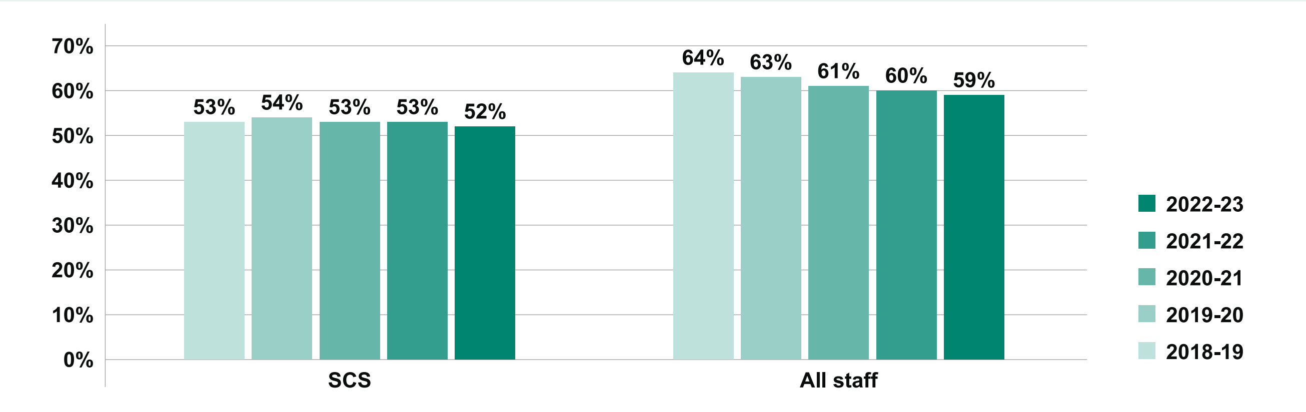


Figure 16: Declared religious belief status of employees - No

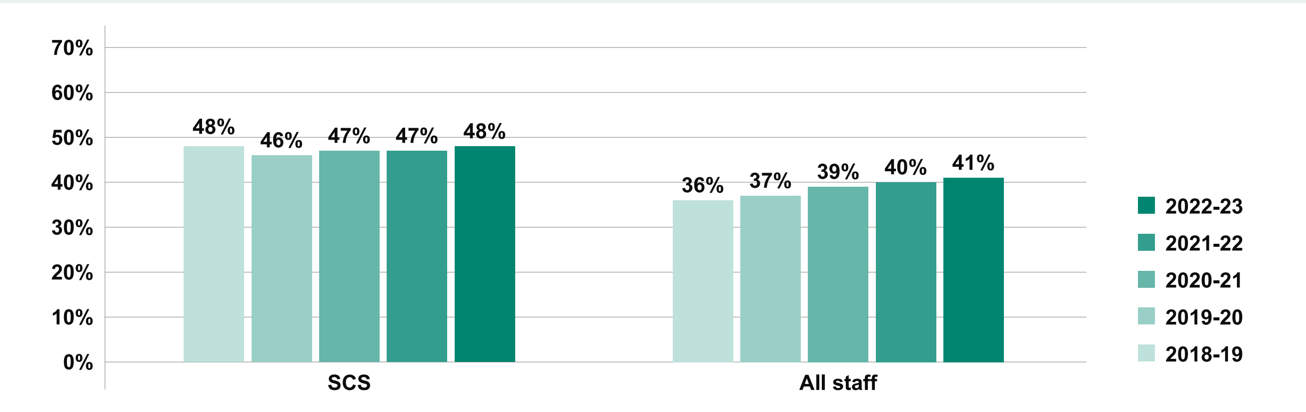


Figure 17: Declared sexual orientation category of employees: LGBO

This chart shows the percentage of people who declared their sexual orientation as gay man, gay woman/lesbian, bisexual or other.

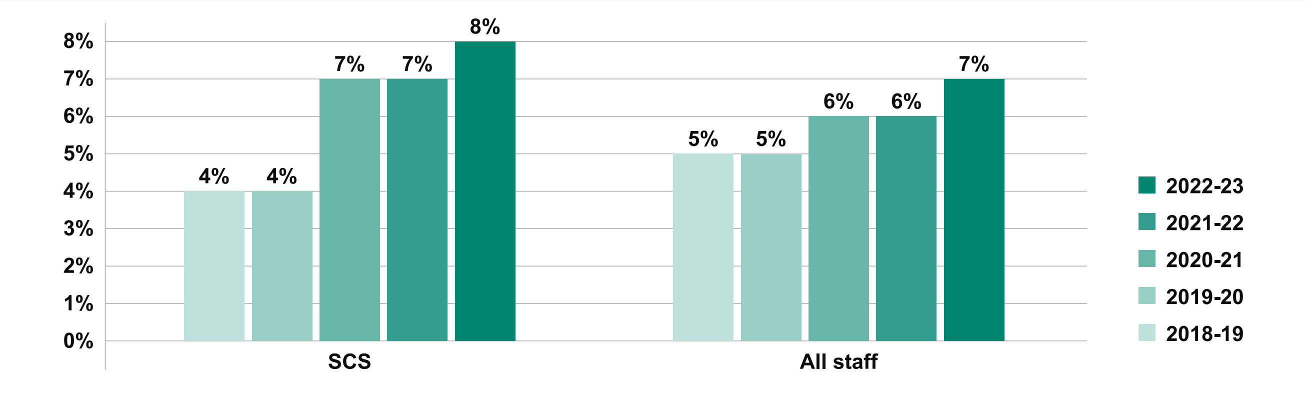


Figure 18: Annual People Survey - fairness

Over the past 5 years we have introduced new values, commitments and behaviour standards and made changes to policies, processes and key employee interactions such as giving feedback, managing performance and speaking up. The fairness and inclusion scores in our annual People Survey reflect the improvement in colleagues' experience of working at HMRC over the past 5 years.

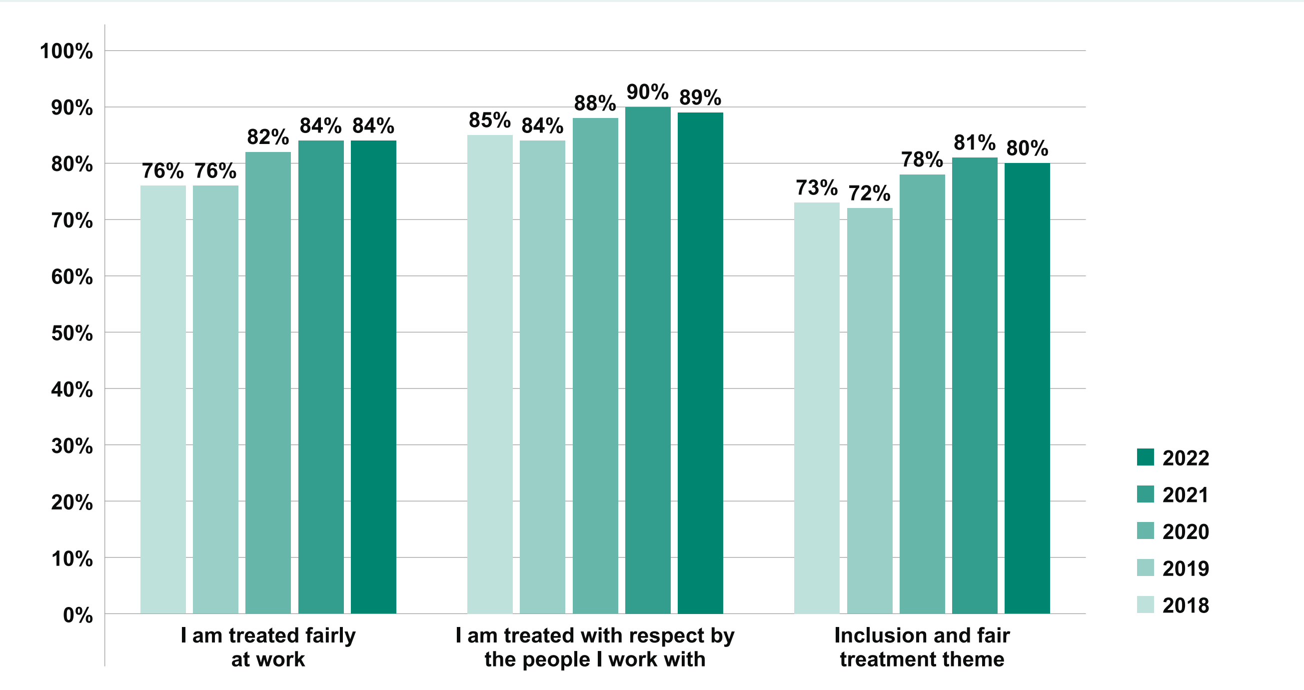


Figure 19: Sickness absence data

Sickness absence levels are measured using Average Working Days Lost (AWDL), calculated by dividing the total number of days lost to sickness absence over a 12-month period by the current FTE. Whilst patterns of absence remain consistent with previous years once adjusted for pandemic related absence, total annual working days lost due to illness remains higher during 2022 to 2023 than the previous 2 years. The position throughout 2022 to 2023 remained relatively consistent, peaking at 8.88 AWDL before reducing to 8.75 AWDL and we are starting to see small but sustained reductions.

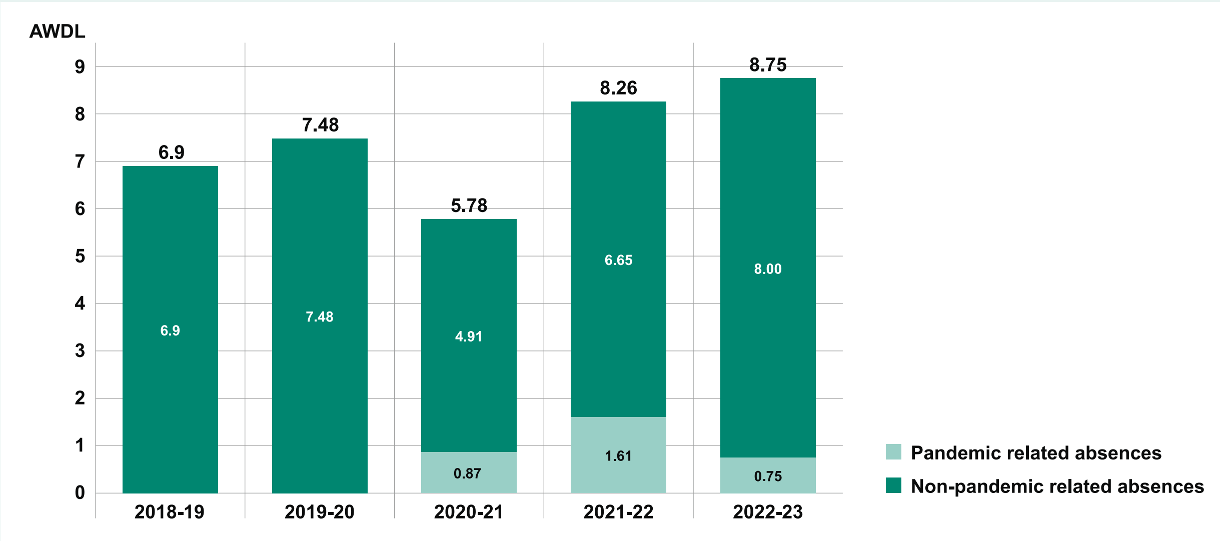
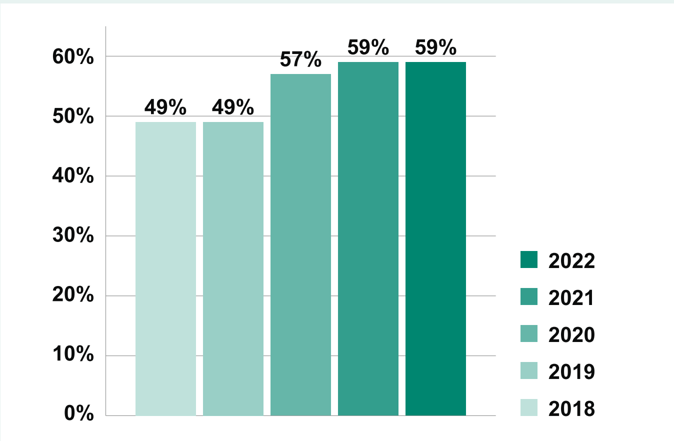


Figure 20: Employee Engagement Index

Our Employee Engagement Index has trended upwards over the last 5 years. The score of 59% in 2022 maintains our 2021 score.



Strategic objective 5: Support wider government economic aims through a resilient, agile tax administration system

HMRC does much more than collect taxes. Our vital role in the government's response to COVID-19 showed that a resilient, agile tax administration system is central to achieving wider government economic aims. Now we're helping to deliver the government's big priorities of growth, stability, and public services – for example, through reshaping the role of customs and making our IT, processes and activities more resilient and sustainable.

How we performed

Our vision for transforming the UK border

We are committed to supporting the vision, as set out in the government's 2025 UK Border Strategy, of having the world's most effective border. Our aim is to have a world-class customs system that makes it easier for customers to complete their obligations through simpler processes and more efficient modern platforms, supports economic stability and growth, and protects against market, security, biosecurity and fiscal risks from imports and exports.

Modernisation is integral to this vision, and 1 October 2022 marked an important milestone in our move towards a single customs platform. After 30 years of traders using our Customs Handling of Import and Export Freight (CHIEF) system to make declarations, importers are now submitting their import declarations through the new Customs Declaration Service (CDS).

We have successfully migrated importers to our new Customs Declaration System, with 97.8% of import declarations now being made on CDS (as of 31 March 2023). After engaging with industry, we have announced that exporters will need to make export declarations through CDS from 30 November 2023. This represents a challenging timescale for exporters to migrate from CHIEF, and we continue to work with traders to implement this change.

We are also responsible for delivering the cross-government programme to create a Single Trade Window – a digital gateway where users can meet all their import, export and transit obligations by submitting information once. This will support UK trade and facilitate growth by reducing administrative burdens at the border. Delivery is phased, with the first services available in late 2023 and early 2024. We intend the Single Trade Window to be fully operational by 2027, subject to the passage of new legislation, customer journey design and the integration of systems across government.

In focus: A new Target Operating Model for the UK border

HMRC is playing a key role in supporting Cabinet Office to develop a new Target Operating Model for the UK border – one that uses technology, data and better coordination to create a simpler border experience, reducing costs and friction for businesses and customers.

We are working closely with other government departments, including Home Office and DEFRA to develop a new model for importing goods into the UK from countries inside and outside of the EU.

The government published a draft of the new Target Operating Model in April 2023.

Following engagement with stakeholders, HMRC is now working closely with other government departments to develop the final Target Operating Model.

Improving the flow of trade at the border

To support the smooth flow of trade, we aim to manage as much customs activity as possible away from the border.

Inland Border Facilities (IBFs) in England and Wales enable us to carry out customs checks and activities where ports have limited capacity on site, supporting the flow of goods at the border. We constantly review the size of the IBF network to make sure it provides value for money and meets the demands of trade. As a result, we closed all temporary IBFs ahead of our December 2022 target which, combined with operational efficiencies, resulted in a saving of £19 million for the public purse while maintaining the flow of trade.

We are also supporting the roll out of Freeports, which are special areas within the UK's border where different economic regulations apply, including a range of tax incentives and customs benefits for eligible businesses. Freeports will increase global trade and investment across the UK, promote regeneration and job creation and promote innovation.

Seven of 8 English Freeports are now operational with 23 out of 24 tax sites also being operational, opening up a range of tax incentives. The remaining Freeport has secured approval for 2 out of its 3 anticipated tax sites and is working towards establishing the customs site necessary to become operational as a Freeport.

There is joint responsibility for delivery of Freeports between the UK government and devolved administrations. Sites were determined for Green Freeports in Scotland and Freeports in Wales following a bidding process, and we are now working with them to establish their tax and customs sites. Discussions continue with our stakeholders in Northern Ireland about how we can extend the benefits associated with the Freeports programme there.

Supporting the Windsor Framework

We played a central role in supporting the negotiation of the Windsor Framework, announced on 27 February 2023. We are now implementing the solutions it provides, with a focus on delivering customs elements between now and October 2024, including:

- the green lane for goods arriving in Northern Ireland
- the new and expanded UK Internal Market Scheme which delivers benefits for 'trusted traders'
- a new tariff reimbursement scheme for goods remaining within the UK
- removing declaration requirements on parcels destined for consumers

We continue to support traders already moving goods between Great Britain and Northern Ireland, in particular through the free-to-use Trader Support Service (TSS), which provides guidance on how to move goods into and out of Northern Ireland and can submit data to HMRC systems on traders' behalf. More than 51,000 traders are registered with the TSS, and the service has facilitated 2.7 million goods movement declarations since its inception in 2021.

In October 2022, we announced that the TSS had been extended by one year until 31 December 2023. The government is committed to supporting traders with moving goods into and out of Northern Ireland and the new requirements of the Windsor Framework, and we are carefully considering the future of this support.

Supporting the cross-government response to the war in Ukraine

At the peak of our support, we deployed 362 FTE staff from our surge and rapid response teams and a further 148 FTE staff from other areas within HMRC, primarily from our customer service function, to support crucial cross-government Ukraine-related activities.

These staff worked on Visa processing and other activities across a range of government departments – for example on the Safeguarding and Response team with the Department for Levelling Up, Housing and Communities, and risk specialists supported the Office for Financial Sanctions Implementation through the provision of HMRC information to inform sanctions.

We continue to support wider government objectives on the implementation of the UK's sanctions regime, including the enforcement of trade sanctions to prevent the export and import of specific goods and services to and from Russia, including gold and luxury goods.

Building a resilient tax system

We are continuing to modernise our IT estate and are working to ensure our systems are up to date and compliant with data and security standards. This will help our systems perform better, be more resilient and be easier to update – continuing our commitment to protect customer data.

By migrating our services to modern infrastructure, taking full advantage of Cloud and Crown Hosting platforms, we will reduce the chances of IT outages and make it easier to innovate in our service delivery. So far, we have migrated or retired 62% of the services in scope from our legacy data centres, with the majority of the remaining services due to be migrated by December 2023. There will be more work to do to remediate or replace software that is out-of-date or no longer fit for purpose.

As guardians of one of the biggest sets of customer and staff personal data in government, we have a responsibility to ensure it is protected with industry standard levels of security, and that our data use is transparent, proportionate and complies with data protection laws.

We are reviewing and remediating 105 systems to ensure they are compliant with General Data Protection Regulations (GDPR). We have already mitigated over 200 business and IT data protection risks, contributing to the completed remediation of 59 systems up to the end of March 2023. We completed all of the work intended for this year against the action plan previously agreed with the Information Commissioner's Office.

We have also continued digitising our historical physical records to make them easier to access and to meet our GDPR requirements, with more than 1.38 billion microfilm records already digitally accessible for the purposes of replying to customer Subject Access Requests.

Like many large organisations, our systems face targeted and frequent cyber-attacks. We have successfully thwarted these cyber-attacks but we need to continuously improve our data security to stay ahead of the criminals who attack our systems. Our 4-year Enterprise Security Programme, now in its second year, is designed to drive forward our work by:

- encrypting the majority of our data at rest and in transit
- reducing the points through which we can be attacked by applying patches and hardening our systems against known vulnerabilities
- deploying early warning technology, improving the visibility of potential breaches or activities that can or will lead to a breach

- transforming our security culture to minimise the ability of internal threat actors to access personal data
- implementing tools and processes to better control access to data, such as enhanced access rights

Using new measures and innovative technology, we have already significantly improved our cyber security in 2022 to 2023 – limiting the ability of criminals to use data they have stolen from our customers in order to impersonate them and gain access to their HMRC records.

Millions of online tax accounts are now more secure thanks to multi-factor authentication. Our identity verification services are similar to those seen in private sector financial services, and we continue to enhance and develop them. We are also using Artificial Intelligence to help identify common security flaws in code, making us more secure with less effort and greater speed.

Supporting devolution

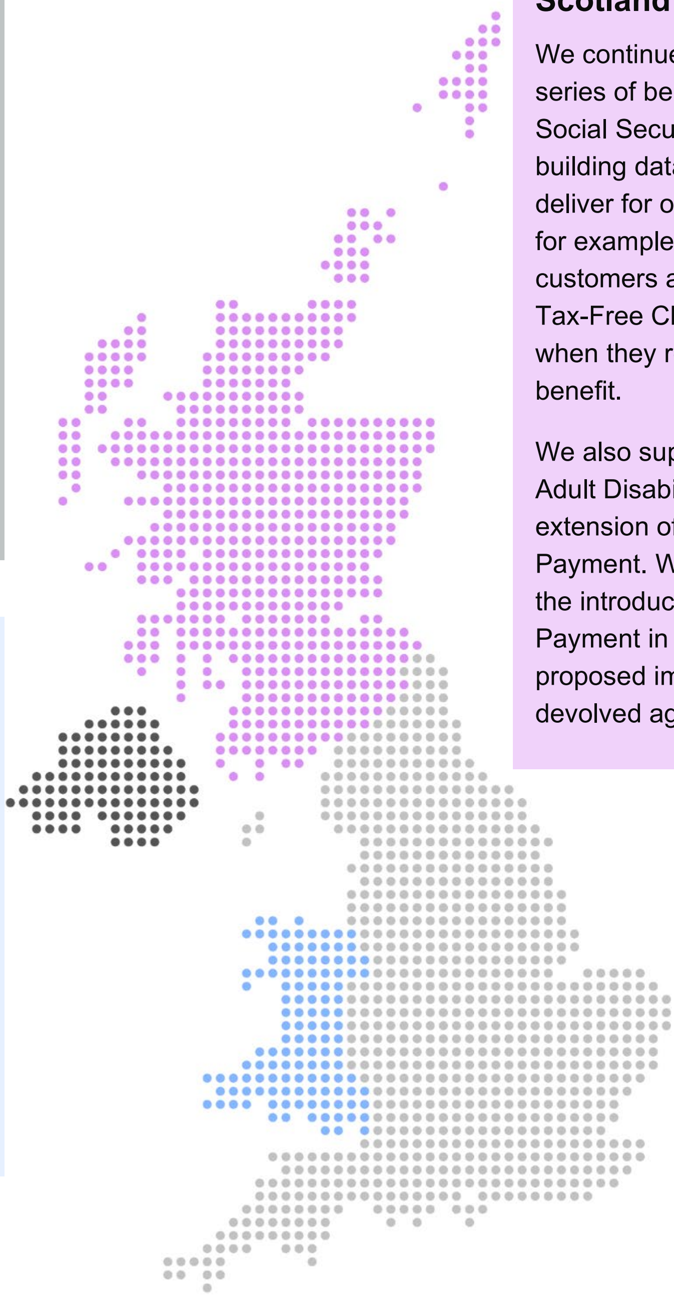
We implement income tax policy on behalf of the UK, Scottish and Welsh governments and work closely with devolved revenue authorities in Scotland and Wales to support each other in administering the taxes for which we each have responsibility, such as Stamp Duty Land Tax and its devolved equivalents. We have also worked with the devolved governments to understand the tax, tax credits and National Insurance implications of cost of living and other support schemes. This year our support for the devolved governments and revenue bodies included:

Northern Ireland

In April 2022 Northern Ireland introduced Statutory Parental Bereavement Leave and Pay, which we administer for them. We will also work on the implementation of phase 2 of Northern Ireland's scheme, which will make employees eligible sooner and extend its scope to cover bereavement through miscarriage.

Wales

The Welsh Government's Basic Income Pilot scheme for care leavers is subject to income tax, and we worked with the Welsh Government to consider whether existing collection systems were suitable and proportionate – and helped them to support young recipients who have had limited interactions with HMRC and the tax system.



Scotland

We continued work on introducing a series of benefits administered by Social Security Scotland, including building data sharing solutions to deliver for our shared customers – for example we may need to give customers additional premiums for Tax-Free Childcare or tax credits when they receive a Scottish benefit.

We also supported the roll-out of Adult Disability Payment and the extension of the Scottish Child Payment. We are now preparing for the introduction of Carer Support Payment in 2023 to 2024, and the proposed implementation of a new devolved aggregates levy.

+ **Further details regarding devolved taxes can be found at note 12 of the Trust Statement on page 222.**

Supporting a more sustainable future

We want our activities, processes and systems to be resilient so we can continue to support our customers in a sustainable way into the future. We're doing this through our commitment to Net Zero, our performance against the Greening Government Commitments and UN sustainable development goals, as well as through other social, environmental and economic measures.

The Greening Government Commitments Framework sets out the actions government departments and their agencies will take to reduce their environmental impacts between 2021 and 2025, against the 2017 to 2018 baseline. See Figures 21 to 29 on pages 69 to 72 for detailed figures on our performance against our Greening Government Commitments sustainability targets.

+ **See more detail on key Greening Government Commitment targets in Annex 3 on page 288.**

Achieving Net Zero by 2040

We have set a target to be Net Zero carbon across our operations by 2040. We are making great progress, having achieved a 58% reduction in carbon emissions from offices and domestic business travel since 2017 to 2018. We are initially focusing on developing roadmaps towards a Net Zero estate, Net Zero Information and Communications Technology and a Net Zero supply chain, as well as increasing our electric vehicle fleet.

In October 2022 we launched our Sustainability Board to embed sustainability and Net Zero into our decision making and ways of working, including climate change adaptation. Sustainability is also represented at HMRC's Strategy Committee. We will look at how sustainability can be incorporated into impact assessments, and programme and project gateway reviews. We have also started work on a Green Skills framework that identifies the knowledge, skills and competencies needed to embed sustainability across the department and have conducted an HMRC-wide assessment to identify gaps.

Sustainable construction and adapting to climate change

We are committed to reducing our environmental impact, so sustainability is at the forefront of our regional centre design. All our new build regional centres achieved a Building Research Establishment Environmental Assessment Method (BREEAM) rating of 'excellent' or 'very good'. The regional centres use solar panels which contribute to our electricity needs and are also designed to help reduce our carbon footprint and water-usage, increase recycling and reduce the waste we send to landfill.

Our estate supports sustainable and healthy travel options by providing cycling facilities and e-bike charging points as well as close proximity to public transport. We are also installing electric vehicle charge points to support our Greening Government Commitments. We will have a climate change adaptation plan in place by 2025.

Sustainable procurement

Government Buying Standards (GBS) are embedded in our contracts and we encourage our suppliers to go beyond the minimum requirements. The facilities management and catering contracts for our regional centres have all met GBS best practice.

We adhere to Cabinet Office Procurement Policy Note 6/21 which requires suppliers for in scope contracts to provide a Carbon Reduction Plan confirming their commitment to achieving Net Zero. We are making good progress towards eliminating consumer single-use plastics from our estate. Out of 23 identified items, 21 have been either fully or partially removed from the estate and alternatives for the remaining items are currently being investigated. We are working with our suppliers to collect data on the number of consumer single-use plastic items purchased, establishing 2022 to 2023 as the baseline year to report against in the future.

In 2023 to 2024 we will be working with a key catering supplier to roll out a system for measuring ingredients to cut down on food waste. Our Glasgow regional centre is taking part in a food redistribution scheme; something we want to explore in our other regional centres.

Nature recovery and biodiversity action planning

We will be developing a nature recovery plan in 2023 to 2024. Our regional centres are located close to transport hubs in city centres and therefore have minimal green space. Work is underway to review our Inland Border Facilities and the opportunities they present to enhance nature and biodiversity.

Social sustainability

Our people are an integral part of their local communities, with many volunteering in schools, charities and third sector organisations, or undertaking public duty roles such as being school governors or magistrates.

Our people have 5 days paid volunteering leave. In 2022 to 2023, more than 1,000 HMRC colleagues across all grades, locations and business groups have collectively invested 3,575 days volunteering in their communities. Our colleagues donated £552,556 to charities in 2022 to 2023 through local fundraising and Payroll Giving.

We also support colleagues who volunteer to serve in the Armed Forces Reserves. We currently have around 180 colleagues actively serving as part-time volunteer reservists. We offer 15 days paid special leave per year for reservist training or duties, ensuring our reservists are ready to support regular forces in times of crisis.

In focus: Tax Facts

We take an active role in promoting economic sustainability through our external outreach. This year we relaunched our award-winning Tax Facts programme for schools and young people with updated materials.

There were on average 2,971 monthly views of our Tax Facts animations for young people, and our teaching and home learning packs were downloaded 3,029 times during the year.

This initiative also promotes the HMRC app, allowing our next generation of customers to start their journey with us digitally.

How we contribute to UN Sustainable Development Goals

We contribute to achieving a number of UN Sustainable Development Goals through our work.

Strategic objective	What we're doing	UN Sustainability Goals
Collect the right tax and pay out the right financial support	We are ensuring that the tax and customs system continues to work in the right way to bring in revenue due and working to maintain the long-term reduction in the tax gap.	1 - No poverty 8 - Decent work and economic growth
Make it easy to get tax right and hard to bend or break the rules	We are expanding and improving our digital services and data systems, including extending Making Tax Digital for VAT and Income Tax.	8 - Decent work and economic growth
Maintain taxpayers' consent through fair treatment and protect society from harm	We are protecting society from harm by reducing our own carbon emissions and those in our supply chain, working towards Net Zero by 2040.	13 - Climate action 17 - Partnership for the goals
Make HMRC a great place to work	We are building the leadership, tax and digital skills that we need for the future. By 2025, we will see an increase of 25% in the number of young people in our target audience who have seen our Tax Facts animations. We also launched British Sign Language versions of our Tax Facts videos in March 2021.	4 - Quality education 5 - Gender equality 10 - Reduced inequalities
Support wider government economic aims through a resilient, agile tax administration system	We are improving our technology and data to ensure that the UK has a more resilient, agile tax administration system.	1 - No poverty 8 - Decent work and economic growth

Our commitments in 2022 to 2023: strategic objective 5

In financial year 2022 to 2023, alongside all our activity to support wider government economic aims, we made 8 specific commitments in this area. The table below details our progress against each commitment at the end of the financial year.

Status at the end of 2022 to 2023		
On track or complete ✔	Risk to delivery ⚠	Not on track ✖

Commitment	What we delivered	Status at year end
Borders and Trade – Northern Ireland	We delivered new services and process changes to support our commitments under the Northern Ireland Protocol, including key legislation for import and excise control systems. We have also rescheduled activity following the introduction of the Windsor Framework.	⚠
Borders and Trade – ending of staged customs controls	We continued to implement full border controls through the ending of staged customs controls, working to improve and align customs and tax systems that enable traders to interact with HMRC as a single entity.	✔
Single customs platform	In December 2022, following migration of import declarations to the Customs Declaration Service (CDS), it was announced that the migration of exports to the new system would be moved from 31 March 2023 to the end of November 2023 to allow more time for industry to prepare for the new platform. From then, CDS will serve as the UK's single customs platform.	⚠
Inland Border Facilities	We delivered, operated, and decommissioned Inland Border Facilities (IBFs) across England and Wales. These are critical to enabling customs and document checks to take place away from port locations, easing congestion at the border. Where IBFs were decommissioned, everything of value was sold, recycled or re-used elsewhere, providing savings to the taxpayer and helping the government reduce its environmental footprint.	✔
Single Trade Window	We have worked with partners across government and industry to understand the changes needed to deliver a world-class Single Trade Window, allowing users to meet their import, export and transit obligations by submitting information once, and in one place. We intend it to be fully operational by 2027. This commitment is amber as to deliver the optimum customer experience and maximise benefits, the programme is dependent on transformation of customer journeys in line with the HMG Border Strategy, and primary legislation to collect and share information across departments. The STW	⚠

	programme is working closely with partners across government to manage these dependencies.	
Freeports	As announced at Budget 2021, we are supporting the introduction of 8 Freeports in England via tax and customs reliefs. At the end of 2022 to 2023, 7 of the 8 English Freeports were operational. The remaining Freeport has secured approval for 2 out of its 3 anticipated tax sites and is working towards establishing the customs site necessary to become operational as a Freeport.	✔
Unity Programme (formerly known as Government Shared Services)	In line with the Shared Services Strategy for Government, we are leading a cluster of other government departments including Department for Transport (DfT) and Department for Levelling Up Housing & Communities (DLUHC) to transform HR, finance and procurement. Unity Business Service will provide shared services that are user-centric, swift and cost-effective to DfT and HMRC from 2024 with DLUHC joining from financial year 2026 to 2027. Development of our business and technical requirements is on track, but not yet mature enough to assess specific risks to the programme's delivery timelines. We are also engaged in commercial activity which will more sufficiently mitigate against potential systems and service disruption when completed.	⚠
Sustainability targets	In 2022 to 2023 we achieved a 58% reduction in greenhouse gas emissions, compared with the 2017 to 2018 baseline, to support our Net Zero ambitions and our targets under the Greening Government Commitments. The amber rating is because we missed our stretching internal milestone targets set for recycling and reducing the number of domestic flights.	⚠

Key performance metrics: strategic objective 5

Figure 21: Sustainable ICT (Information & Communication Technology)

Our ICT strategy complies with the Greening Government Commitments, Government Buying Standards, the government's Cloud First policy and the Waste Electrical and Electronic Equipment Directive. It is designed to reduce our impact on the environment by increasing digital and hybrid ways of working, using more sustainable hardware, (hardware being refreshed every 4 years, rather than 3 years), and aiming to move our onsite data centres to the Cloud by 2024. Our strategy will enable us to make efficient use of sustainable energy and using providers who are committed to Net Zero and renewable power. ICT waste reused includes waste that is redeployed across HMRC.

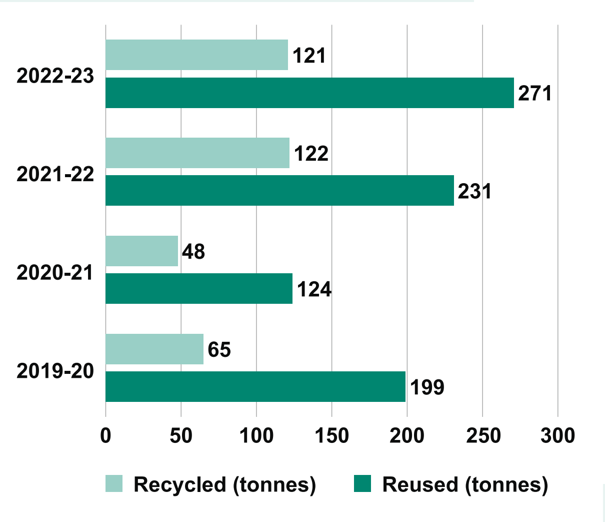
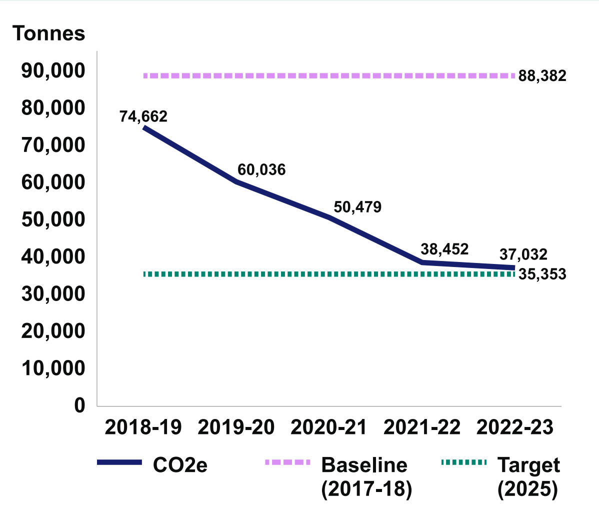


Figure 22: Greenhouse gas emissions (Greening Government Commitment)

Our target for greenhouse gas emissions combines emissions from our buildings and domestic business travel. The 58% reduction is due to our move from legacy offices into more energy-efficient regional centres and our continued efforts to reduce emissions from business travel. We are rolling out an Energy Management System across the estate, to provide real-time energy data. This information has been used to identify inefficiencies across the estate. Read a breakdown of total greenhouse gas emissions data in Annex 3. Against a baseline of 1.16 tonnes of CO_2e per FTE in greenhouse gas emissions, our performance in 2022 to 2023 was 0.55 per FTE.



Ultra-Low Emission Vehicles (Greening Government Commitment)

We have met the target for 25% of our vehicle fleet being ultra-low emission by December 2022, with 29% being ultra-low emission by this date. We are now working to install the charge point infrastructure we need as we move towards the December 2027 target for 100% of our vehicle fleet being zero emission.

Figure 23: Direct building emissions (Greening Government Commitment)

The 31% reduction in our direct building emissions is a result of our move from legacy offices –many of which used oil for heating – into more energy-efficient regional centres. Against a baseline of 0.32 tonnes of CO2e per FTE in direct building emissions, our performance in 2022 to 2023 was 0.26 per FTE.

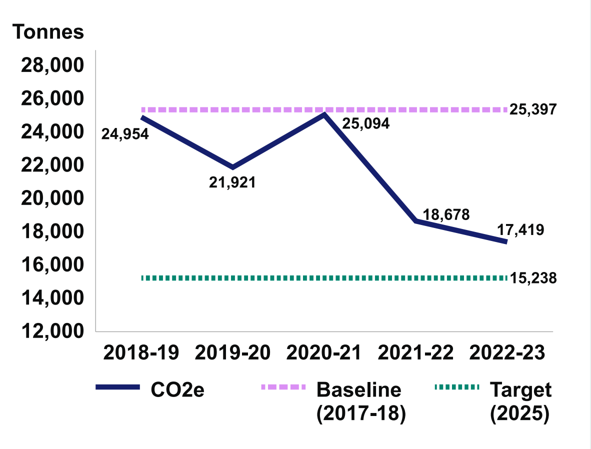


Figure 24: Domestic flight emissions (Greening Government Commitment)

We saw an increase in travel in 2022 to 2023, following the lifting of COVID-19 restrictions, but travel was still significantly reduced from pre-pandemic levels. We took 13,359 flights (716 tonnes of CO2e), a reduction in CO2e of 67% (23,277 fewer flights/ 1,482 tonnes of CO2e)] against a 2017 to 2018 baseline. 62% of our domestic flights were to or from Northern Ireland. We also travelled 4 million miles for international travel in 2022 to 2023. Read more detail in Annex 3. Against a baseline of 0.04 tonnes of CO2e per FTE for domestic flight emissions, our performance in 2022 to 2023 was 0.01 per FTE.

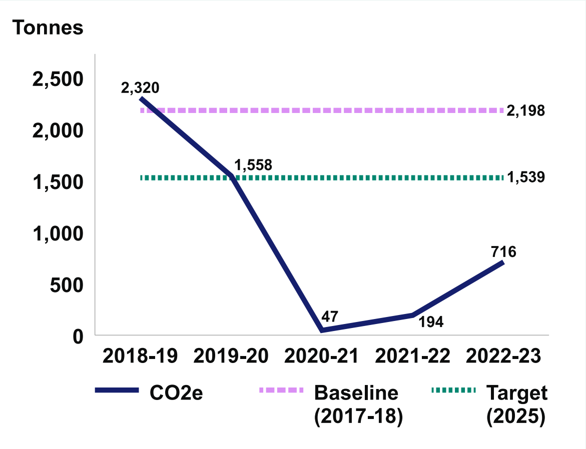


Figure 25: Water consumption (Greening Government Commitment)

The 63% reduction in water consumption has been achieved through moving to more water efficient regional centres. A water efficiency review will take place in 2023 to 2024 and some projects have already been identified that could further reduce consumption. A breakdown of water data is in Annex 3. Against a baseline 7.12 m^3 per FTE, our performance in 2022 to 2023 was 3.12 per FTE.

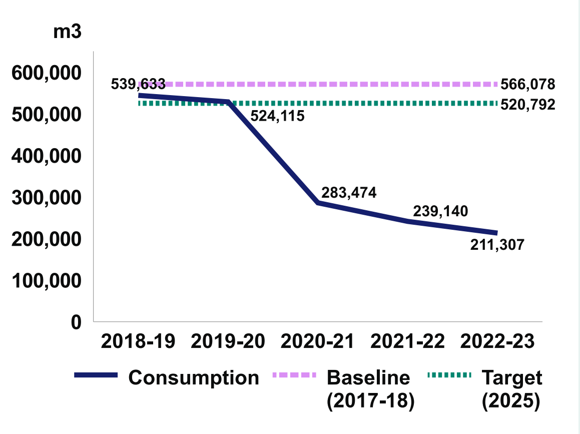


Figure 26: Waste generated (Greening Government Commitment)

The 57% reduction in waste generated has been achieved through smarter waste management, behaviour change, reductions in paper use and IT efficiencies. A breakdown of waste data is in Annex 3. Against a baseline of 0.12 tonnes per FTE of waste generated, our performance in 2022 to 2023 was 0.06 per FTE – well below the target.

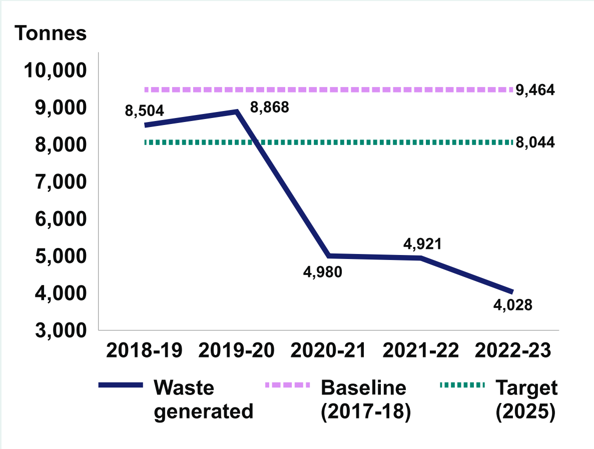


Figure 27: Waste to landfill (Greening Government Commitment)

Although just 0.04% of waste goes to landfill, we are working hard to reduce this to zero. As the operator of the Landfill Tax, we are acutely aware of the need to reduce our reliance on landfill as a waste solution, and we continue to work with our suppliers to minimise this. We follow the waste hierarchy and ensure no furniture goes to landfill. We do this by ensuring as much furniture as possible is reused internally or by distributing to other government departments or charities. In 2022 to 2023 we reused or donated 6,171 items. After this, any furniture unsuitable for reuse or donation is broken down into component parts to be recycled into new furniture. A breakdown of waste data is in Annex 3. We are substantially below this government wide target.

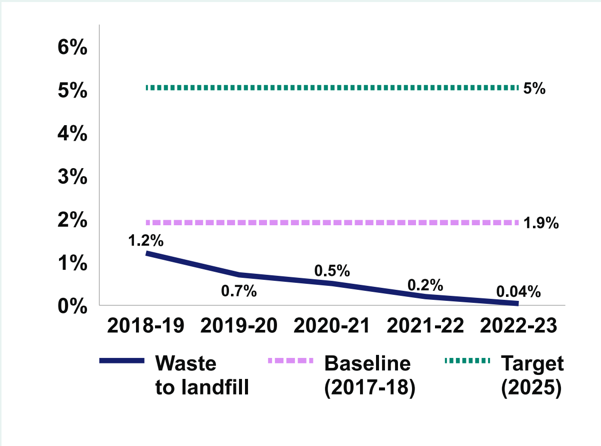


Figure 28: Waste recycled (Greening Government Commitment)

The percentage of waste recycled in 2022 to 2023 was 67%. This is below the Greening Government Commitment target of 70%. The percentage of waste recycled is impacted by our overall reduction in waste, in particular paper use. A breakdown of waste data is in Annex 3.

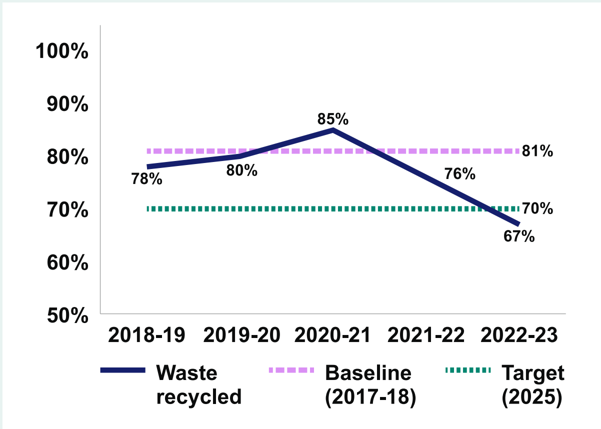
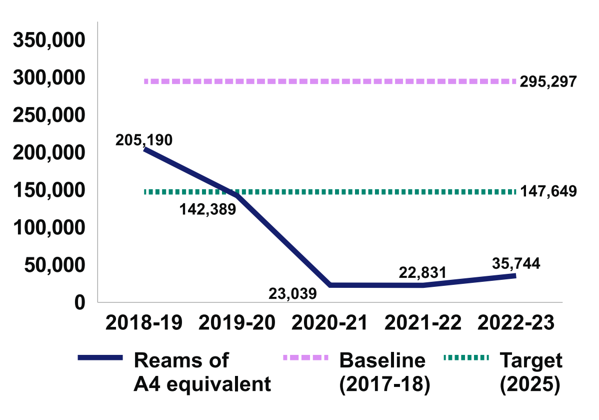


Figure 29: Paper purchased (Greening Government Commitment)

The 88% reduction in paper purchased is driven by our digital transformation and reduction in office printing. Against a baseline of 4.72 reams per FTE, our performance in 2022 to 2023 was 0.53 per FTE.



Financial review

This financial review covers our financial performance, setting out our funding and what we have spent our money on, trends within tax revenues and how we ensure we use public money appropriately and responsibly.

Chief Finance Officer's Foreword

HMRC is one of the largest departments in government, and, as Chief Finance Officer, I'm pleased that we're continuing to demonstrate value for money for the taxpayer as we deliver our core purpose.

In financial year 2022 to 2023, our expenditure of £6.9 billion enabled us to generate £814.0 billion in tax revenue for the UK's public services and pay out £33.9 billion in support payments to customers. Overall, it costs us just half a penny to collect each pound of tax revenue – and in December 2022, the National Audit Office recognised that our compliance work offers good value for money. It returns, on average, £18 for every £1 of expenditure on our compliance staff.

Our funding comes directly from government, based on funding settlements at Spending Reviews. The investments the government makes in HMRC help us support our growing customer base to get their tax right, deliver a secure and efficient customs border and continue our transformation into a modern, trusted tax and customs department.

Through technological innovation, better and more efficient IT services, and a more effective use of our estate, we have delivered new and sustainable efficiency savings of £117 million in 2022 to 2023. Efficiency savings enable us to reduce our operating costs and help ensure we are delivering value for money for UK taxpayers.

Justin Holliday
Chief Finance Officer

Budgetary framework

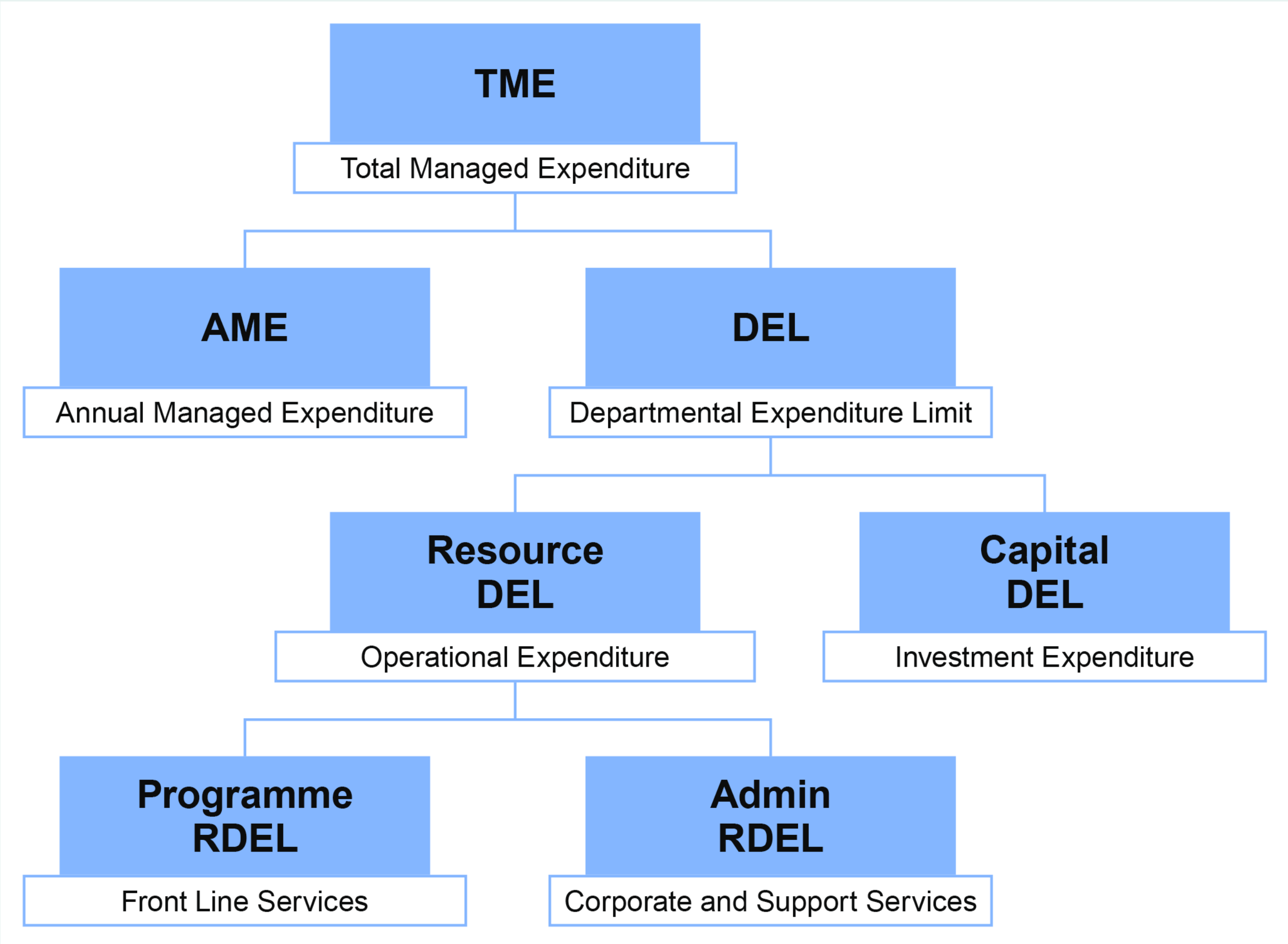
HM Treasury sets the budgetary framework for government spending. Within this, we are given our own Supply Estimate, along with other government departments, which sets our proposed maximum spending and is voted on by Parliament at the start of the financial year.

The total amount we spend as a government department is known as Total Managed Expenditure (TME). In 2022 to 2023, our TME was £45,223 million. This funding is subject to strict HM Treasury controls and consists of budgets voted by Parliament (including for our running costs and other specific costs, such as Child Benefit or Cost of Living Payments) and budgets where appropriation is covered in other legislation (including tax credits, other reliefs and allowances and the National Insurance Fund).

Figure 30 shows how TME is split into Departmental Expenditure Limit (DEL) and Annually Managed Expenditure (AME) budgets, both of which are explained below.

Within our DEL budgets we have ringfences against some programmes where we receive budget for a specific policy measure, which we can only spend on that measure. This is referred to as the HM Treasury policy ringfence.

Figure 30: Our budgetary framework



Departmental Expenditure Limit (DEL) explained

Departmental Expenditure Limit (DEL) is the firm budget set for our controllable expenditure. It is split between spending on day-to-day resources and administration (operational) costs, otherwise known as ‘Resource (RDEL)’, and spending on investment, otherwise known as ‘Capital (CDEL)’.

Operational funding: Resource (RDEL)

Figure 31 shows our overall operational funding year on year since 2018 to 2019. It shows how our funding has changed where we have supported wider government aims such as our work on exiting the European Union, delivered on measures set out at government fiscal events and made investments in our IT infrastructure.

The largest part of our funding is for our core operations, primarily to support customers and carry out work to tackle tax evasion, avoidance and non-compliance. As shown in figure 31 in financial year 2022 to 2023, our funding increased following our Spending Review 2021 settlement with additional resource in our customer compliance function, funding for HMRC pay awards and to account for inflation rises, as well as some for our fiscal event measures becoming part of our core operations following SR21 as we continue to deliver these measures.

Following the UK’s exit from the European Union, our funding for UK Transition rose over the past 4 years, peaking in 2021 to 2022, before falling by around £90 million in 2022 to 2023. This resource supports the delivery of key IT projects such as the transition from our old platform, CHIEF, to the new Customs Declaration Service, delivering the Trader Support Service and our Inland Border Facilities.

Resource funding for our transformation and system remediation programmes has increased over the last 2 financial years. This is to secure our technical infrastructure as well as support our ambition to transform our systems and modernise our IT, including projects that will reduce IT outages affecting our customers and staff while enabling future innovation of our services. Over 2022 to 2023, our transformation projects have delivered over £50 million in sustainable savings and achieved over £1 billion in additional tax revenue and yield.

The funding we have received at government fiscal events has also trended upwards over the last 5 years. This covers several initiatives - for example, the development of Making Tax Digital and additional funding to tackle evasion, avoidance and non-compliance.

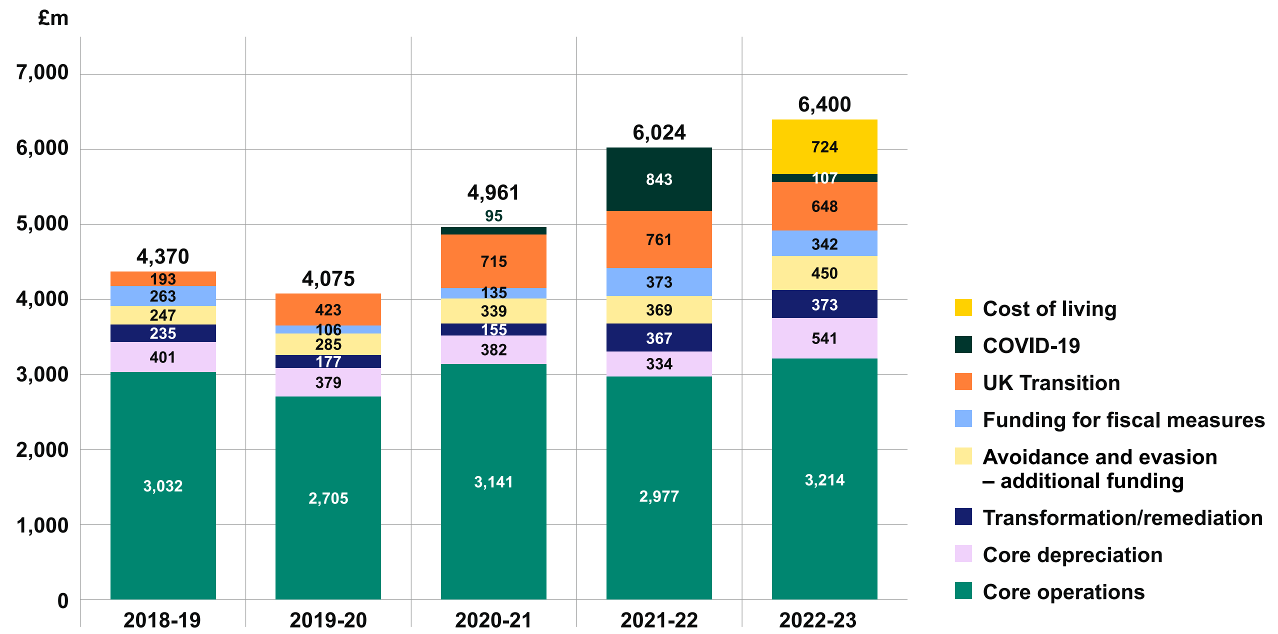
Our depreciation funding also increased by £200 million in this financial year to account for an update in the way in which depreciation of our assets is calculated, such as for the life of our assets and the introduction of the new accounting standard for leases (IFRS16).

RDEL benefit funding

We received funding for COVID-19 administration costs and grant payments to customers between 2020 to 2021 and 2022 to 2023, and cost of living funding of £724 million for 2022 to 2023.

Our COVID-19 spend has decreased significantly from 2021 to 2022, largely due to a reduction in our COVID-19 administration costs following the closure of schemes, such as the one-off payment for working households receiving tax credits, where we provided payments in 2021 to 2022 only.

Figure 31: Resource funding 5 year trend (£m)[1]



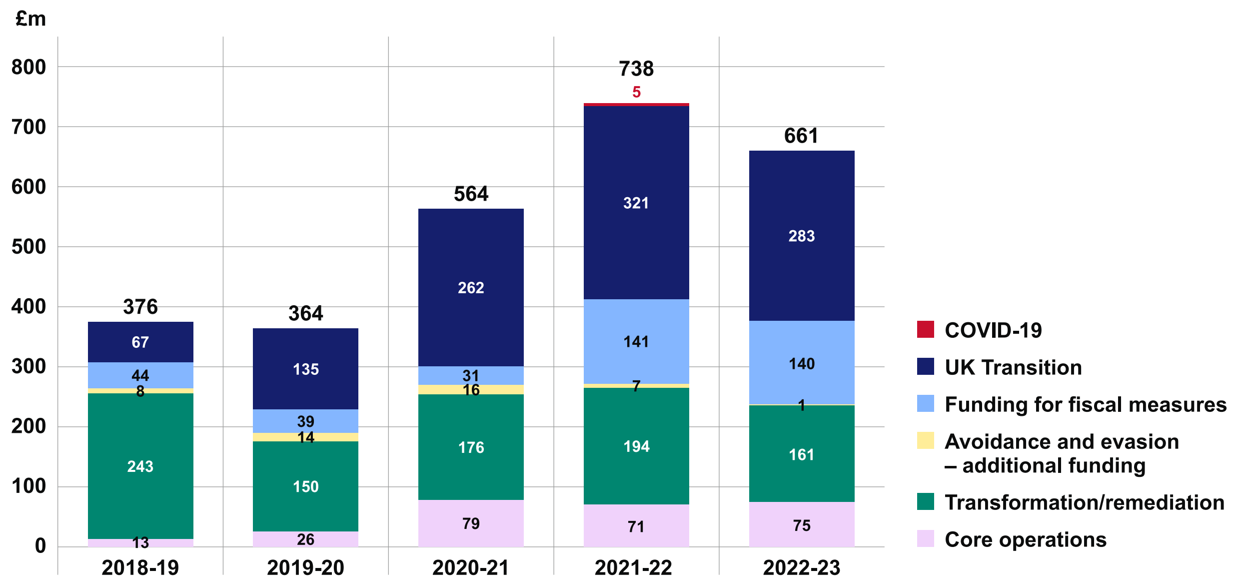
1 Numbers may appear not to sum due to rounding.

Investment funding: Capital (CDEL)

Figure 32 shows that our capital investment is now 76% higher than it was in 2018 to 2019. Most of this increase is funding for our work on exiting the European Union, which delivers critical customs systems that facilitate trade and deliver a secure and effective border.

Our funding for transformation projects has been around £150 million to £200 million since 2019 to 2020 as we continue to improve our IT systems. This funding delivers a variety of projects that improve the quality, resilience and security of our systems and provide new digital services to enhance our customers' experience of interacting with the tax system. Our funding from government fiscal events has increased from 2020 to 2021 levels, mainly due to funding for the development of our Making Tax Digital programme.

Figure 32: Capital funding 5 year trend (£m)[1]

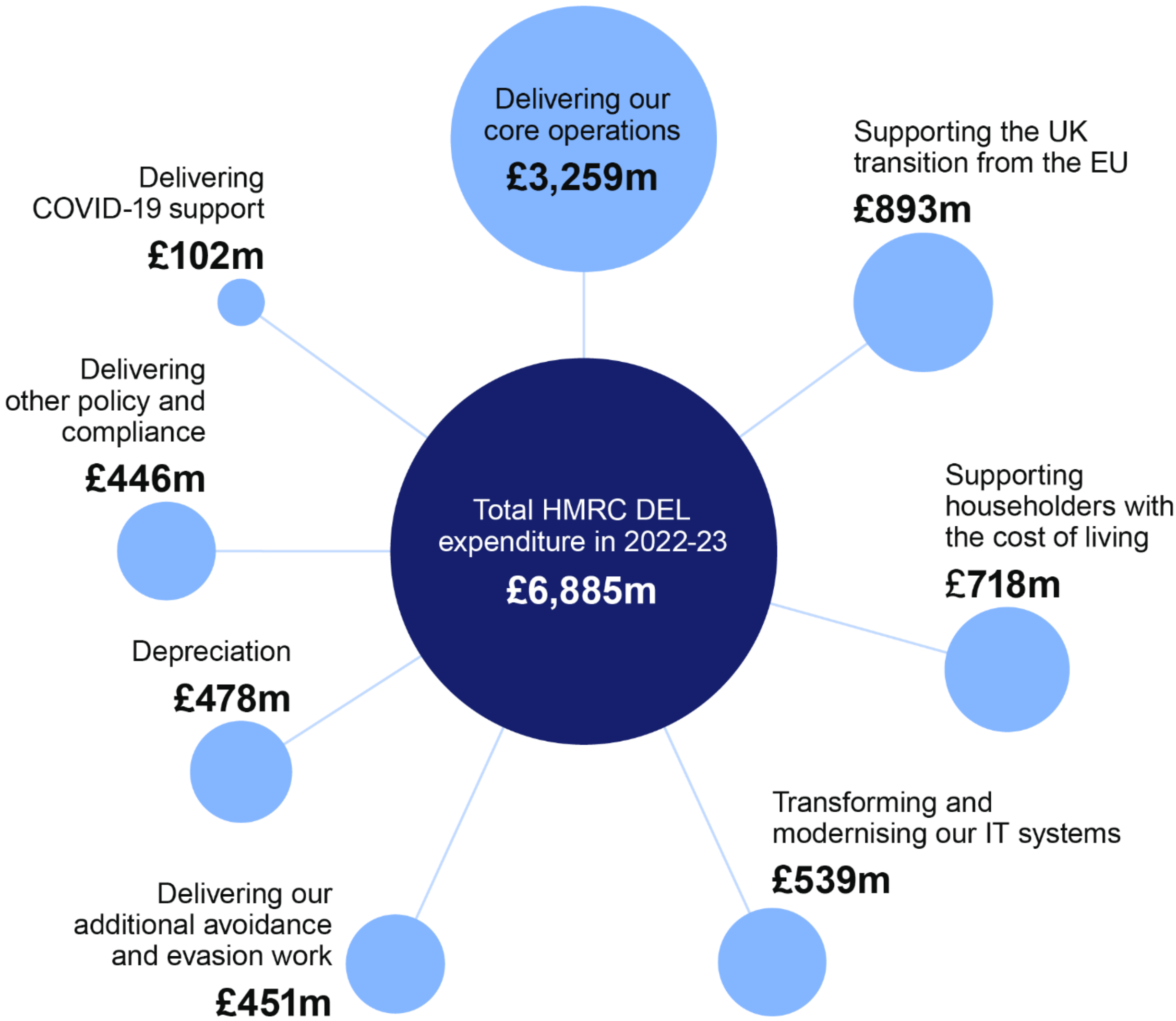


1 Numbers may appear not to sum due to rounding.

What we spend our funding on

The diagram below shows our total expenditure in 2022 to 2023 broken down by different activities.

Figure 33: HMRC expenditure (TDEL) in 2022 to 2023[1]



1 Numbers may appear not to sum due to rounding.

Figure 33 shows that in 2022 to 2023 we spent £3,259 million delivering our core operations. This allowed us to provide essential services to customers. This year we had more than 56 million interactions through our app, 2.3 million unique logins to our business and personal tax accounts, and continued to support customers who still need to contact us by phone and post. We continued to deploy resources to tackle tax non-compliance which allows us to maintain a stable tax gap over time.

We spent £451 million on further work to address specific areas of tax evasion, avoidance and non-compliance and £446 million on delivering measures such as the Single Customer Account and the Payments Programme, which enables taxpayers to more easily access tax services and update customer accounts and makes it easier for customers to understand and pay what they owe.

We also played a central role in providing financial support to customers, spending £718 million on Help for Households, with Cost of Living Payments totalling £650 delivered to 1 million eligible tax credit customers.

COVID-19 administrative costs accounted for a spend of £102 million this year, which includes the cost of our Taxpayer Protection Taskforce. Although the COVID-19 schemes ended in September 2021, we continued making payments for complex cases and recovered money paid out, where customers have chosen to voluntarily repay it, or when customers repay following a prompt from HMRC we take compliance action to recover amounts wrongly claimed.

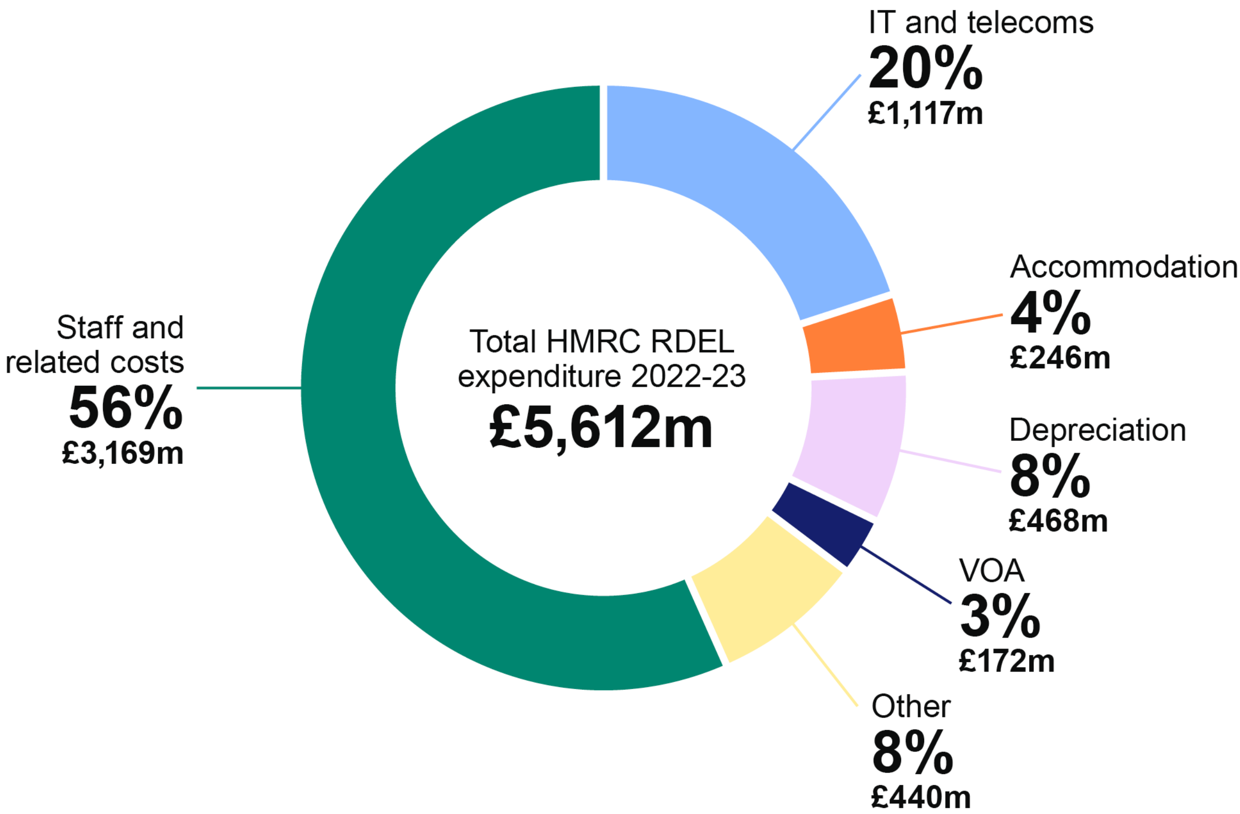
+ **Further information on our work to tackle COVID-19 error and fraud can be found on page 24.**

Our expenditure on work to facilitate the smooth flow of trade at the border was £893 million. We continued to deliver the Inland Border Facilities (IBF) across England and Wales, which are critical in enabling customs and documents checks to take place away from the UK's busiest ports. We invested £525 million in our Single Customs Platform and IT changes to customs, VAT and excise systems to meet the requirements for the Northern Ireland Protocol and Free Trade agreements, including EU-UK Trade and Cooperation Agreements. At the same time, we continued to support traders moving goods between Great Britain and Northern Ireland through our expenditure on the Trader Support Service of £114 million. Staff and other costs to support delivery of these projects was £254 million.

We spent £539 million on transforming our systems and modernising our IT infrastructure. We're focused on delivering service improvements and progressing the transformation and digitalisation of our services to make them more efficient, improve customer experience, reduce burdens on business and improve tax compliance.

Figure 34: HMRC expenditure (RDEL) in 2022 to 2023 by spend type[1]

Figure 34 shows our spend 2022 to 2023 by type of spend. The majority of our spend was on staff related costs and IT and Telecommunications.



1 Figures may appear not to sum due to rounding.

Table 3: 5-year trend on our spending[1]

	2018-19 £m	2019-20 £m	2020-21 £m	2021-22 £m	2022-23 £m
RDEL	3,956	4,287	4,796	5,717	6,329
CDEL	362	337	538	665	556
Total DEL	**4,318**	**4,624**	**5,334**	**6,382**	**6,885[2]**

1 Numbers may appear not to sum due to rounding.
2 2022-23 RDEL includes Cost of Living spend of £718m, this is not part of our running costs in figure 34 above.

Table 3 shows our expenditure over time. The factors that explain how our funding has changed over time, also explain changes to our expenditure – primarily supporting wider government aims such as our work on exiting the European Union, expenditure on measures set out at government fiscal events and investments in our IT infrastructure.

Variances between budget and expenditure

Table 4 shows we have delivered a small underspend of £176 million (equivalent to 2% of our budget) against our overall DEL budget of £7,061 million. When excluding our budgets under HM Treasury policy ringfences (referenced in the Budgetary Framework section), we have delivered an underspend of £27 million.

Table 4: Financial performance[1]

	Budget £m	Expenditure £m	Expenditure compared to budget £m	Expenditure compared to budget %
Operational (RDEL)	6,400	6,329	-72	-1%
Investment (CDEL)	661	556	-104	-16%
Total DEL	**7,061**	**6,885**	**-176**	**-2%**

1 There are some technical differences between how our expenditure appears in the financial statements and how it appears in relation to our funding and the wider government accounts. To make this difference easier to understand, we have included a reconciliation in SOPS 2 on page 158.

Table 5: Financial Performance factoring in ringfence underspends[1]

	Expenditure compared to budget £m	Underspend on ringfences £m	Position excluding ringfence underspend £m	Position excluding ringfence underspend %
Operational (RDEL)	-72	70	-2	0%
Investment (CDEL)	-104	79	-25	-4%
Total DEL	**-176**	**149**	**-27**	**0%**

1 Numbers may appear not to sum due to rounding.

Against an operational (RDEL) budget of £6,400 million, we underspent by £72 million (1%). Some of the factors contributing to the underspend were the decision not to proceed with plans for a new Dover Inland Border Facility and the early closure of temporary sites, efficiencies in our Trader Support Service and lower than expected costs when opening 3 further regional centres in 2022 to 2023.

These were offset by some increases in spend within our customer service function, where increases in the taxpaying population have resulted in more customers reaching out to HMRC for assistance. We also had higher costs in our compliance function where we had higher staff numbers through the year and fewer staff leaving the department than forecasted.

In 2022 to 2023, we spent £556 million, against a budget of £661 million in our investment (CDEL) budget, resulting in an underspend of £104 million (16%). The majority of the CDEL underspend is because we successfully sublet some of our space in our regional centres and therefore had a reduction in the value of the HMRC estate asset.

The remaining CDEL underspend is from our IT programmes due to capacity constraints and amended timelines. These have been offset by increased expenditure elsewhere, such as the migration of the customs system from our old platform, CHIEF, to the new Customs Declaration Service platform.

Annually Managed Expenditure (AME): explained

Annually Managed Expenditure (AME) covers our more flexible budgets for volatile or demand-led expenditure, including tax credits, Child Benefit and other reliefs and allowances. This spending may be unpredictable and is more challenging to control, so it requires careful monitoring. HM Treasury reviews these budgets annually.

AME is a volatile or demand-led expenditure, and we base our forecast on published Office of Budget Responsibility data.

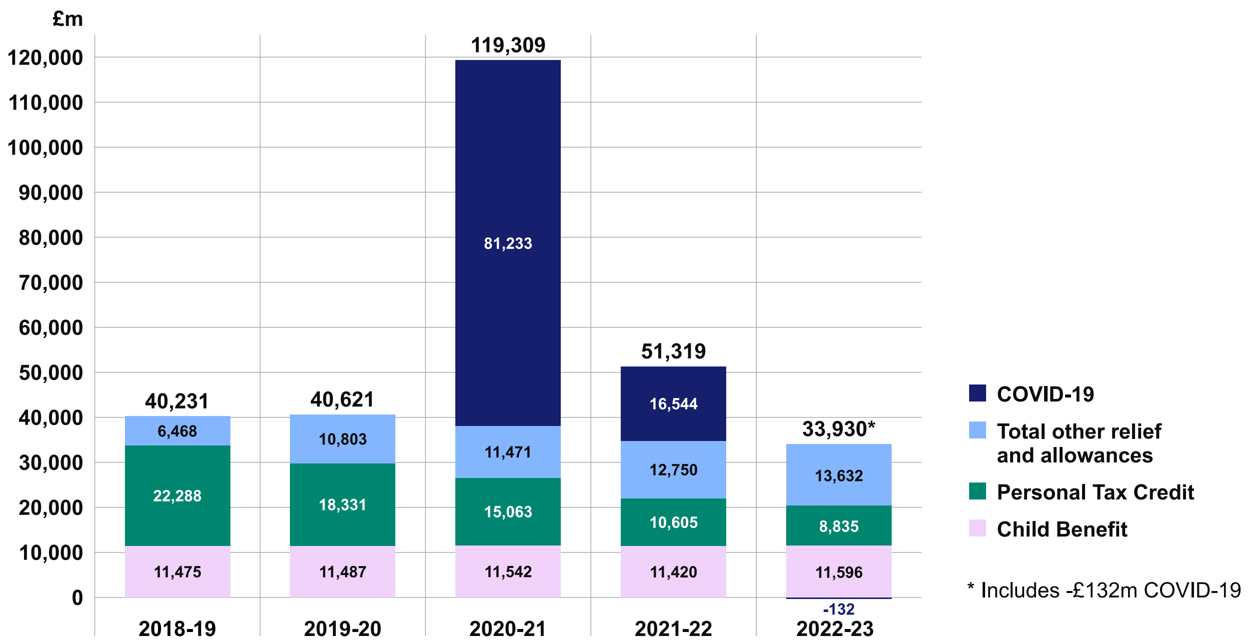
Trends in Annually Managed Expenditure (AME)

Figure 35 shows that in 2022 to 2023, AME payments were below 2019 to 2020 levels following the closure of the COVID-19 schemes. In 2022 to 2023, we spent £33,930 million across Child Benefit, tax credits and other benefits, reliefs and allowances. We spent £13,632 million on other reliefs and allowances, largely in relation to research and development relief and film tax relief. There was also expenditure on Lifetime ISAs, Help to Save benefits, as well as payments in lieu of tax relief to certain bodies.

We supported around 12.2 million children through Child Benefit with total payments of £11,596 million. This was an increase from 2021 to 2022 mainly driven by an increase in the value of Child Benefit payments. We also paid out £8,835 million in tax credit payments to around 1.15 million families, a decrease of £1,770 million from the last financial year as we are gradually transferring customers from tax credits to Universal Credit, administered by the Department for Work and Pensions.

We also had a number of specific repayments of COVID-19 support grants (payments made in the period ended in September 2021). These totalled £132 million in 2022 to 2023 and these arise when customers entitled to a grant choose to voluntarily repay it, or when customers repay following a prompt from HMRC or an unprompted disclosure.

Figure 35: AME summary by type of expenditure[1]



1 Numbers may appear not to sum due to rounding.

Variances between AME budget and expenditure

Table 6: AME variances between budget and outturn

	Funding £m	Outturn £m	Variance £m
Total annually managed expenditure	38,162	33,930	-4,232

In 2022 to 2023 we spent £33,930 million, against a budget of £38,162 million on annually managed expenditure, resulting in an underspend of £4,232 million. Any underspent funds are returned to HM Treasury.

In 2022 to 2023, a key factor behind our underspend was lower spending on tax credits due to the rate of migration of claimants onto Universal Credit. There were also other underspends within Child Benefit (lower expenditure than expected when the budget was set) and other relief and allowances related to corporation tax reliefs expenditure.

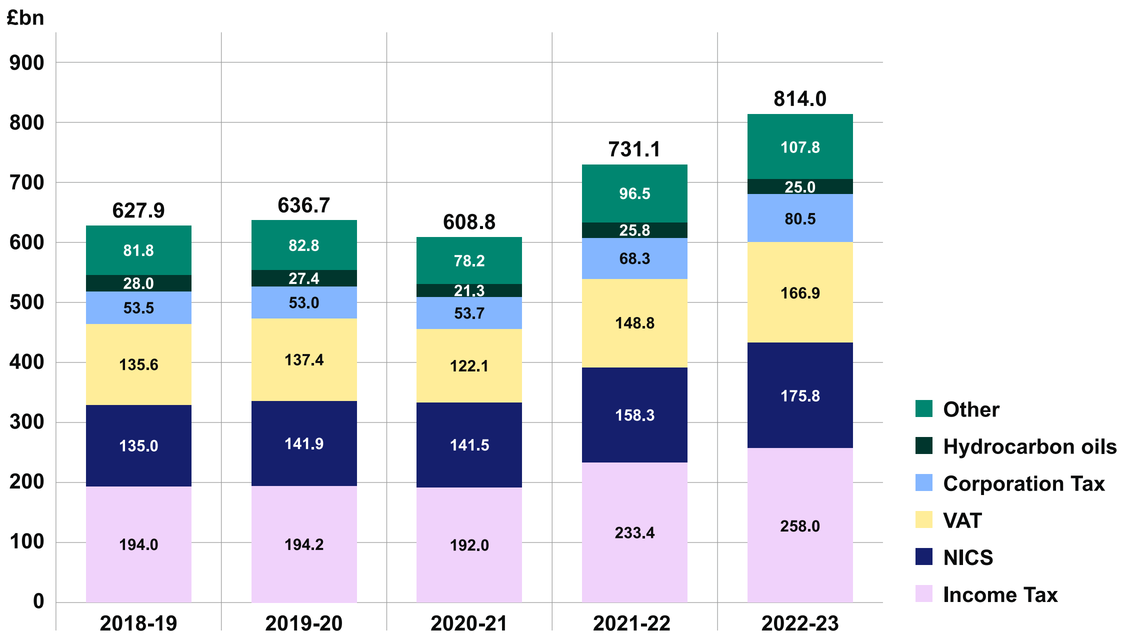
How we delivered value for money

Like any government department, we have a duty to use public money responsibly and obtain the best value from it. We can demonstrate value for money in several ways, such as by comparing the tax revenue we collect with the cost of collecting it, or by achieving efficiency savings. This section gives more information about how we delivered value for money this year.

Tax revenues

Total tax revenues represent all money HMRC received (or was due to receive), less any money that we owed or repaid. They are driven by a variety of factors, for example the overall level of activity in the economy and the rates of taxation, allowances and reliefs set by Parliament. Figure 36 shows total tax revenues between financial years 2018 to 2019 to 2022 to 2023.

Figure 36: Total tax revenues



In general, tax revenues will increase year-on-year, reflecting factors such as population growth, growth in wages and profits, and inflation. We saw a reduction in tax revenues in 2020 to 2021 due to the economic impacts of the COVID-19 pandemic as well as deferred tax payments.

During financial year 2022 to 2023, we collected total revenues of £814.0 billion, £82.9 billion more than the previous financial year. Compared to 2021 to 2022, revenues were higher for Income Tax & NICs mainly due to the strength of employee earnings and the higher National Insurance rates in effect for some of the year. Some of the factors driving growth in revenues have also impacted on our operations. For example, while growth in the population of Income Tax customers and frozen tax thresholds have increased Income Tax receipts, having more customers that fall within Income Tax (up to more than 34 million, from 31 million in 2015 to 2016) has also resulted in more customers requiring our support.

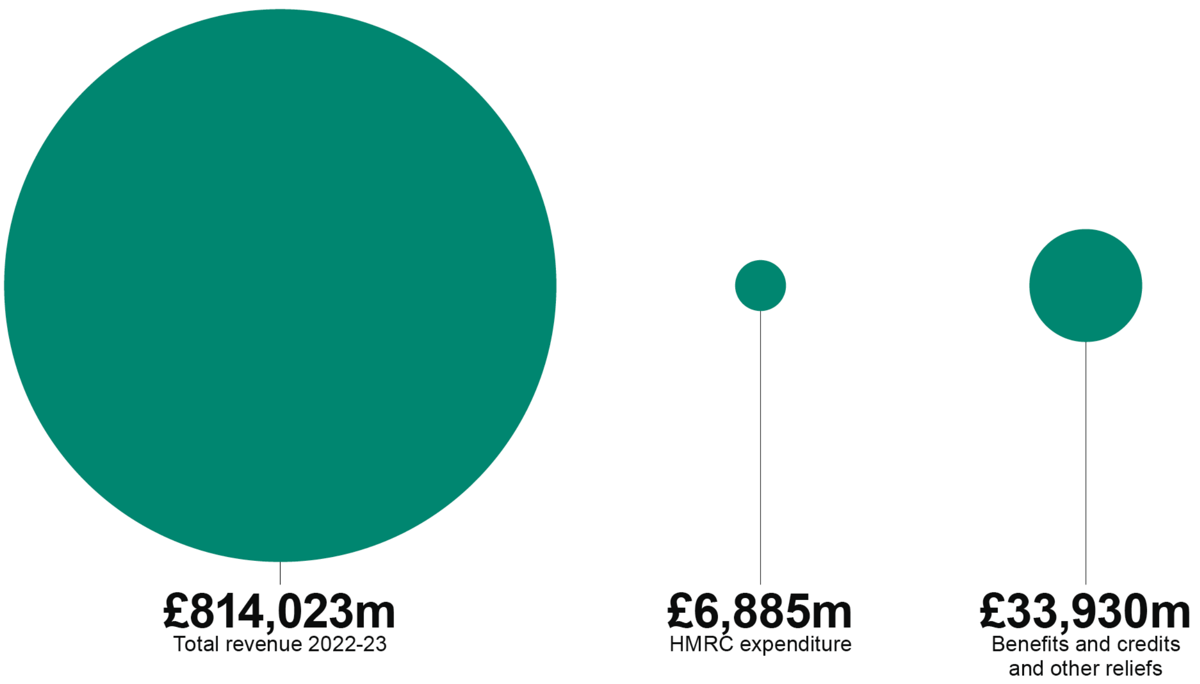
We have also seen growth in VAT receipts in 2022 to 2023, which could have been influenced by both high levels of inflation and subsequent changes in real consumer expenditure. Some of these inflationary pressures have also driven up the cost of our operations. Business Taxes receipts have increased in 2022 to 2023 following economic recovery from the pandemic and growth in offshore receipts as a result of high energy prices and the introduction of the Energy Profits Levy.

+ **Read more on tax receipts over time in our annual bulletin of HMRC tax receipts and National Insurance contributions at www.gov.uk/government/statistics/hmrc-tax-and-nics-receipts-for-the-uk/hmrc-tax-receipts-and-national-insurance-contributions-for-the-uk-new-annual-bulletin. Tax receipt data for 2022 to 2023 is provisional until Summer 2023. Please note: receipts are on a cash basis and so represent when a payment for a tax liability is received by HMRC. This is different to tax revenues which are on an accrued basis, based on when the tax liability accrues.**

Our spending compared to total tax revenue in 2022 to 2023

Figure 37 shows what it cost to run HMRC in financial year 2022 to 2023. For a running cost of £6,885 million, we generated £814,023 million of tax for the UK's public services and provided £33,930 million in financial support for tax credits, Child Benefit and other reliefs.

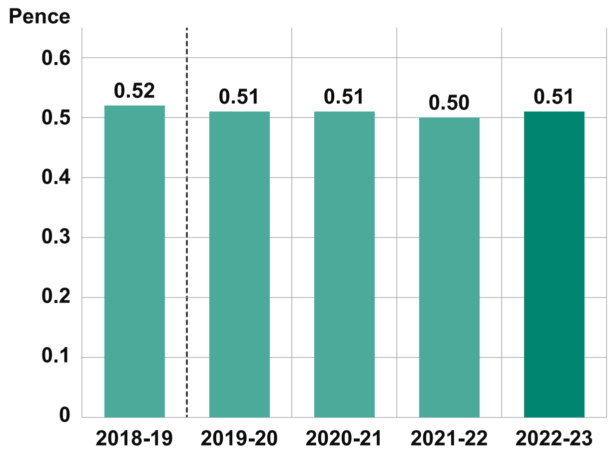
Figure 37: Total expenditure relative to total revenue



Cost of collection

Figure 38 shows that in 2022 to 2023, the cost of collecting taxes was 0.51p for every pound we collected in tax revenue, a slight rise on last year's figure of 0.50p in every pound. This reflects an increase in expenditure outweighing the increase in revenue, with the main drivers for the change being an expenditure increase in our compliance and debt management functions and on delivery of our transformation and remediation programmes.

Figure 38: Cost of collection 5 year view[1]



1 A change to the methodology for the overall cost of collection was made in 2021 to 2022 and the ratio is now shown net of customs and international trade. This is because the nature of expenditure has moved towards border control rather than revenue collection. The 2019 to 2020 and 2020 to 2021 ratios are also restated net of customs and international trade.

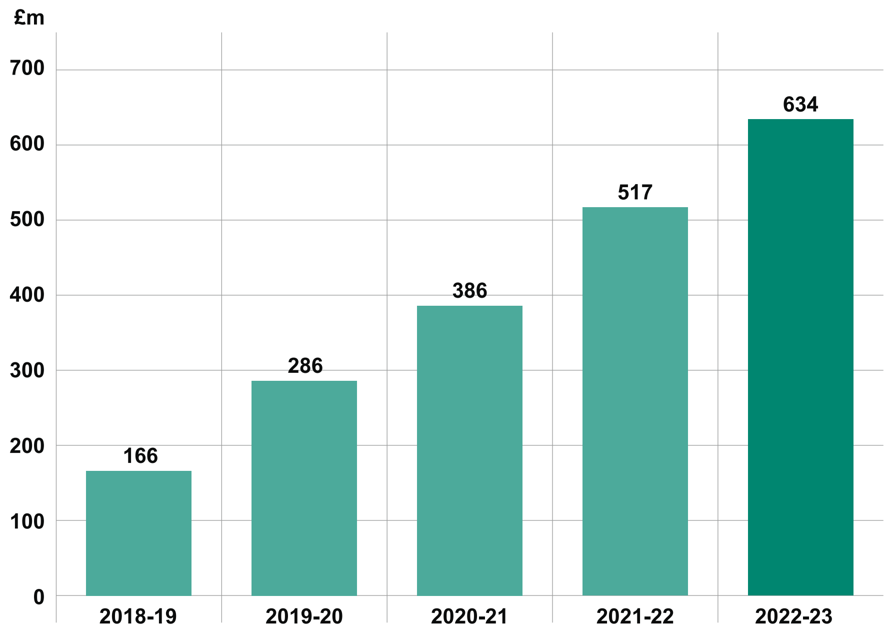
Our progress in delivering efficiencies

Sustainable efficiencies are achieved when we improve how we carry out a process or activity, delivering a permanent cost reduction while maintaining or improving existing performance levels. In the first year of the current Spending Review period, financial year 2022 to 2023, we have delivered new sustainable efficiencies of £117 million. In the 5 year period since 2018 to 2019 (which spans 3 Spending Reviews) we have delivered total sustainable efficiencies of £634 million, as shown in figure 39.

In 2022 to 2023 we achieved these efficiencies in broadly 3 ways: people and productivity savings (which are generated through improvements to internal processes, and subsequent changes in productivity and staffing levels), IT savings, and Estates savings. For example, we generated £10 million in sustainable savings through the implementation of multiple process improvements to help shorten post handling times. In addition, moving compliance activity upstream through supporting customers and agents to get their tax, customs affairs and payment entitlements right at the earliest possible opportunity, continues to be a key method of generating efficiencies, and saved more than £6 million in 2022 to 2023.

Our Technology Sourcing Programme delivered £11 million of efficiency savings in 2022 to 2023, by replacing existing IT contracts with new, more efficient services and suppliers. In addition, our Locations programme delivered £33 million of efficiency savings, by enabling better use of the HMRC estate and bringing colleagues together in regional hubs.

Figure 39: 5 year view of cumulative sustainable efficiencies, including annual breakdown of each year's contribution



Significant balance sheet movements in 2022 to 2023

The following movements in asset and/or liability balances took place during this financial year:

Application of International Financial Reporting Standard (IFRS) 16 Leases from 1 April 2022

We adopted the new accounting standard (IFRS 16) from 1 April 2022, which requires us to recognise various assets and liabilities on our balance sheet. The main impacts have come from recognising right-of-use assets for leases previously treated as operating leases, such as for our estates and vehicles, of £1,028 million and associated lease liabilities of £1,411 million, as at 31 March 2023.

Increase in balance sheet value of our intangible assets by £328 million (16%)

The majority of our intangible assets are software assets. The increase of £328 million from the balance at 31 March 2022 (£2,078 million) to 31 March 2023 (£2,405 million) is primarily due to additions to assets under construction of £560 million, as well as an increase from revaluation of existing IT software of £88 million, partly offset by the amortisation charge for intangible assets for the year of £330 million (this refers to our 'consumption' of the assets, reflecting that they reduce in value over time).

Significant reduction of £4.6 billion in cash and cash equivalents

A significant element of the cash and cash equivalents balance as at 31 March 2022 included monies previously drawn down to fund the COVID-19 support scheme payments, which was used for 2022 to 2023 'business as usual' spending rather than these monies being drawn down separately. Cash balances are swept into the exchequer pyramid at the close of each business day, by Government Banking Service, to prevent the risk of financial loss.

HMRC's key risks

To protect public money and ensure we achieve our strategic objectives, we have identified 9 key risks. By managing these risks, we ensure that we protect and maximise our assets, modernise our IT estate, continue to deliver an improved experience for our customers and manage the delivery of our change portfolio.

A director general sponsors and owns each risk on behalf of our Executive Committee. This section details our position up to 31 March 2023, showing how a risk might impact our strategic objectives, the risk trend, and our progress in managing it. Each risk assessment is our best estimate based on the probability of the risk occurring and the impact if it did.

HMRC strategic objective key

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 trend key (2022 to 2023)

The risk has incrementally worsened	**The risk is stable and has neither improved nor worsened**	**The risk has incrementally improved**

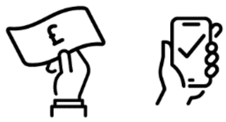
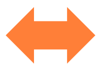
Key risk 1			**Strategic objectives**	
Capacity, Capability, and Engagement We may not achieve high levels of business performance if our workforce lacks the necessary skills, capability and working experiences to enable our organisation to thrive.				
Risk Exposure Assessment	**AMBER**	**Probability: High Impact: Medium**	**Risk Trend**	

To manage the risk to our capacity, capability and engagement resulting from staff strikes and sensitive employee relations, we put in place business continuity plans. Having continued delivering our commitments in the Race Equality Action Plan in 2022 to 2023 we are now working to address senior representation across our workforce. We have implemented changes to our working arrangements and terms and conditions, ensuring colleagues have increased choice and flexibility in how, where and when they work, subject to business need. This reduces our capacity and capability risks by ensuring colleagues are working effectively and efficiently.

This flexibility also contributes to increasing engagement amongst colleagues by improving our employment offer. We are piloting a leadership core learning offer, and have a Manager Development Programme up and running, which can accommodate 2,500 managers each year.

Key risk 2			**Strategic objectives**	
HMRC Security Failure to operate our security processes and controls or manage our infrastructure and vulnerabilities effectively may expose our customers, people and assets to harm or misuse.				
Risk Exposure Assessment	**RED**	**Probability: High Impact: Very High**	**Risk Trend**	

Our security risk is currently red as we move away from the challenges of legacy technologies, employing a balanced programme of remediation and strategic change to strengthen and enhance our portfolio of security controls. Our Enterprise Security Programme will improve our cyber security capabilities alongside other programmes such as Securing our Technical Future and Critical Platform Transformation. Our insider risk threat assessments reduce risks originating from within HMRC. We are conducting staff awareness initiatives such as 'Hacking the Human' (warning of the dangers of social engineering) and 'Think Before you Click' (to reduce phishing incidents), designed to reduce our vulnerability to external threats.

Key risk 3			**Strategic objectives**	
Exploiting Information Failure to effectively exploit our data effectively could result in reduced revenue collection, tax gap widening and/or weaker customer service by failing to build analytical capability.				
Risk Exposure Assessment	**RED**	**Probability: Medium Impact: High**	**Risk Trend**	

We exploit data at scale in order to deliver our services to customers and ensure we collect additional tax revenues to fund vital public services. However, we face significant and ongoing issues with our capability to exploit data and these constrain our productivity, effectiveness and efficiency, which means that this risk is currently rated red. We have made significant progress in re-hosting our technical services, moving priority data and services from our legacy data centres to modern, resilient, cloud platforms, and improvements in recruiting and training analysts, however we continue to have a range of different technologies and approaches across our technology estate so the root causes of this risk remain and it is stable. Treating these causes is expensive, complex, and requires further IT and transformation capacity, all of which remain constrained. As at the end of March 2023, we have identified further actions required to address this risk, which will form a delivery roadmap for implementation through our major transformation programmes.

Key risk 4				Strategic objectives	
External Perception / Loss of Trust Our stakeholders may view us as ineffective, inefficient or as not impartial, leading to weaker compliance and a potential increase in the tax gap.					
Risk Exposure Assessment	**AMBER**	**Probability: Low Impact: High**		**Risk Trend**	⟷

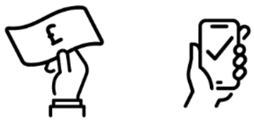
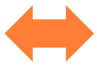
This risk is rated amber and currently stable. We have broadened our insight into the drivers of trust, compiling a knowledge base that contains both internal and external evidence, and established a framework for how we will measure trust in the future. This year we refreshed our 'Tax avoidance – don't get caught out' awareness campaign, which helps contractors who work through an agency or umbrella company to understand their pay arrangements, so they are discouraged from engaging in tax avoidance and don't get unexpected tax bills from us. We also delivered the 'Help for Households' campaign to build customer awareness of the reliefs and benefits to which they are entitled. Our Professional Standards Committee continues to be a forum for critical challenge, including considering how our actions could affect trust in the tax system and public perception of fairness.

Key risk 5			Strategic objectives	
Customer Experience We may fail to make customer experience improvements in line with our objectives. This would lead to us not fulfilling our vision to be a trusted, modern tax and customs department, with reduced compliance and lower satisfaction levels.				
Risk Exposure Assessment	**RED**	**Probability: Medium Impact: High**	**Risk Trend**	⟷

Until we see a measurable increase in customer experience across all our services, our customer experience risk will remain red. As we make more services accessible digitally between 2023 and 2025, we expect increased customer satisfaction. Many customers already use HMRC digital services, with high customer satisfaction scores. This will help to move the risk towards tolerance. We have made progress in 2022 to 2023, including the launch of updated customer design standards to ensure that change in HMRC delivers against Charter standards. We also completed a national rollout of a new telephony platform to improve customer and colleague experience.

Key risk 6			Strategic objectives	
Data Protection Failing to comply with data protection laws in line with the Information Commissioner’s Office (ICO) Accountability Framework may lead to a legal breach, leaving us unable to protect customer and staff personal data to the legally required level, nor help staff and customers carry out their rights under data protection law.				
Risk Exposure Assessment	**RED**	**Probability: High Impact: Very High**	**Risk Trend**	

Our data protection risk is currently rated red but we continue to make strong progress. We use the Information Commissioner’s Office Accountability Framework, which helps organisations to minimise risks associated with processing personal data and has defined target standards. During this financial year, we significantly improved data management for 59 systems, preventing unauthorised access to systems and applications and improving our ability to delete, suppress or stop processing personal data if required. We delivered a Supplier Assurance Regime that ensures our partners meet data protection and security expectations. We continue to roll out training to all staff and have improved our subject access request response times. At the end of March 2023, we completed all actions to address our highest priority areas, reducing the likelihood of this risk occurring and the potential impact. We are now monitoring our data protection compliance and highlighting possible weaknesses to identify and address them early.

Key risk 7			Strategic objectives	
Delivering our Change Portfolio The programmes within our change portfolio may fail to deliver the outcomes and associated benefits we agreed to as part of the government’s Spending Review 2021. This, in turn, may harm our ability to deliver the ambitions set out in our strategic roadmaps.				
Risk Exposure Assessment	**RED**	**Probability: Very High Impact: High**	**Risk Trend**	

This risk is rated red because there has been slippage on the delivery of some of our major programmes that seek to improve the resilience and security of our technical infrastructure, draw on industry leading analytics technology, and make the filing of tax returns via software easier, fairer, and less prone to error. Our key challenge was having the capacity to deliver this ambitious portfolio of change – as a result, we need to focus available capacity and funding on strategic priorities and potentially defer some delivery to future years. This will be managed through well-established portfolio management functions in HMRC.

Key risk 8		Strategic objectives	
Funding and Affordability We may be unable to deliver our strategic objectives or operate within our budget.			
Risk Exposure Assessment	**AMBER** **Probability: Medium Impact: Medium**	**Risk Trend**	↔

Our funding and affordability risk reduced from Red to Amber following the 2021 Spending Review settlement. Our plans depend heavily on delivering stretching efficiency challenges. However, inflation has driven up the cost of our operations, and more people have been brought into the tax system and into more complex areas, placing greater demand on our operations. In our response to the HM Treasury Efficiency and Savings Review in January 2023 we detailed plans to reduce low value demand for our services and drive a shift to digital services. This revised approach depends on even more ambitious savings initiatives, which we will manage closely.

Key risk 9		Strategic objectives	
Technology Resilience and Reliability A major IT failure or security breach that results from the current condition of HMRC's IT infrastructure could harm our business operations permanently or temporarily, depending on the incident's severity.			
Risk Exposure Assessment	**RED** **Probability: High Impact: High**	**Risk Trend**	↑

This risk is red due to continued reliance on old and ageing IT systems with an increased risk of inability to meet operational needs. In the 2021 Spending Review, we secured funding to modernise our IT estate and strengthen our IT infrastructure, security and data governance. Our Securing our Technical Future Programme has migrated 62% of services from our legacy data centres so far, as we move to new hosting platforms. Our Data Protection Remediation Programme identified 105 high priority systems potentially posing data security risks. Activities to remove or minimise these risks continue, with security enhancements completed for 59 systems at the end of March 2023. We have already improved our cyber security by introducing 'multi-factor authentication' and we are enhancing and developing identity verification services that limit criminal use of stolen data. In addition, our Artificial Intelligence initiative is detecting fraud patterns and improving user journeys.

Jim Harra
Accounting Officer
6 July 2023

Our accountability

This section reports on how we meet the key accountability requirements of Parliament.

Governance statement

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

This year, HMRC has remained focused on delivering a good service to those who need support to get their tax right and making it hard to bend or break the rules.

The department has made positive progress in bringing its customer service levels closer to its service standards, but there is more to do. By modernising, and encouraging as many customers as possible to self-serve online or through the mobile app, HMRC can improve the overall customer experience and deploy its officers to helping those customers who need extra support or tackling those who try to avoid paying the tax they owe. The department continues to collect and protect billions of pounds of tax revenue which would otherwise have been lost and maintain a tax gap of around 5%.

I am pleased that HMRC is focused on the right issues and I'm also pleased with the role the Board has played in supporting the Executive to navigate these issues.

Over the course of the year, HMRC's non-executive directors have provided scrutiny, challenge, and support to an open and engaged Executive. The Board's main areas of focus have been:

- challenging the Executive to improve customer service performance
- scrutinising delivery of HMRC's transformation agenda, including flagship programmes such as Making Tax Digital, so that the department can continue to deliver its services and control the tax gap in the future with reduced resources
- assuring departmental business planning
- testing HMRC's strategies

Making the tax system simpler, more modern and resilient is a government priority. HMRC's non-executive directors have championed this ambition by providing expert guidance and support to key programmes that are delivering this change.

HMRC has an ambitious and complex transformation agenda, which has seen it make some challenging delivery decisions this year. Specifically, the Board has supported the Making Tax Digital Programme in reviewing lessons learnt from the deferral to Income Tax Self Assessment mandation. Working with the Executive, I feel reassured by their engaged and constructive approach to understanding and learning from delays and taking proactive steps to reset delivery timelines. As part of the Board's commitment to supporting HMRC's transformation journey, we appointed a new non-executive director, Jennifer Tippin, to bring greater industry experience of transformation and people change to HMRC.

Throughout the year, Board meetings have been well attended and engaging. Non-executive colleagues and I welcome the open and honest conversations the Executive has had with the Board to help them achieve HMRC's transformational goals.

In accordance with the Code of Good Practice, the Board undertook an external independent review this year. The review, led by Dame Alison Nimmo, provided focus to ensure non-executives and the Executive operate an effective governance framework that is able to scrutinise and support HMRC in tackling key challenges and delivering for citizens.

As part of the Board's role in assuring succession planning and senior leader development, we established a standalone Nominations Committee, as a sub-committee of the Board. I chair this Committee, and it is attended by HMRC's First Permanent Secretary, Chief People Officer and the non-executive chair of the People Committee. It enables the Board to support the Executive in making sure effective succession plans are in place for the coming years.

Non-executive directors and independent advisers on the Customer Experience Committee have focused on helping the department to improve customer service levels in the light of challenging budgets. The Committee has worked closely with policy and transformation teams to ensure that customer experience improvements are at the heart of the changes that HMRC is making over the coming months and years.

The past financial year brought many challenges, but I am reassured by the commitment of HMRC's workforce in rising to these and continuing to deliver under stretching circumstances. I would like to take this opportunity to thank my non-executive colleagues for their dedication and time on the Board, as well as to the Executive for their honest and engaging approach.

I look forward to continuing to work with the department as it delivers in 2023 to 2024.

Dame Jayne-Anne Gadhia
Lead Non-Executive Director, and Chair of the HMRC Board

HMRC’s non-executive directors board members (end of March 2023)

Dame Jayne-Anne Gadhia

Lead Non-Executive

David Cooper

Committees: Data Protection Delivery Board

Patricia Gallan

Committees: People, Customer Experience, Professional Standards

Michael Hearty

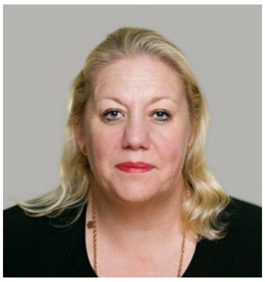
Committees: Audit and Risk, Customer Experience

Paul Morton

Committees: Audit and Risk, Professional Standards

Juliette Scott

Committees: Customer Experience



Jennifer Tippin

Committees: Performance, Customer Experience & People

Non-executive and sub-committee members (end of March 2023)

Elizabeth Fullerton-Rome

Committees: Audit and Risk

Tom Taylor

Committees: Audit and Risk

HMRC's Executive Committee members (end of March 2023)

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 and member of the Board

Jonathan Athow

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

Carol Bristow

Director General Borders and Trade

Penny Ciniewicz

Commissioner of Revenue and Customs, Director General Customer Compliance

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

Commissioner of Revenue and Customs, Director General Customer Services

Suzanne Newton

Director General for Strategic Change

Andrew Pemberton

Director of Communications

Daljit Rehal

Chief Digital Information Officer

Joanna Rowland

Commissioner of Revenue and Customs, Director General Transformation Group

Jonathan Russell

Chief Executive of the Valuation Office Agency

Esther Wallington

Chief People Officer

Our governance arrangements

This statement sets out our governance, risk management and internal control arrangements for the financial year 1 April 2022 to 31 March 2023 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 2005 (CRCA). This gives legal powers and responsibilities for managing our day-to-day functions to commissioners appointed by the King. 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 for how we conduct our business to the Chancellor of the Exchequer. In 2022 to 2023 the Chancellor delegated responsibility for overseeing HMRC to the Financial Secretary (1 April to 8 September, and 27 October to present) and to the Economic Secretary to the Treasury (8 September to 27 October 2022).

We comply with directions of a general nature from Treasury ministers on issues like strategies, operational policies and targets and 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. This policy partnership covers direct and indirect taxes and duties, National Insurance, tax credits and Child Benefit, for which HMRC has administrative 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 Commissioners for Revenue and Customs Act 2005 and are entitled to appoint officers of Revenue and Customs, who must comply with their directions. In 2022 to 2023, we had 9 commissioners – Jim Harra, Angela MacDonald, Justin Holliday, Penny Ciniewicz, Myrtle Lloyd, Sophie Dean (left 31 May 2022), Katherine Green (left 20 May 2022), Joanna Rowland and Jonathan Athow (from 19 May 2022).

First and Second Permanent Secretaries

Our First Permanent Secretary and Chief Executive, Jim Harra, is HMRC's Principal Accounting Officer. He 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 110 to 111**.** Our Second Permanent Secretary and Deputy Chief Executive is Angela MacDonald.

Tax Assurance Commissioner

The Tax Assurance Commissioner (TAC) has an explicit challenge role and provides assurance in HMRC's largest and most sensitive disputes, and a sample of smaller cases. Justin Holliday is the current TAC. Decisions about how to resolve our largest and most sensitive cases are decided by 3 commissioners, led by the TAC, who reports each year in the annual Tax Assurance Commissioner's report (see pages 121 to 133).

Non-executive directors

Non-executive directors bring external experience and expertise to HMRC. They provide advice, challenge and scrutiny and support the effectiveness of programme boards for our most significant transformation programmes. Dame Jayne-Anne Gadhia is our Lead Non-Executive Director and chairs the HMRC Board. She meets regularly with other non-executive directors and the First and Second Permanent Secretaries. She liaises with lead non-executive directors across government and develops and appraises non-executives as effective board members.

Our governance committee structure

HMRC has 2 top-level governance committees, which are HMRC Board and HMRC Executive Committee. This framework enables our Executive Committee (ExCom) to make decisions effectively and transparently, with appropriate support, challenge and assurance from our non-executives.

Figure 40: HMRC Committee structure during 2022 to 2023

HMRC Board

Provides challenge and advice on HMRC strategy, performance, risk and capability. The Board is advisory and does not have a role in operational decision-making, tax policy or individual taxpayer matters.

Board sub-committees

People Committee
Provides support to the Board on people related issues, including the 'Great Place to Work' strategic objective, the overarching employment framework and workforce metrics and risk.

Audit and Risk Committee
Provides 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.

Customer Experience Committee
Provides challenge and support on customer experience related issues, to help HMRC deliver on its strategic objectives and vision. Monitors departmental performance against the HMRC Charter and produces the Charter annual report for the HMRC Commissioners.

Performance Committee
Enables the Board to review, challenge and support the department on implementation and operational matters. Ensures robust and transparent governance around non-executive scrutiny of organisational performance.

Nominations Committee
Scrutinises and advises on senior-level succession planning, performance and reward.

Executive Committee

Oversees HMRC's performance and transformation for both immediate and future objectives. Also responsible for improving our performance, customer experience and change agendas.

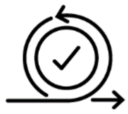
ExCom sub-committees

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.

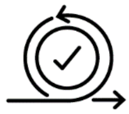
Professional Standards Committee
Provides oversight of how HMRC administers the tax system and applies policies in accordance with its values. Considers how HMRC's actions could affect trust in the tax system and public perception of fairness.

HMRC strategic objective key

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
				

HMRC Board and sub-committees

HMRC Board

The Board focused on improving customer service performance, scrutinising delivery of HMRC's transformation agenda, including flagship programmes like Making Tax Digital, assuring departmental business planning, and testing HMRC's strategies. The Board is chaired by Jayne-Anne Gadhia and met 10 times in 2022 to 2023.

Board effectiveness

The Board conducts a thorough review of its effectiveness each year, through individual discussions and a Cabinet Office questionnaire. The review enables the Board to assess progress against recommendations from previous reviews and to ensure there is continuous improvement in the Board's effectiveness and impact. During February and March 2023, Board members undertook a full Board Effectiveness Review of 2022 to 2023 that included independent input from a Lead Non-Executive Director from another government department. The review found that the Board covered all key issues, supported by a transparent executive team. It found that non-executive directors express their opinions openly and that agreed outcomes are acted upon. The Board agreed that, to further improve its effectiveness, there should be greater integration of the business of its sub-committees into the dialogue and agenda of the main Board.

HMRC Board sub-committees

Customer Experience Committee

Chaired by Juliette Scott, the Customer Experience Committee (CEC) met formally 5 times and continues to monitor the department's implementation of the HMRC Charter along with discussions on how to optimise customer experience as the department improves the range, accessibility and reach of its digital services. The committee also ran sessions on customer experience measures, the business benefits of investment in customer experience, shaping our customer experience ambition and making the best use of data and customer insight as key.

Audit and Risk Committee

The Audit and Risk Committee (ARC) oversaw the production and assured the integrity of HMRC's 2022 to 2023 Annual Report and Accounts, National Insurance Fund for Great Britain, National Insurance Fund for Northern Ireland, Account of Duties Collected in the Isle of Man and Revenue and Customs Digital Technology Services Ltd. The committee also provided advice and assurance on annual statements, the assessment of risk, controls and governance made by ExCom members. They monitored processes for whistleblowing, assured the adequacy of HMRC's risk and control framework, and the department's approach to horizon scanning and managing emerging risks. It is chaired by Michael Hearty and met 8 times in 2022 to 2023.

People Committee

The People Committee (People Ctte) discussed progress being made against HMRC's great place to work strategic objective, with a focus on engaging leaders across the business, and strategic workforce planning to consider how the department's workforce responds to changing customer demand and ensuring the right tax gets paid. It is chaired by Patricia Gallan, following the departure of Alice Maynard, and they met 4 times in 2022 to 2023.

Performance Committee

The Performance Committee (Perf. Ctte) provided challenge and assurance to the Chief Executive and Executive team by scrutinising HMRC's performance and delivery, both against its business plan and wider strategy and in the context of specific projects and issues. It also reviewed HMRC's security arrangements and top tier risks. The Committee is chaired by Jayne-Anne Gadhia and met 7 times in 2022 to 2023.

Nominations Committee

A separate Nominations Committee (NC) was established in December 2022 to scrutinise succession planning and the management of senior-level talent, performance, and reward - functions that were previously reserved matters for the Board. The Committee is chaired by Jayne-Anne Gadhia, and it met twice in 2022 to 2023.

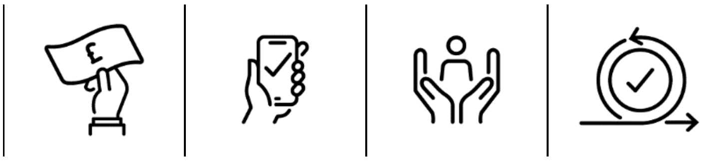
Executive Committee and sub-committees

Executive Committee

Executive Committee (ExCom) oversees progress towards the achievement of HMRC's short- and long-term performance and transformation objectives, monitors delivery of significant programmes, and manages the department's most significant risks. Every month, ExCom considered HMRC's performance against key performance indicators. In 2022 to 2023, ExCom scrutinised and agreed HMRC's business planning process and agreed the department's approach to pay and reward. They also discussed the department's architecture, data strategy, channel strategy, approach to trust, upstream compliance, security, and plans to improve employee engagement at work.

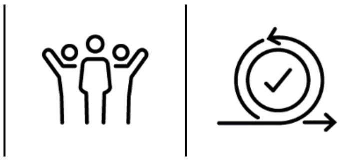
ExCom sub-committees

Strategy Committee



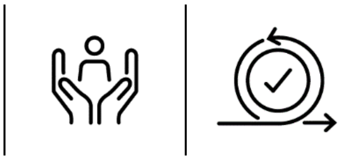
The Strategy Committee provides high-level oversight of HMRC's strategy and how it is implemented across HMRC. In 2022 to 2023, the committee reviewed the department's strategy for tax debt, intermediaries, insolvency and sustainability. It also supported progress on the Tax Administration Strategy and the development of the vision for the customs system. The committee is chaired by Jonathan Athow and met 10 times in 2022 to 2023.

Change Investment and Design Committee



The Change Investment and Design Committee approved our biggest business cases. The committee also developed, supported and assured design principles and standards for use across HMRC. It is chaired by Justin Holliday and Jonathan Athow and met 11 times in 2022 to 2023.

Professional Standards Committee



The Professional Standards Committee discussed how delivering HMRC's strategic objectives affects public trust. The committee also considered the ethical implications around data, artificial intelligence and machine learning, as well as principles of fairness and delivering fair outcomes for customers. It is chaired by Jonathan Athow and met 4 times in 2022 to 2023.

+ **Read more about HMRC's governance at www.gov.uk/government/organisations/hm-revenue-customs/about/our-governance**

Table 7: Meeting attendance by executive and non-executive directors

	Date started or left role	Board (10)	ARC (8)	Perf. Ctte (7)	People Ctte (4)	NC (2)	CEC (5)	ExCom (28)
NEDs Board Members								
Dame Jayne-Anne Gadhia		9		6		2		
Patricia Gallan		10		5	4	2		
Michael Hearty		9	8	4			4	
Alice Maynard	30 June 2022 (left)	3		3	1			
Paul Morton		10	6	5				
Juliette Scott		9		5			5	
David Cooper		10		6				
Jennifer Tippin	9 January 2023 (joined)	2		1				
NEDs								
Elizabeth Fullerton-Rome			8					
Tom Taylor			8					
Executives								
Jim Harra		10		7		2		27
Angela MacDonald		8		7				26
Jonathan Athow	19 May 2022 (joined)						5	24
Carol Bristow	15 May 2022 (joined)							23
Penny Ciniewicz					3			22
Sophie Dean/ Katherine Green	31 May 2022/ 20 May 2022 (left)							1
Alan Evans								28
Justin Holliday		10		6				26
Myrtle Lloyd					1			23
Suzanne Newton	20 February 2023 (joined)							5
Daljit Rehal								22
Joanna Rowland							3	25
Jonathan Russell								18
Esther Wallington					4	2		20

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 (section 4.3). This applies to all employees and non-executive directors. The policy explains what a conflict of interest is, and provides information on declaring, recording and managing outside interests.

A conflict of interest will arise when personal interests, activities or relationships may potentially interfere, or be perceived to interfere, with business decisions, may compromise the ability to remain fair and objective, or may result in a personal gain or advantage.

Individuals are responsible for notifying their managers of any conflicts. The relevant manager or business area must determine whether there is in fact a conflict (actual, potential or perceived) and what mitigating action is to be taken, and the manager is responsible for recording this information. If the individual moves to another team or business area, they must assess whether a new notification needs to be made in relation to the new role.

In high-risk areas, conflicts are recorded on a register, which is maintained at a business unit level.

In May 2022, Civil Service HR issued guidance to ensure a consistent approach across the Civil Service in relation to the declaration of interests, the identification and management of conflicts, and transparency regarding paid outside employment for SCS (Senior Civil Service). It has strengthened existing requirements and ensured a consistent approach in the Civil Service Management Code for the declaration and management of SCS colleagues' outside interests.

As a result of this new guidance, in addition to declaring any interest to line managers in accordance with HMRC's Conflict of Interest policy, SCS colleagues are now required to complete an annual declaration of interest via a central register which is held securely by SCS HR team. The information required for the register is a high-level record of the conversations already held with Line Managers to confirm that declarations of interest are up to date and includes nil returns. All SCS were invited to complete their annual declaration of interest in December 2022 and HMRC is therefore fully compliant with the revised Civil Service HR guidance.

HMRC Board members and non-executive members are required to declare real and potential conflicts of interest on appointment and to notify of any arising during their term. This is in accordance with The Code of Good Practice para 4.15. They are also included as part of the new SCS process outlined above.

A comprehensive list of Board members' interests (both executive and non-executive) are reported here https://www.gov.uk/government/publications/hmrc-annual-report-and-accounts-2022-to-2023 and SCS outside remuneration as at 31 March 2023, agreed through the process of declaration and management of outside interests, is reported here: https://www.gov.uk/government/publications/hmrc-senior-officials-outside-employment-april-2022-to-march-2023 in accordance with The Code of Good Practice 2017 para 4.15 and HM Treasury Public Expenditure System (PES) guidance paras 19.4 and 19.8.

The director responsible for the policy and process is Hannah Watson (HR Director). Both Hannah and Jim Harra (CEO) are part of the team who scrutinise the data. The data is presented annually for scrutiny and assurance to the Audit & Risk Committee who will scrutinise the data following the end of each financial year, alongside the Business and Appointment Rules data.

Business Appointment Rules

In compliance with business appointment rules, we are transparent in the advice given to individual applications for senior staff and publish details on a quarterly basis on GOV.UK. The Audit and Risk Committee also receives a quarterly paper on business appointment rules, to monitor HMRC's application of the rules.

Statistics cover the period 1 April 2022 to 31 March 2023:

Table 8: Statistics on the application of business appointment rules

	SCS Population:	For AA-G6 population:
Number of exits from Crown Service (civil servants and special advisers)	57	5,725
Number of exits where Business Appointment Rules (BAR) applications were required	14	55
Number of exits where BAR conditions were set	14	6
Any enforcement actions the department has taken relating to breaches of the rules in the preceding year	-	No detail available

In April 2022, HMRC introduced a new Business Appointment Rules (BAR) assurance tool and governance panel. The new tool has helped the SCS community to identify whether a full BAR application is needed when colleagues leave HMRC, and provides data to support the Audit and Risk Committee in their oversight role. The governance group provides central oversight of full BAR applications, and considers data on leavers where no BAR application is required.

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

Risk management and assurance

Our approach to risk management

HMRC has a well-established culture of managing risks. The Performance analysis section, page 87, highlights some specific identified risks and explains how we are managing them. This section outlines our approach to managing risks across HMRC over the reporting period.

We manage 2 main types of risk:

1. Strategic risks: these are risks to the management of HMRC and delivery of our strategic objectives. The Executive Committee (ExCom) and HMRC Board, inclusive of Audit and Risk Committee members scrutinise these risks through regular reporting and participation in deep dive sessions. We manage these risks across all levels of HMRC, from decision making on individual cases to delivering large-scale change and strategic policy making.

2. Process risks: these are risks to the efficient operation of our processes. We are putting more controls in place to help us manage the risks associated with our operational processes. These controls are reviewed and assured regularly during the reporting period to make sure they are effective.

HMRC's risk and control framework

We continually review and refine how we manage risk, so we can understand and keep improving the effectiveness of our strategic delivery, processes and controls.

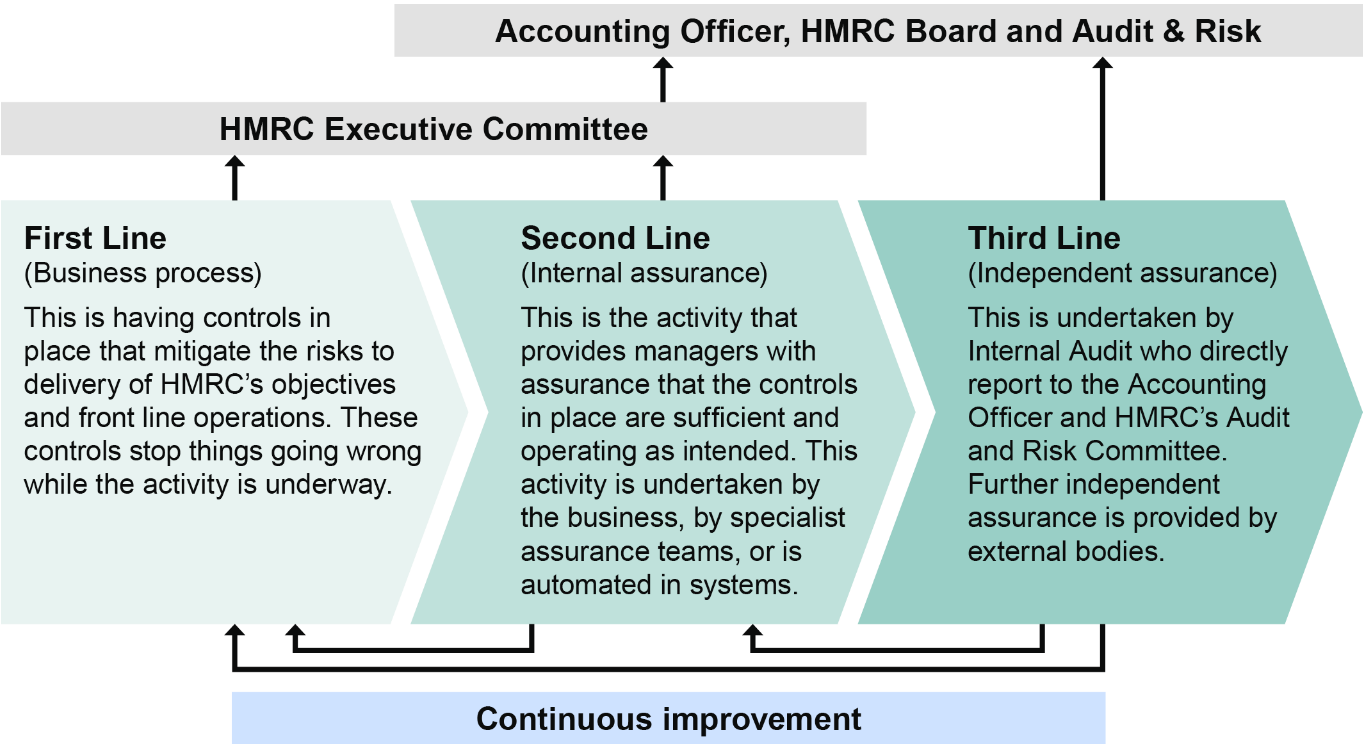
We have appointed a Group Controller who has oversight for management assurance activity including the disciplines of governance, risk, and control. Alignment of these activities across HMRC is helping us to create a unified view of our risks and controls and to streamline activity. The Group Controller, supported by the HMRC Risk and Control Board, will help ExCom to further improve our risk and control framework, contributing to more effective and efficient processes that support the delivery of our strategic objectives.

Our risk and control framework is based on the 'Three Lines Model'. This assurance model facilitates the effective management of risk throughout the reporting period, by clearly defining roles and activities for front-line operations, internal assurance, and independent assurance; and by supporting regular monitoring, reviewing and assurance. The front-line operates controls to mitigate risks to delivery and internal assurance provides management with confidence that the controls in place are effective. An independent view of the overall effectiveness of controls including our internal assurance is provided by Internal Audit and external bodies.

These activities provide the Accounting Officer, ExCom and the Board with assurance about the delivery of HMRC's overall strategy and objectives.

+ **For more information on actions taken on specific control challenges, please go to pages 115 to 116.**

Figure 41: HMRC's Three Lines Model



Our risk and control framework covers:

- governance: ensuring that authorities and accountabilities are clear, appropriate strategies and plans are in place and our success in operating the control framework is reflected in the annual governance statements
- risk management: identifying, assessing, managing and reporting the risks to the delivery of our objectives
- process management: taking the necessary action to ensure our processes are effective, efficient, well-controlled and easy for our customers to use
- controls: embedding effective controls in our business processes to ensure 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: getting internal and external audit to challenge or confirm the effectiveness of our control framework
- data: ensuring that the data on which our business relies is secure and accurate

The HMRC Risk and Control Board manages the integration of these activities. It is chaired by the Group Controller and is attended by the Directors of Internal Audit, Data, Customer Insight and Design, as well as senior leaders from each Business Group. The Risk and Control Board reports progress on improving the control framework to our Executive Committee and Audit and Risk Committee.

+ **For information on how we comply with requirements for specific sectors and jurisdictions governed by the relevant authorities, see the Principal Accounting Officer's report, page 119.**

Recommendations made by external scrutiny bodies

We monitor the implementation of recommendations by external scrutiny bodies including the National Audit Office (NAO), Public Accounts Committee (PAC) and Infrastructure Projects Authority. In the 2022 to 2023 financial year, we received and responded to recommendations from the following Parliamentary reports:

- PAC report on HMRC's Annual Report and Accounts: www.committees.parliament.uk/work/6883/hmrc-annual-report-and-accounts-2122/
- PAC report on the COVID-19 employment schemes: www.committees.parliament.uk/work/6967/covid19-employment-support-schemes

We accepted 11 recommendations from NAO value for money reports published after April 2022. Further detail on the status of all NAO recommendations the department has accepted since April 2019 can be found via the NAO recommendations tracker: www.nao.org.uk/recommendations-tracker

We accepted 23 recommendations from the NAO management letter 2021 to 2022, of which 6 were implemented by 1 April 2023. We also implemented 106 recommendations from the Infrastructure and Projects Authority.

Personal data-related incidents

All government departments are required to publish information about any serious data-related incidents, which must be reported to the Information Commissioner (ICO). A summary of these incidents is shown in Table 9.

Table 9: Summary of protected personal data-related incidents reported to the Information Commissioner's Office

Nature of incident	Number of breaches 2022-23	Number of breaches 2021-22
Personal information used to make changes to customer records on HMRC systems without authorisation	2	3
Loss of inadequately protected electronic equipment, devices or paper documents from secured government premises	2	1
Loss of inadequately protected electronic equipment, devices or paper documents from outside secured government premises	1	-
Insecure disposal of inadequately protected electronic equipment, devices or paper documents	-	-
Unauthorised disclosure	11	16
Other	2	2

We have notified the ICO of several instances of unauthorised disclosure during 2022 to 2023. The number of customers potentially affected by these ICO notifiable incidents is 10,209 (2021 to 2022: 10,896). This figure could still change over time, as new information becomes available as a result of further enquiries and ongoing security incident investigations.

The number of unauthorised disclosure incidents reported to the ICO decreased in 2022 to 2023 due to continued enhanced GDPR awareness across the department (the number of centrally recorded unauthorised disclosure incidents which did not require reporting to the

Information Commissioner has also reduced). We take all of these incidents seriously and are acting to address them (for more information on these actions see page 61).

We have used the lessons learned from these incidents to review and strengthen our customer identity and authentication processes. Protecting customer data is important to us and we monitor our processes continually to prevent recurrences. We are also delivering enhanced data security, governance and reporting across HMRC.

Other protected personal data-related incidents

Incidents which did not require reporting to the Information Commissioner are recorded centrally within HMRC. The overall number of centrally recorded incidents (particularly unauthorised disclosure) has reduced significantly due to enhanced GDPR awareness across the department.

The number of centrally-managed security incidents impacting on protected personal data in HMRC reduced from 5 to 3 in 2022 to 2023. The number of customers potentially affected by these incidents was 27 (2021 to 2022: 911). The figures quoted for the number of customers affected can change over time, as new information becomes available due to further enquiries and ongoing security incident investigations.

+ **For more information on how we manage our data, please go to pages 61 to 62.**

Resolving historical issues for customers

Home Responsibilities Protection

Home Responsibilities Protection (HRP) was a scheme in operation from 1978 to 2010, to reduce the number of qualifying years of National Insurance (NI) contributions a person with caring responsibilities needed to receive a full pension.

As a result of a review by the Department for Work and Pensions (DWP) in 2021 to 2022, a historical issue with recording of HRP on people's NI records was identified. Most people received HRP automatically where there was a claim for Child Benefit. However, in some cases this did not happen, leading to underpayments of State Pension (eligibility for which is calculated based on NI records). HRP may also affect benefit entitlement and the amount of Income Tax due.

The main cause was NI numbers not being recorded when customers claimed Child Benefit before 2000.

When HMRC assumed responsibility for the administration of Child Benefit in 2003, we adopted a policy of retaining Child Benefit records for 5 years (this was extended to 7 years in June 2022). As a result, records are no longer held for the HRP period, meaning it is not possible to easily identify those affected.

In 2022 to 2023, we have worked closely with DWP and the Department for Communities in the Northern Ireland Government to develop a targeted scan to identify potentially affected customers.

As it is not possible to identify individuals affected or to correct their records automatically, individuals who may be affected will be invited to make an application for any missing HRP years, accompanied by a communications campaign to reach people who we may be unable to identify. We have worked with DWP to make the application process and guidance as clear as possible and expect correction activity to begin in autumn 2023. While the plans are being finalised, the amount of time it will take to correct records is uncertain. We will take a proactive approach to correct records and DWP will pay any arrears as quickly as possible, taking into account the vulnerability of the customers impacted.

+ **Further detail can be found in the DWP Annual Report and Accounts 2022-23:** **www.gov.uk/government/publications/dwp-annual-report-and-accounts-2022-to-2023**

Fulfilling international obligations on customs undervaluation fraud

In March 2018, the European Commission alleged that from 2011 to 2017 the UK took inadequate steps to prevent customs undervaluation fraud involving imports of Chinese textiles and footwear and that customs duty was therefore owed to the EU. In March 2022, the European Court of Justice found against the UK on most liability points. The UK made payments totalling €2.6 billion (£2.3 billion) in June 2022, January 2023, and February 2023 to cover both principal and interest. These payments were made from the Consolidated Fund and settled the case, with the UK fulfilling its international obligations.

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 System 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.

Trust Statement

The Trust Statement reports the revenues, expenditures, assets and liabilities related to the taxes and duties for the financial year. The majority of taxes and duties are accounted for on an accruals basis. As agreed with HM Treasury, some tax elements are accounted for on a partial accruals basis, or cash basis where not enough information is known to reliably fully accrue for the revenue.

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 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. The Resource Accounts are prepared on an accruals basis.

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 judgements and estimates on a reasonable basis, including those judgements involved in consolidating the accounting information provided by the Valuation Office Agency and RCDTS Ltd
- state whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the accounts
- prepare the accounts on a going concern basis

As Principal Accounting Officer, I take personal responsibility for the annual report and accounts and confirm that I have judged it to be fair, balanced and understandable.

Accounting Officers for the Resource Accounts

For the financial year 2022 to 2023, I, Jim Harra, was the Principal Accounting Officer.

Jonathan Russell, 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 (see SOPS 1.1 at page 155) and the associated assets, liabilities and cash flows. This appointment does 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-K and N-Q: Jim Harra, Chief Executive and Permanent Secretary
- Estimate sections B, L and M: Jonathan Russell, Chief Executive of the Valuation Office Agency

As Accounting Officer of HMRC I am responsible, through the use of appropriate systems and controls, for ensuring that any grants we make to our sponsored bodies are applied for the purposes intended. I also ensure 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 non-departmental public body RCDTS Ltd, 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

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. As far as I am aware, there is no relevant audit information of which the auditors are unaware.

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 (issued by my Chief Finance Officer) 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 oversees the development and administration of our control standards, ensuring that financial risks are managed effectively and efficiently 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 and the NAO.

Statements and reports made by Executive Committee (ExCom) members

Each member of ExCom provides an annual governance statement, setting out the control framework arrangements (governance, risk, control, assurance, process and data) in their business areas. These statements are reviewed by Internal Audit Control Board and the Corporate Risk Team, as well as teams that lead on different aspects of our control framework. HMRC's Audit and Risk Committee draws on the statements, alongside other sources of evidence, to provide overall assurance to the Accounting Officer and the Board.

The Tax Assurance Commissioner prepares a tax assurance report, which can be found on pages 121 to 133.

Additional Accounting Officers

I receive assurance from HMRC's Additional Accounting Officers:

- Jonathan Russell has responsibility for Valuation Office Agency (VOA) administration
- Jonathan Athow has responsibility for the Scottish and Welsh rates of Income Tax
- Justin Holliday has responsibility for the signature of the Account of Duties Collected in the Isle of Man
- Patrick Whittome, HMRC Director, Group Controller, 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 107 to 108. 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 Fund has its own financial statements, 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, Department for Work and Pensions in Great Britain and Department for Communities in Northern Ireland), and I receive letters of assurance from the accounting officers of each of these entities every year.

Quality assurance

Quality assurance of business-critical models

We have developed a departmental framework, including central guidance, to underpin quality assurance of business-critical analytical models (BCMs). BCMs are managed by a Senior Responsible Owner who ensures proportionate quality assurance activities are carried out, including model reviews, documentation and governance. We maintain a register of these models, consistent with the recommendations of the 2013 MacPherson review. We have approximately 90 BCMs on the register, though this number can change as the register is regularly updated.

We continue to develop our quality assurance of BCMs by further improving model documentation, increasing independent assurance and exploring publication of the BCM register. These developments align with recommendations set out by the NAO in their Financial Modelling in Government report (published January 2022).

Management and quality assurance of the analytical models is monitored as part of the annual review of BCMs. The framework is promoted regularly to support the implementation of the guidance among modelling teams. We have a team which independently reviews a sample of the business-critical models, to provide assurance and share best practice.

Each year, our Audit and Risk Committee considers the quality assurance of our business-critical models and the need for any further actions.

+ **Read the MacPherson review of government models at Review of quality assurance of government models - GOV.UK (www.gov.uk)**

+ **Read the NAO Financial Modelling in Government report www.nao.org.uk/wp-content/uploads/2022/01/Financial-modelling-in-government.pdf**

Internal audit

The Director of Internal Audit’s opinion to me, as Principal Accounting Officer and the Board 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 2022 to 2023, both operationally and in change delivery.

- **Risk Management:** Our opinions in relation to risk management were generally comparable to last year, albeit with a small improvement in results from individual audits. Risks are largely understood, and the risk management arrangements adequate at business group level to support HMRC in dealing with these challenges. Risk identification is particularly strong with 88% of audits providing a positive opinion. There has however, been slippage in the department’s activities to strengthen its corporate risk management processes, which remain sub-optimal. These include the development of a new risk management strategy and embedding an integrated risk and control tool. Often, where weaknesses are identified they are for risks that cut across organisational boundaries, where ownership is sometimes less clear, or a corporate solution is needed. Overall risk exposure is unlikely to reduce in the short-to-medium-term. Significant risks to funding, efficiency, delivering change, modernisation of IT systems and security require effective risk management arrangements. Capacity and funding pressures will increasingly be a limiting factor. There is therefore a need for HMRC to exploit efficiency opportunities which have not been sufficiently realised to date. The primary vehicle for delivering these efficiencies is not without significant risk and will require new and more agile ways of working.
- **Governance:** Governance of the organisation is broadly effective, although HMRC should ensure that accountability for the operation and assurance of controls is overtly clear for all key components of its control framework. Whilst improvements have been made we found that this was not the case in all audits. Any other significant governance issues were generally at operational or delivery levels, particularly when systems cross organisational boundaries. Our assessment findings in this category were largely comparable to last year, with 80% of audits providing a positive opinion for governance. However, though our review of ExCom performance reporting was positive overall, audit findings relating to reliability of management information and monitoring and assurance, tended to have a lower percentage of positive opinions. In particular, understanding and reporting of the second line of defence remains largely linear and delivery uncoordinated, with opportunities for better alignment, efficiency and coverage yet to be realised.
- **Internal Control:** Whilst there have been some improvements to the control framework, particularly in operational systems, there remain significant control weaknesses and our overall results have shown a 5% decrease in audits providing a positive assurance for control effectiveness. That said, many of the improvements to control effectiveness I reported last year have been consolidated within HMRC’s operational areas, where I am consequently able to uplift my opinion. There are, however, some long-standing control issues that are significant and limit the opinion that I can provide overall. Notably, the top ten control issues I raised in 2019 to 2020 remain a work in progress and, as a result, I have identified associated control weaknesses in the course of this year’s work. Delivery of improved control against many of these issues has been slow because they are either cross-cutting, difficult and/or legacy issues for which there are no easy fixes. In particular, parts of the IT estate, and therefore the control framework, are adversely impacted by long-standing issues, with a commensurate impact on control design, efficiency and effectiveness. Whilst I recognise some progress has been made, there will need to be risk-based decisions taken in 2023 to 2024 as to where investment in control remediation can continue to be made.

Government functional standards statement

UK Government Functional Standards set expectations for improved and consistent ways for functions to work across government. This includes the planning, delivery and assurance of functional work as well as support for continuous improvement and professional development. HMRC fully supports the embedding of functional standards. In line with HM Treasury/Cabinet Office requirements, in early 2023 all HMRC functional leads completed a self-assessment of how well they are meeting the requirements of their functional standard. Areas for improvement were identified and have been built into business plans. Internal Audit have started a programme of reviews of each function which will further strengthen our alignment with the relevant standards.

Control challenges in financial year 2022 to 2023

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 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. 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 maintained the levels of error and fraud within an established range of 4.4 to 5.5% in every year since 2012 to 2013. 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 metrics during the COVID-19 pandemic, we did not set an error and fraud target for 2020 to 2021 or 2021 to 2022.

The level of error and fraud is impacted by the migration to Universal Credit and continued pressures on error and fraud compliance resourcing.

The central estimate of the error and fraud overpayment rate is estimated to have decreased to 4.5% (£510 million) in 2021 to 2022 from 4.7% (£730 million) in the final estimate for 2020 to 2021.

HMRC's accounts have been qualified since the inception of tax credits. 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 has again qualified his opinion on HMRC's Resource Account to include error and fraud in research and development (R&D) tax reliefs. This is the first year the Small and Medium Enterprise (SME) scheme estimate has been prepared using the results of a random enquiry programme. The original estimate for 2020 to 2021 has been revised as the random enquiry programme included claims received in 2020 to 2021. See page 23 for more details.

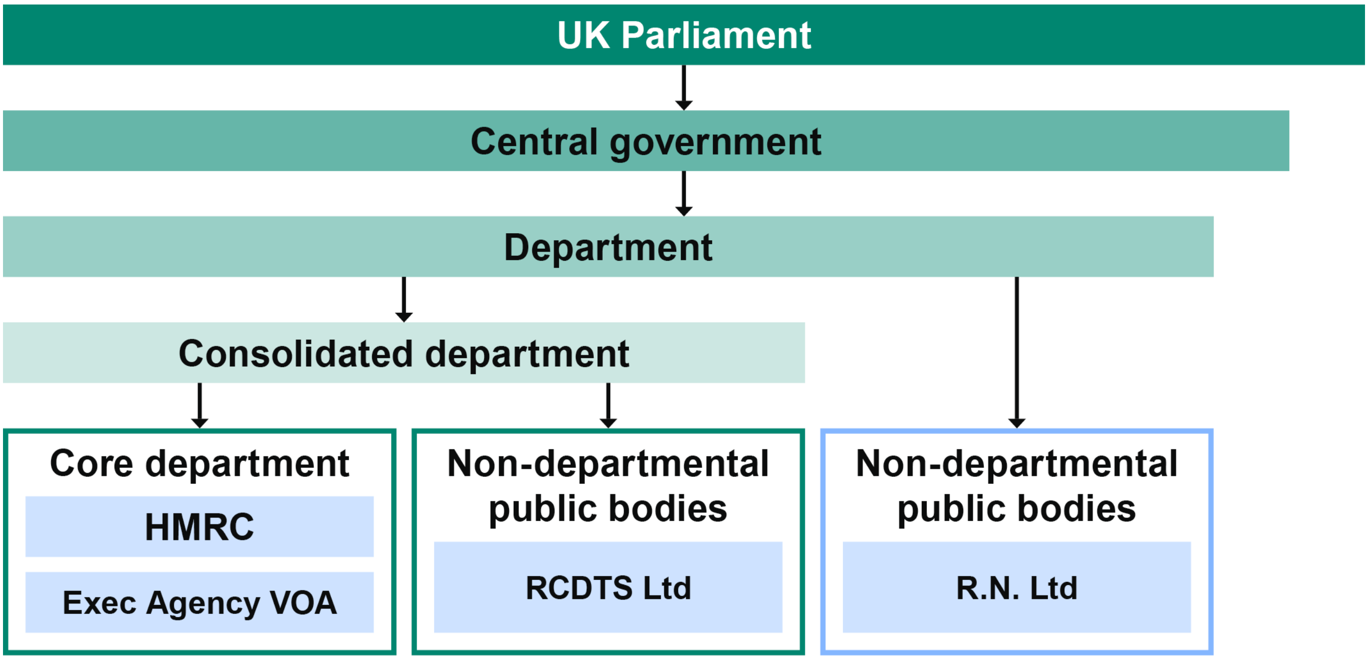
The overall estimate of the level of error and fraud in 2020 to 2021 is 16.7% (£1.13 billion) of the estimated cost of the reliefs. The level of error and fraud in 2020 to 2021 is 24.4% (£1.04 billion) for the SME scheme and 3.6% (£90 million) for the RDEC (Research and Development expenditure credit) scheme. The rate is higher than the previous estimates for 2020 to 2021 and reflects recent and significant methodological improvements to the SME estimate and updates to assumptions which were previously based on limited information from claims selected for risk-based compliance enquiries.

Previous estimates assumed that claims which were not selected for enquiry had lower levels of error and fraud. As a result of the increase in the SME estimate, the error and fraud rate applied to the element of the RDEC scheme claimed by SMEs has also increased the overall estimate of error and fraud within the RDEC scheme. The random enquiry programme has shown that the assumptions for the SME estimate were previously underestimating the true rate and value of error and fraud. Compliance yield and monies paid out to criminal attacks and not recovered are included within the final estimate. HMRC have already implemented measures to tackle error & fraud and have now announced further steps which are covered on page 23.

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 42: 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 the VOA's Chief Executive and Accounting Officer. He is also a member of HMRC's Executive Committee (ExCom).

HMRC's ExCom performance hub and 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. I am content that our oversight is working well. I hold quarterly Business Reviews with Jonathan Russell, and he attends the HMRC Board at least once a year.

Accountability for spending

Jonathan Russell is 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 Limted (RCDTS Ltd)

RCDTS Ltd is a non-profit making company wholly controlled by and operated for HMRC which supplied the department with IT services up until March 2023. The services RCDTS Ltd provided are now provided by a mixture of HMRC and third parties. It is a separate legal entity with an arm's length relationship with HMRC. The RCDTS Ltd Board has 7 directors, all employed by HMRC.

RCDTS Ltd received funding from HMRC in the form of a repayable loan. RCDTS Ltd invoiced HMRC for the services it provided and was 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

The Resource and Company Accounts team within HMRC's Group Controller directorate produces and publishes the RCDTS Ltd accounts. This 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.

Transfer of services from RCDTS Ltd and closure of the company

The majority of RCDTS Ltd services were transferred in-house to HMRC on 1 February 2023. The remaining services, Help Desk and Networks, were transferred on 26 September 2022 and 1 March 2023 respectively to external third parties. The company ceased trading on 31 March 2023 and entered dormancy. Following the period of dormancy, the company will follow the process for dissolution at Companies House.

R.N. Ltd

R.N. Ltd is a private company limited by shares held by the Treasury Solicitor on trust for the HMRC Commissioners. R.N. Ltd acts as a nominee for the commissioners and the company holds charges over assets that secure tax debts owing to HMRC. It holds registered title over assets assigned to HMRC in settlement of tax liabilities. R.N. Ltd had 4 directors on 31 March 2023. The Accounting Officer is Patrick Whittome, HMRC Director of Group Controller directorate, who has authority delegated by the HMRC 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. The Company Accounts Team within HMRC’s Group Controller directorate 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. Ltd 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 £13.3 million (Voluntary Legal Charges £7.6 million and Funding Bonds/ Shares £5.7 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 with 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 2022 to 2023, HMRC provided grant schemes in accordance with relevant guidelines to the charity sector who provide advice and assistance to vulnerable clients on their financial affairs (including tax affairs) operated by third parties.

HMRC has a number of major contracts that are significant in ensuring that it can deliver its core services. Our IT services are provided through contracts with Capgemini, Fujitsu, Accenture and Nasstar, valued approximately at £884 million in total, each year.

IT contracts

HMRC continues to deliver better value for money from its IT contracts by using well-established performance measures. During 2022 to 2023, new contracts were awarded which superceded the majority of IT contracts and further disaggregated the supplier base. Any new agreements are operating under modern framework contracts with improved and standardised performance measures. We are now working on new bespoke frameworks for HMRC to improve cost, capability and capacity. 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.

The expenditure values for the IT contracts for HMRC's 2022 to 2023 Resource Accounts are as follows:

- IT Public Private Partnership contract (PPP) payments: £85.9 million
- IT services and consumables: £1,057.3 million
- Total: £1,143.2 million

Facilities Management and Security contracts

Between August 2018 and June 2019, in advance of the Mapeley STEPS PFI Contract expiry on 1 April 2021, HMRC undertook 3 procurement exercises for regional Facilities Management services and a national Security service, which were required to underpin HMRC's locations programme and give the department contractual resilience across the UK.

These procurement exercises have been completed and contracts awarded via further competition using the Crown Commercial Services Framework. As a result, 7 contracts have been awarded to 5 suppliers. The combined value of these contracts over a 5 year period is circa £250 million to £300 million, which will expire between December 2023 and March 2024, but all contracts have the option to extend by up to 2 years.

Conclusion and compliance with the code of good practice

I have assessed HMRC's compliance with the 'Corporate governance in the central government departments code of good practice 2017'.

The code focuses on governance arrangements for ministerial departments. While there are elements which are not directly relevant to HMRC due to our statutory framework and status as a non-ministerial department, 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 2022 to 2023 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 2022 to 2023.

+ **Read the 'Corporate governance in the central government departments code of good practice 2017' at www.gov.uk/government/publications/corporate-governance-code-for-central-government-departments-2017**

Jim Harra
Accounting Officer

6 July 2023

Tax Assurance Commissioner's report

Foreword

The year 2022 to 2023 has been another demanding year for HMRC and I am happy that we have made good progress towards resolving tax disputes fairly and with consistency throughout. As the Tax Assurance Commissioner, and alongside HMRC's other commissioners, I am proud of the work we have done to assure the resolution of HMRC's most significant tax disputes. As commissioners, we also oversee our wider dispute resolution processes, including reviewing a sample of smaller cases which allows commissioners to assure a wider range of HMRC's work.

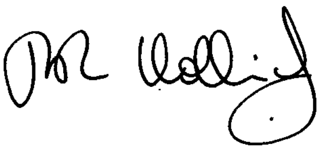
There is sustained public interest in the way HMRC settles tax disputes, particularly for wealthy individuals and large Corporations. It is right that we are held to and deliver a high standard when settling disputes with taxpayers. I am committed to supporting every colleague to achieve these standards, through increased training, sustaining the focus on our Customer Charter and Compliance Professional Standards. This includes reinforcing our aim to resolve all disputes, regardless of their size, collaboratively and always in a fair and even-handed way.

Any proposal to resolve a dispute is considered in line with HMRC's published Litigation and Settlement Strategy (LSS), which sets out that HMRC will not settle for an amount that is less than would be reasonably expected from litigation. I remain assured by both my oversight of the formal dispute governance boards, and the Tax Settlement Assurance Programme (TSAP) that this is the case.

We offer several ways for taxpayers and HMRC to reach a resolution outside of litigation. We have collated information on our governance processes into a single web page: www.gov.uk/government/collections/how-hmrc-resolves-civil-tax-disputes

We have sought to improve customer understanding of HMRC's dispute resolution mechanisms and have published a manual on Alternative Dispute Resolution (ADR). We have also enhanced the manual on the LSS, providing clearer explanation for HMRC staff and customers on how to apply the LSS and supported this with a programme of internal training which are continuing.

The results of our assurance programme evidence the improvements we are making in our compliance work. We have provided feedback to managers on areas where we could do better to ensure we consistently meet our standards. I am confident that HMRC colleagues will continue working to improve standards over the coming year, contributing to building further confidence and trust in HMRC's administration of the tax system.



Justin Holliday
Tax Assurance Commissioner and Chief Finance Officer

Our approach to tax disputes

The HMRC Charter defines the standard of service and behaviour that customers should expect when dealing with us. We are committed to meeting our Charter commitments and improving our customer experience. We closely monitor performance against our customer service standards and take steps to implement further improvements where necessary. We try to support our customers to fufil their obligations and pay the right tax without the need for a dispute.

We do this in several ways, including designing a framework of policy and guidance to help customers navigate through the tax system and resolve issues at first contact whether using digital or traditional channels.

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 reach an agreement, there are several options that a customer or HMRC can take to agree a resolution, including mediation through Alternative Dispute Resolution (ADR). ADR is a flexible process which can be used by HMRC and customers to resolve disputes at any stage of a compliance check. Ultimately where this is not possible, a customer can request a statutory review and/or ask an independent tax tribunal to determine the dispute.

HMRC's policy for dealing with tax disputes in cases involving fraud is to follow the cost-effective civil fraud investigation procedures wherever appropriate. We will respond robustly to those who try to cheat or attack the tax system. We reserve our criminal investigation powers for cases where HMRC needs to send a strong deterrent message, or where the conduct involved is such that only a criminal sanction is appropriate.

+ **Read HMRC's 'Code of governance for resolving tax disputes' at www.gov.uk/government/publications/resolving-tax-disputes**

+ **Read HMRC's criminal investigation policy at www.gov.uk/government/publications/criminal-investigation/hmrc-criminal-investigation-policy**

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

How we resolve tax disputes

We resolve most tax disputes by agreement with customers. Customers can authorise someone else to deal with the matter on their behalf throughout the entire dispute process, such as an accountant, friend or a relative.

HMRC's Litigation and Settlement Strategy (LSS) is the framework within which we resolve tax disputes through civil law processes and procedures in accordance with the law. It applies whether the dispute is resolved by agreement with the customer or through litigation. We aim to apply the law fairly and consistently, in order to secure the best practicable return for the Exchequer.

HMRC does not 'do deals' with anyone and resolves disputes in line with current law. We resolve each dispute according to the facts and circumstances of each case and do not enter into 'package deals' with anyone (where multiple disputes are considered together and traded off against each other), although we may settle different matters concurrently. HMRC only usually persists with a tax dispute where it believes that it will secure the best return for the Exchequer and that it would be successful in litigation. We ensure that both the substance of any decision leading to resolution of the dispute and the way that resolution is put into effect are fully in accordance with the law.

Governing the resolution of disputes

The role of the Tax Assurance Commissioner (TAC) was first introduced in 2012, as part of a package of measures to strengthen HMRC's governance and assurance of tax disputes. The TAC has ultimate responsibility for civil dispute governance across HMRC, and for the Litigation and Settlement Strategy (LSS). They provide assurance and transparency to Parliament and the public that HMRC handles disputes in a fair and even handed manner, avoiding unnecessary disputes and conducting any disputes in a non-confrontational manner.

The TAC has no involvement in the management of the tax affairs of specific taxpayers and no line management responsibility for caseworkers, maintaining a clear separation of responsibilities. The majority of case resolution decisions are taken by caseworkers with the oversight of their managers and, where relevant, advice from specialists. A sample of cases is checked through HMRC's Tax Settlement Assurance Programme to provide assurance of how cases are managed and disputes resolved. The TAC chairs a panel of 3 HMRC Commissioners who make decisions on the largest and most sensitive cases, as well as a sample of smaller cases.

+ Read HMRC's LSS at www.gov.uk/government/publications/litigation-and-settlement-strategy-lss

If the tax at risk in a dispute is greater than £5 million (non-Large Business customers) or £15 million (Large Business customers), it falls within the remit of Customer Compliance Group Dispute Resolution Board (CCG DRB).

When the total tax at risk for all ongoing disputes with a customer exceeds £100 million, most individual disputes come within the remit of the Tax Disputes Resolution Board (TDRB), which makes recommendations to the commissioners on any proposal to resolve those disputes.

Figure 43: Summary of TAC oversight dispute resolution governance

In the financial year 2022 to 2023, the commissioners considered risks referred from the TDRB, as well as a sample of cases from the CCG DRB. The commissioners also considered risks referred to them by HMRC's issues panels. HMRC's dispute resolution governance boards are made up of senior leaders from across HMRC, including lawyers and representatives from policy, technical and operational areas, independent of the case team.

One case that had missed TDRB/ TAC governance was identified during 2022 to 2023. We understand how the failure arose and have taken steps internally to reduce the chances of a similar error occurring. The case was compliant with our Litigation and Settlement Strategy.

Table 10: HMRC Commissioners: outcome of referrals

	2022-23	2021-22
Total number of meetings held (including via correspondence)	**22**	**18**
Total referrals to the commissioners	**56**[1]	**49**
Reason for referrals		
£100m plus tax or £500m adjustment	36	34
Decisions on sensitive case or risk	5	2
Decisions on sample cases	11	10
Director referral	2	1
Direct re-referral following remittance for further work	2	2
Outcome of referral		
Taxpayer's position accepted	37	27
Taxpayer's position rejected	12	19
Taxpayer's position partially accepted	3	-
Taxpayer's position partially rejected	-	1
Remitted for further work	4	2

1 The above figures do not include referrals from Issues Boards as these are non-customer specific.

Table 11: HMRC Commissioners: tax under consideration in decisions referred to commissioners

	2022-23 (£m)	2021-22 (£m)
Taxpayer's position accepted	9,368.2	3,238.2
Taxpayer's position rejected	2,940.2	1,845.5
Taxpayer's position partially accepted	174.2	-
Taxpayer's position partially rejected	-	95.8
Remitted	29.1	84.9

Table 12: Tax Dispute Resolution Board: outcome of referrals

		2022-23	2021-22
	Referrals to TDRB	46	38
Referred to commissioners	Taxpayer's position accepted	31	21
	Taxpayer's position rejected	10	12
	Taxpayer's position partially accepted	3	-
	Taxpayer's position partially rejected	-	1
	Total referred to commissioners	44	34
Not referred	Remitted for further work	1	1
	Guidance provided	-	-
	Decision taken by TDRB under its remit	1	3
	Total not referred to commissioners	**2**	**4**

Table 13: The Customer Compliance Group Dispute Resolution Board: outcome of the total referrals to the CCG DRB

	2022-23	2021-22
Total referrals to CCG DRB	102	84
Taxpayer position accepted	54	34
Taxpayer position rejected	40	44
Taxpayer position partially accepted	1	-
Taxpayer position partially rejected	1	-
Board remitted for further work before re-referral	4	5
Board provided advice and guidance – no decision sought	2	1
Sample cases	11	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. In general, policy teams refer issues to the Anti-Avoidance Board (AAB) for avoidance issues and to the Contentious Issues Panel (CIP) for other issues.

During 2022 to 2023:

- the CIP met 6 times and considered 7 issues (7 times and 6 issues in 2021 to 2022) involving personal tax and VAT
- the AAB met 5 times and considered 8 issues (6 times and 11 issues in 2021 to 2022)

One issue was referred to the commissioners from the CIP. No issues were referred to the commissioners from the AAB (one case was heard by the commissioners in 2021 to 2022).

General Anti-Abuse Rule (GAAR) and GAAR Advisory Panel

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 2022 to 2023 the panel provided opinions in 6 cases (2 in financial year 2021 to 2022), of which 2 relate to the enablers regime. In all but one case the opinion of the panel has been that entering into and carrying out the arrangements was not a reasonable course of action. HMRC has now issued the first enablers penalties.

Since 2018, we have issued over 6,100 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 at www.gov.uk/government/collections/tax-avoidance-general-anti-abuse-rule-gaar**

Ensuring a standard approach to penalties for inaccuracies and failures to notify

We charge our customers inaccuracy penalties when we find that they have filed an inaccurate tax return, claim or document, and the inaccuracy occurred because of careless or deliberate behaviour on their part. We charge our customers failure to notify penalties when we find that they have not told HMRC about changes which affect their liability to tax, VAT or other duties.

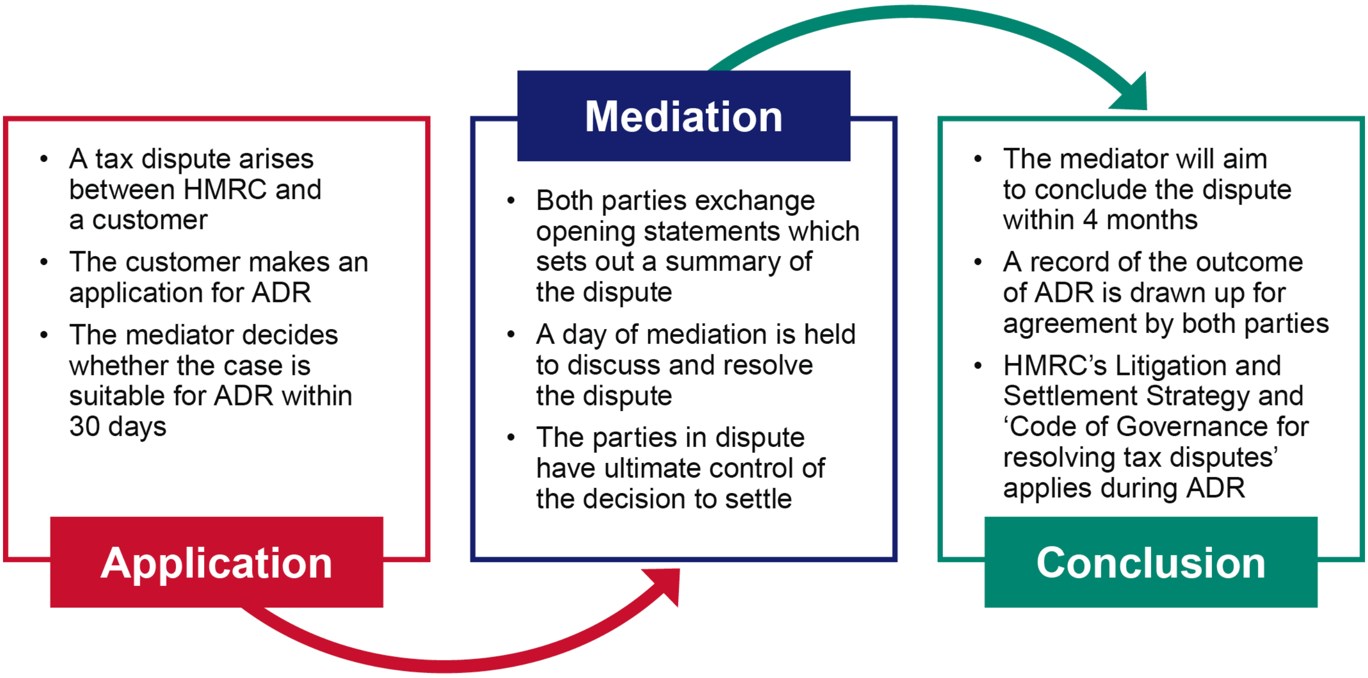
We work hard to ensure consistency in our decisions to charge these penalties. We do this by maintaining effective controls to make sure decisions are considered and authorised at the appropriate level, taking into account both the size and complexity of the tax risk and the corresponding penalty.

We control penalty decision-making through line manager authorisation checks, and specific governance boards for the most complex cases. We use networks of senior tax professionals to support our caseworkers with advice and assurance.

Alternative Dispute Resolution

Alternative Dispute Resolution (ADR) in HMRC is a dispute resolution process which involves an impartial and neutral HMRC mediator actively assisting parties to work towards resolving a tax dispute outside of the tribunal or court.

Figure 44: ADR Process in HMRC



While currently, most ADR applications are made once we have made a decision and the customer has appealed, it is possible to consider ADR at any point of a compliance check. Customers can apply for ADR via telephone or online through GOV.UK. The mediator will decide within 30 days whether the case is suitable for ADR. The type of cases which are out of scope for ADR can be found in the published ADR guidance on GOV.UK. These are usually cases where ADR cannot add value to the dispute because for example legal precedent is set and HMRC does not have discretion to amend the decision. If the mediator has concerns about whether the case is suitable for ADR or whether ADR can add value, the case is referred to an internal governance panel for consideration. If we agree to enter into ADR, the mediator will work with the HMRC caseworker and the customer to try to resolve the dispute. The mediator will aim to conclude the process within 4 months. The parties in dispute have ultimate control over the decision on whether to settle.

ADR continues to have a positive impact on over 80% of the cases which are accepted into the process. In this instance, positive impact means that the case has been progressed, either by fully resolving the dispute, partially resolving the dispute or the issues in dispute and both sides' positions have been clarified enabling them to make an informed decision on how to move forward.

The majority of mediations take place via video which helps provide greater operational flexibility and reduce costs. The ADR terms and conditions have been clarified following discussion with stakeholders and cases are now progressing under these conditions with the new Record of Outcome.

Table 14: Alternative dispute referrals

	2022-23	2021-22
Total applications for ADR (either side can propose ADR)	1,013	1,047
Cases rejected by governance panels	279[1]	283
Cases rejected as being Out of Scope	268	298
Cases awaiting decision	17	25
Active cases	149[2]	147
Cases resolved	326[2]	269
% of cases resolved	86.7%[2]	80%
Cases going to litigation	73	96

1 This figure does not include 'Out of Scope' applications.
2 This figure could include applications from a previous tax year.

Settlement opportunity published in 2022 to 2023

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.

On 11 April 2022, we published a settlement opportunity for users of remuneration trust tax avoidance schemes. The settlement opportunity was available for individuals or companies who have used certain tax avoidance schemes involving remuneration trusts. It did not apply to any individual or company under criminal investigation. It may also not have applied where an appeal related to the tax consequences of scheme use had been referred to a tribunal.

If a court rules in the future that tax is due on an alternative basis, the settlement terms will be withdrawn, and we will expect any scheme users who have not already settled to pay tax in accordance with the court's ruling.

+ **Read more about the settlement opportunity for users of remuneration trust tax avoidance schemes at www.gov.uk/guidance/settlement-opportunity-for-users-of-remuneration-trust-tax-avoidance-schemes**

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 in the first instance. If a customer requests a review and does not agree with the outcome, they can still make an appeal to the tribunal.

All HMRC reviews and appeals are dealt with by officers who are tax, legal or accountancy professionals working in our Solicitor's Office and Legal Services (SOLS) 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

The project initiated to take forward the recommendation made by the Office of Tax Simplification to build further confidence in the impartiality of statutory reviews has made significant progress.

The work undertaken promoting statutory reviews to external stakeholders and canvassing their views continues, and the research conducted by an external agency (Ipsos Mori) on our behalf concerning customers and agents who took a decision directly to the tribunal, without first having a statutory review was concluded and published in 2022.

+ **Read the resulting report at www.gov.uk/government/publications/understanding-perceptions-of-the-statutory-review-process**

Building on the conclusions of that research, improvements have been made to the guidance on GOV.UK and to decision letters to explain more clearly the review and appeal rights available to customers. Changes have also been made to the process by which customers can request a review, with requests now coming directly to the Review team in SOLS, demonstrating a clear separation between the reviewer and the decision-making team.

The figures reported below show a higher proportion of automated penalty decisions upheld as we are seeing a much lower incidence of appeals where COVID-19 has been the basis of the reasonable excuse given.

Table 15: Overview of outcomes of reviews

All statutory reviews	2022-23	2021-22
Dealt with in the year	40,675	40,785
HMRC original decision upheld	14,442	10,672
HMRC decision varied	4,789	2,240
HMRC decision cancelled	21,444	27,873
Percentage where original HMRC decision was upheld	36%	26%
Number dealt with where the taxpayer was not represented by an agent	37,703	38,263
Percentage dealt with where the taxpayer was not represented by an agent	93%	94%
Automated penalty statutory reviews including default surcharge cases		
Dealt with in the year	36,423	36,419
HMRC original decision upheld	11,234	7,293
HMRC decision varied	4,118	1,582
HMRC decision cancelled	21,071	27,544
Percentage where original HMRC decision was upheld	31%	20%
All other reviews		
Dealt with in the year	4,252	4,366
HMRC original decision upheld	3,208	3,379
HMRC decision varied	671	658
HMRC decision cancelled	373	329
Percentage where original HMRC decision was upheld	75%	77%

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 is 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 2022 to 2023 the tribunal notified us of 12,332 new FTT appeals, of which approximately 14% related to late payment or late filing penalties and surcharges.

In 2022 to 2023, 7,081 appeals were settled either by formal hearing or by agreement before the hearing.

There were approximately 39,500 appeals in progress on 31 March 2023, with 34,000 of these being appeals to the FTT that have been 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.

The success rate recorded in table 16 below 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 2022 to 2023 is £14.32 billion (£8.2 billion in 2021 to 2022). 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 91.8% (88% in 2021 to 2022). This increase is largely due to the FTT striking out a group of approximately 1,000 VAT appeals.

Table 16: Data relating to decided appeals

	2022-23					2021-22				
	First-tier Tribunal	**Upper Tribunal**	**High Court (admin division)**	**Court of Appeal**	**Supreme Court**	**First-tier Tribunal**	**Upper Tribunal**	**High Court**	**Court of Appeal**	**Supreme Court**
Total	**2,021**	**51**	**1**	**25**	**6**	**833**	**54**	**3**	**27**	**4**
Decision for HMRC	1,811	36	1	23	6	689	37	2	21	1
Decision where substantive elements of HMRC's case succeeded	54	1	-	-	-	46	5	1	4	1
Decision for customer	156	14	-	2	-	98	12	-	2	2
HMRC success rate	92%	73%	100%	92%	100%	88%	78%	100%	93%	50%

Included in the figures above were decisions issued in a total of 49 (42 in 2021 to 2022) cases involving or related to tax avoidance, with 43 (37 in 2021 to 2022) decided wholly or partially in HMRC's favour – protecting tax revenue of around £2.3 billion (£0.6 billion in 2021 to 2022).

Tax Settlement Assurance Programme

Since 2013, under the Tax Settlement Assurance Programme (TSAP), a specialist team, independent of operational casework, has reviewed a small sample of settled civil compliance cases to test whether we have met our own case quality standards and correctly governed decisions relating to disputes. This includes 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.

To improve results and enhance the professionalism of our compliance casework, in July 2020 we launched 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.

As reported last year, in 2021 to 2022 we refocused the TSAP to enhance the assurance of our casework. The programme continues to review settled civil compliance cases to test whether we have met our own standards. The programme currently consists of testing 400 cases in 2 tranches (bi-annually) and now includes:

- focus on the governance and customer impact aspects of compliance case working, providing a more detailed understanding of these areas of our casework
- a bi-annual approach of testing cases settled in the last 6 months, which retains a real time look but also allows time between review periods to address and respond to issues, as well as share best practice
- reporting outcomes at a theme level, rather than singular case outcomes, which provides a balanced view of where we are doing well and where we want to target improvement action across our casework operation

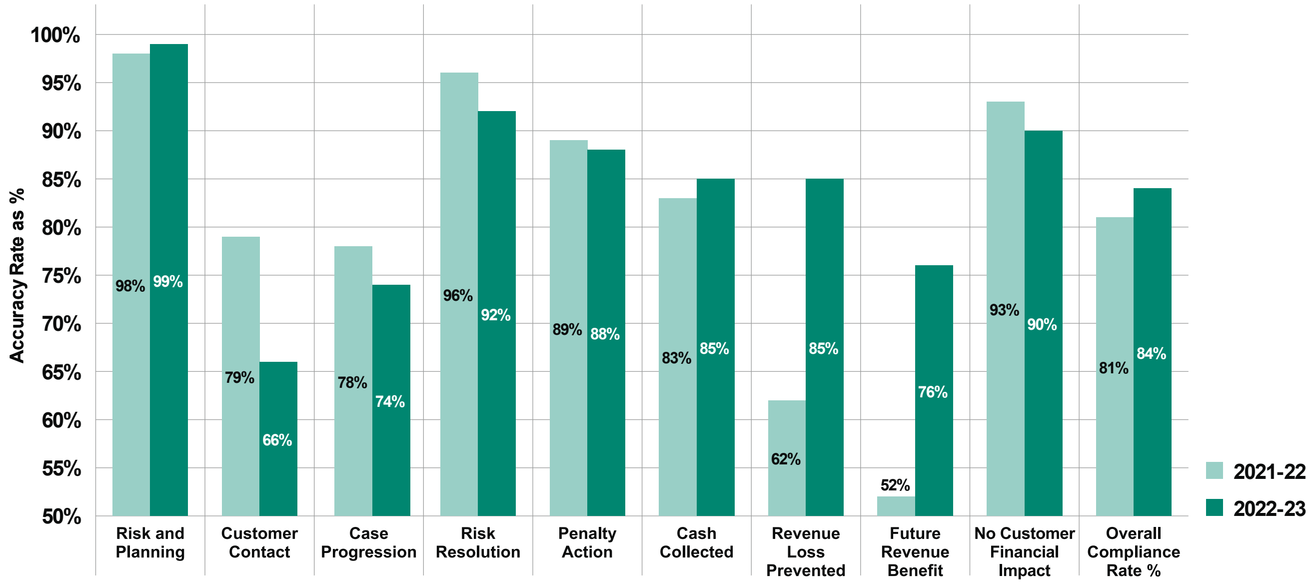
2022 to 2023 represents the second year of this approach. We have compared findings for 2021 to 2022 and 2022 to 2023, with the results shown below.

In 2022 to 2023, 400 settled cases were reviewed, the same number that was reviewed in 2021 to 2022. The cases reviewed provide robust evidence of casework compliance across each directorate and tax regime. Internal Audit has positively validated the Assurance Team's methodology and results. For this year our TSAP process for checking the accuracy of yield scoring was also affirmed by the National Audit Office as part of their Managing Tax Compliance audit.

In 2022 to 2023 we tested 9 standards in 400 cases, whilst in 2021 to 2022 we tested 7 standards in 400 cases. This is due to splitting the yield results into the separate scoring components of Cash Collected, Revenue Loss Prevented and Future Revenue Benefit to provide transparency and more detailed oversight of our performance against each of these themes. In 2021 to 2022 we reported our overall performance was 85%. In order to compare like for like and looking back to see how the new methodology impacts our reporting, our overall performance in 2021 to 2022 would have been 81%. We believe this offers a more transparent result across all our yield scoring components.

The chart below shows themed result averages with a comparison to the year 2021 to 2022. The themes represent the life cycle of a case, including financial impact for the customer and HMRC to fulfil its enquiry obligations. We were then able to take an average across all themes to provide a composite indicator. The comparison to 2021 to 2022 shows a decline in 5 themes and improvements in 4, with a 3% improvement in overall performance.

Figure 45: Summary of theme scoring for 2022 to 2023 and 2021 to 2022 across 9 theme areas



The exceptions to our standards are spread through the cases:

- 22.5% (89/400) of the cases reviewed met or exceeded all our required governance and quality standards
- 68% (272/400) fell short of our governance and quality standards, with no financial impact on the customer
- 9.5% (39/400) fell short of our governance and quality standards with a financial impact. Of the 39 cases, 19 were identified where the taxpayer had paid too much tax. Corrective activity has since started, and we check to ensure appropriate actions are completed

There is room for improvement and, in 2021 to 2022, we introduced dedicated improvement actions, which we have continued throughout 2022 to 2023. We expect the actions taken to embed within casework activity with realised improvements in 2023 to 2024.

In addition to settlement authorisations, a small number of the largest risks require governance at a dispute resolution board (the remits of the Dispute Resolution Boards are summarised in the relevant section of the TAC report). The TSAP 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 confirms whether the settlement was authorised at the appropriate level. For 2022 to 2023 our checks have revealed that 80% (4/5 cases) were referred to the relevant board at the appropriate time. One case was not referred at the right time but subsequently received retrospective clearance, indicating that the right action was taken.

The following table provides a comparison of results across the 2 years.

Table 17: Two-year annual comparison of settlement authorisations

Year	2022-23	2021-22
Settlement authorised at appropriate level	91% (116 out of 128 cases)	97% (222 out of 229 cases)

Staff and remuneration report

This report provides details on the size and shape of our workforce and the cost of our staff and leadership team.

HMRC is proud to reflect the nation we serve. As the UK's third largest government department we employ over 67,500 people from all backgrounds and walks of life, working in towns and cities across the UK. In our workplaces you can expect to find customer service advisers and compliance caseworkers but also experts in data, digital technology, policy, finance and the law, along with other highly skilled professionals who make up our corporate service teams.

Some of our colleagues have devoted their entire careers to the tax and customs service, bringing decades of specialist knowledge and expertise but we also welcome thousands of new recruits every year.

Staff numbers

As an operational department, we need the right number of people in the right places to serve our customers and deliver our objectives.

Our departmental group, including the Valuation Office Agency (VOA), had 67,519 full-time equivalent (FTE) employees at the end of financial year 2022 to 2023. This included 63,738 in HMRC and 3,781 in VOA. These figures exclude Contingent Labour which was 2,274 for HMRC and 51 for VOA as of 31 March 2023.

Staff redeployments

By the end of 2022 to 2023, we had around 1,190 FTE employees funded to support the UK's transition from the EU. These included around 1,158 full-time HMRC employees and around 32 FTE contractors and temporary employees who were directly recruited to support UK Transition work. We also had 15 full-time HMRC employees redeployed from other areas to supporting work related to the cost of living crisis.

Recruitment

This year we recruited 7,446 full-time equivalent roles to ensure we have the skills we need in our key strategic locations. This included 6,855 in HMRC, and 591 in VOA. We recruited 1,345 FTE from other government departments.

Leavers and exits

In 2022 to 2023, 4,858 full-time equivalent employees either left HMRC's departmental group, including transfers to other government departments, or retired. This included 4,344 (8.7% turnover) in HMRC, and 514 (8% turnover) in VOA. In 2022 to 2023, the majority of RCDTS Ltd staff transferred into HMRC under Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE) arrangements, with a small section moving to an external service provider.

Average number of full-time equivalent persons employed

The table below gives the average number of FTE for 2022 to 2023.

Table 18: Average number of full-time equivalent persons employed[1]

	Permanently employed staff		Others			
	Operational	Capital[2]	Operational	Capital[2]	2022-23 Total	2021-22 Total
Core department	62,356	369	508	-	63,233	59,395
Valuation Office Agency	3,391	-	349	-	3,740	3,544
Revenue and Customs Digital Technology Services Limited	134	426	12	76	648	913
Departmental group total	**65,881**	**795**	**869**	**76**	**67,621**	**63,852**

1 This section has been subject to external audit.
2 Capital relates to staff building capital assets.

Staff costs[1]

Our staff costs figures only include 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 people employed during the year (£m)

	Permanently employed staff	Others	2022-23 Total	2021-22 Total
Wages and salaries	2,423.1	26.3	2,449.4	2,202.2
Social security costs[2]	266.2	1.8	268.0	222.2
Other pension costs	625.8	5.4	631.2	562.1
Sub Total	**3,315.1**	**33.5**	**3,348.6**	**2,986.5**
Less recoveries in respect of outward secondments	(4.8)	-	(4.8)	(2.7)
Total net costs	**3,310.3**	**33.5**	**3,343.8**	**2,983.8**
Recoveries in respect of outward secondments			4.8	2.7
Less net costs charged to capital budgets			(62.2)	(51.6)
Travel, subsistence and hospitality			42.0	16.5
Recruitment and training			31.4	26.5
Early severance schemes			(3.4)	4.0
Staff and related costs in Consolidated Statement of Comprehensive Net Expenditure			**3,356.4**	**2,981.9**

1 This section has been subject to external audit.
2 Social security costs include the Apprenticeship Levy which is £12.2 million for 2022 to 2023 (2021 to 2022: £10.9 million).

Civil Service Pensions

Alongside salary, the Civil Service pension is one of the most important benefits available to HMRC employees. It provides financial security and options when an employee retires, as well as benefits for their family and loved ones.

HMRC group

Pension benefits are provided through the Civil Service pension arrangements. The Principal Civil Service Pension Scheme (PCSPS) and the Civil Servant and Other Pension Scheme (CSOPS), known as "alpha", are unfunded multi-employer defined benefit schemes. Our share of underlying assets and liabilities is not identifiable. The scheme actuary valued the PCSPS as at 31 March 2016. Further details can be found in the resource accounts of the Cabinet Office: Civil Superannuation.

+ **Read more on Civil Service pension arrangements at www.civilservicepensionscheme.org.uk**

For 2022 to 2023, employers' contributions of £625.2 million were payable to the PCSPS (2021 to 2022: £555.8 million) at one of four rates in the range 26.6% to 30.3% of pensionable earnings, based on salary bands.

The scheme actuary usually reviews employer contributions every 4 years, following a full scheme valuation (excluding 2020 due to the public service pension schemes consultation). Contribution rates are set to meet the cost of benefits accruing during 2022 to 2023, which will be paid when the member retires - it does not represent the cost of benefits paid during this period to existing pensioners. Pensions payable under classic, premium, classic plus, nuvos and alpha are increased annually in line with pensions increase legislation.

Partnership Pensions

Employees can open a partnership pension account, which is a stakeholder pension with an employer contribution. Employer contributions of £4.4 million (compared to £3.5 million in 2021 to 2022) were paid to one or more of the three appointed stakeholder pension providers. The size of employer contributions depends on the age of the employee/member and ranged from 8% to 14.75% of pensionable earnings.

Employers also match the rate of employee contributions up to a maximum of 3% of their pensionable earnings. In addition, employer contributions of £0.2 million (2021 to 2022: £0.1 million), 0.5% of pensionable pay, were payable to the PCSPS to cover the future cost of providing lump sum benefits on death in service or ill health retirement of these employees. Contributions due to the partnership pension provider at the reporting date were nil. Contributions prepaid at that date were nil.

In 2022 to 2023, 43 individuals (2021 to 2022: 33 individuals) retired early on ill-health grounds; the total additional accrued pension liabilities in the year amounted to £0.3 million (2021 to 2022: £0.3 million).

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 2022 to 2023 were £0.6 million (2021 to 2022: £0.6 million).

+ **Read full information about the VOA employee contributions in the VOA annual report and accounts at www.gov.uk/government/organisations/valuation-office-agency**

Revenue and Customs Digital Technology Services Ltd

Revenue and Customs Digital Technology Services Ltd (RCDTS Ltd) has a contract-based defined contribution pension scheme, administered by Aviva plc and overseen by the RCDTS Ltd Board. Contributions into this scheme for 2022 to 2023 were £1.8 million (2021 to 2022: £2.4 million). 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 within Cabinet Office. Contributions into this scheme for 2022 to 2023 were £0.3 million (2021 to 2022: £0.4 million).

+ **Read details of the salary and pension benefits for members of the HMRC's Executive Committee in the Remuneration report for senior civil servants, starting on page 142.**

Exit packages[1]

We pay redundancy and other departure costs 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 cost of early retirements reflects the excess cost of any payment due to the individual on retirement and, in certain circumstances, the cost associated with the increase in future liability to pay pension.

+ **Read full details about the Valuation Office Agency (VOA) staff exit packages in the VOA annual report and accounts at www.gov.uk/government/organisations/valuation-office-agency**

Table 20: Exit packages 2022-23[2]

Exit package cost band	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band	
	2022-23	2021-22	2022-23	2021-22	2022-23	2021-22
<£10,000	-	2	6	39	6	41
£10,000 - £25,000	1	16	22	170	23	186
£25,000 - £50,000	-	6	58	234	58	240
£50,000 - £100,000	-	-	47	67	47	67
£100,000+	-	-	22	9	22	9
Total number of exit packages by type	**1**	**24**	**155**	**519**	**156**	**543**
Of which:						
Core department and agency	1	24	155	519	156	543
Revenue and Customs Digital Technology Services Limited	-	-	-	-	-	-
Total number of exit packages by type	**1**	**24**	**155**	**519**	**156**	**543**
Total resource cost (£000s)	**14**	**419**	**8,729**	**16,566**	**8,743**	**16,985**
Of which:						
Core department and agency	14	419	8,729	16,566	8,743	16,985
RCDTS Limited	-	-	-	-	-	-
Total resource cost (£000s)	**14**	**419**	**8,729**	**16,566**	**8,743**	**16,985**

1 These disclosures have been subject to external audit.
2 The prior year figures in the 2021 to 2022 published account showed compulsory redundancies and other departures agreed as 479 with a total resource cost of £14,306 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 and to also include 64 cases which were originally scheduled for 2022 to 2023 but were settled in 2021 to 2022.

People off-payroll

Those described as 'people off-payroll' are contractors and intermediaries who are paid by HMRC for the products or services they supply but are not included in our employee payroll.

We have reviewed all relevant off-payroll engagements during 2022 to 2023. Where engagements have been within the scope of the off-payroll (IR35) legislation, we have advised both worker and the paying agency of this determination meaning appropriate deductions are made at source from payments made in respect of the engagement. No tax liabilities have been incurred or penalties imposed due to any failure to comply with IR35 legislation.

The tables below provide details of the off-payroll engagements for 2022 to 2023, including those from the Valuation Office Agency (VOA) and Revenue and Customs Digital Technology Services Limited (RCDTS).

Table 21: Temporary off-payroll worker engagements as of 31 March 2023, earning £245 a day or greater[1]

	HMRC	RCDTS[2]	VOA
Number of existing engagements as of 31 March 2023	633	-	3
Of which:			
Number that have existed for less than one year at time of reporting	317	-	3
Number that have existed for between one and two years at time of reporting	168	-	-
Number that have existed for between two and three years at time of reporting	61	-	-
Number that have existed for between three and four years at time of reporting	66	-	-
Number that have existed for four or more years at time of reporting	21	-	-

Table 22: All temporary off-payroll workers engaged at any point during the year ended 31 March 2023, earning £245 per day or greater[1]

	HMRC	RCDTS	VOA
Number of off-payroll workers engaged during the year ended 31 March 2023	980	108	8
Of which:			
Not subject to off-payroll legislation	927	102	8
Subject to off-payroll legislation and determined as in-scope of IR35	53	6	-
Subject to off-payroll legislation and determined as out-of-scope of IR35	-	-	-
Number of engagements reassessed for compliance or assurance purposes during the year	960	102	-
Of which: Number of engagements that saw a change to IR35 status following review	-	-	-

1 Include engagements through umbrella companies.
2 All RCDTS off-payroll engagements were terminated before 31 March 2023.

Table 23: Board members and/or senior officials with significant financial responsibility, between 1 April 2022 and 31 March 2023

	HMRC	RCDTS	VOA
Number of off-payroll engagements of board members, and/or, senior officials with significant financial responsibility, during the financial year	-	-	-
Total number of such individuals, including both on payroll and off-payroll engagements	92	-	7

Consultancy and temporary employees

We only use professional service providers to help with specialist work – including consultancy and contingent labour (temporary workers). We limit this to when we do not have the necessary skills internally, or where an independent external expert opinion on a complex issue is required. For 2022 to 2023, external consultancy has supported a programme that is enabling us to accelerate the pace of customer service and productivity improvements.

We robustly control expenditure on consultancy via commercial governance procedures, but this has increased from £1.8 million (including VOA) in financial year 2021 to 2022 to £5 million in financial year 2022 to 2023, equating to 0.1% (VOA 1.1%) of our annual expenditure. We also continue to follow Cabinet Office guidelines to reduce the use of consultancy across central government. The main reason for the increase in contingent labour has been to support HMRC business as usual frontline processes post-COVID-19.

Table 24: Consultancy and contingent labour expenditure in accordance with HM Treasury definitions[1]

	2022-23		2021-22	
	Consultancy[2]	Contingent labour	Consultancy	Contingent labour
	£m	£m	£m	£m
HMRC	2.6	184.4	0.9	170.7
VOA	2.3	2.4	0.9	1.7
RCDTS	-	8.2	-	12.6

1 HMRC report contingent labour as part of contracted out services.

2 Individual figures will not sum due to rounding.

Trade Union Facility Time Allocation

We recognise the Public and Commercial Services Union (PCS) and the Association of Revenue and Customs (ARC, a specialist section of the FDA specifically for HMRC) for collective bargaining and staff representation. VOA recognises Prospect and the Public and Commercial Services Union (PCS).

Table 25: Total number of employees who were relevant union officials during 2022-23

Trade Union Facility Time Facility time is time off for employees who are Trade Union (TU) representatives to carry out their TU roles. TU roles may be duties or activities	Reps are entitled to paid time off to carry out TU duties. They are not entitled to paid time off for TU activities. However, an employer can choose to pay for time off for activities
	Core department and agencies total
Relevant union officials	
Number of Trade Union representatives employed	852
Percentage of time spent on facility time	
Working hours each representative spent on facility time	
0% of working hours	175
1-50% of working hours	677
51-99% of working hours[1]	-
Percentage of Paybill spent on facility time	
Paybill refers to the total number of employees, not union representatives only	
Total cost of facility time (£)	£1,789,655
Total Paybill (£)	£3,305,378,386
Facility time as a % of Paybill	0.05%

1 In exceptional circumstances HMRC will allow more than 50% of working hours for facility time.

We have nothing to disclose/report in respect of the proportion of facility time spent on paid trade union activities.

+ **Further disclosure required for the Trade Union (Facility Time Publication Requirements) Regulations 2017 will be submitted by 31 July 2023 at www.gov.uk/government/statistical-data-sets/public-sector-trade-union-facility-time-data**

Remuneration report for senior civil servants

The Government is committed to building a Senior Civil Service (SCS) that reflects the nation it serves and that can recruit and retain specialist skills while continuing to grow world class capability. This report contains information about HMRC's senior employees and covers our policies on salaries, bonuses and benefits in kind, as well as performance assessment and contract termination.

Remuneration policy

The Senior Civil Service is made up of 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 and 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 Executive Committee.

Senior Civil Service (SCS) employee numbers and approved posts

As of the 31 March 2023, we have 537 SCS employees made up of 513 HMRC and 24 VOA SCS employees. The total number of SCS approved posts was 574, made up of 551 HMRC and 23 VOA SCS posts. This figure includes both filled, vacant and job shared posts.

Table 26: HMRC Senior Civil Service (SCS) employee numbers comparison

	Number at 31 March 2023	Number at 31 March 2022	Percentage change
Permanent Secretary	2	2	0%
SCS3	10	11	-9%
SCS2	68	65	5%
SCS1	423	416	2%
On loan/ secondment	10	21	-52%
Total	**513**	**515**	**-0.4%**

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 which assesses the demands of each job relative to others. A total of 105 HMRC and VOA SCS posts were advertised last year. Qualified individuals from both within and outside the Civil Service were appointed through level moves and promotions.

SCS performance

The performance of deputy directors and directors is moderated by directors general and the Executive Committee signs-off the overall departmental year-end performance group distribution. Performance for directors general are moderated by the Permanent Secretaries with advice from an independent observer. Performance and pay arrangements for Permanent Secretaries are managed by Cabinet Office.

Senior Civil Service base pay awards

Following the Government's temporary public sector pay pause for 2021 to 2022, departments were permitted to make average awards of up to 3% for 2022 to 2023. This meant that for 1 April 2022, we implemented the following elements, as set out in the Cabinet Office guidance:

- increase to the minimum salary for all SCS pay ranges: £73,000 (SCS1 National); £76,500 (SCS1 London); £95,000 (SCS2); and £125,000 (SCS3*)*
- flat-rate base pay award: £1,820 (SCS1), £2,550 (SCS2); and £2,600 (SCS3)
- an 'HMRC anomaly minimum', targeting people who are paid at the bottom of the pay ranges, increasing pay to: £77,000 (SCS1 National); £80,500 (SCS1 London); £100,000 (SCS2); and £130,500 (SCS3)
- in-year non-consolidated performance bonuses for exceptional performance during 2022 to 2023 to colleagues in accordance with the criteria set out in the Cabinet Office guidance

Base pay awards were paid to all performers.

Senior Civil Service non-consolidated performance awards

Exceptional 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:

- End of year non-consolidated performance awards of £6,000 (SCS1), £9,000 (SCS2) and £12,000 (SCS3) were paid to 129 'Top' performing colleagues on 1 April 2022, for the 2021 to 2022 performance year
- In-year awards ranging from £500 to £2,000 have been paid to 290 SCS members based on performance from April 2022 to March 2023

Awards that are above and beyond the control limit of £17,500 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 for the Senior Civil Service

We follow standard policy for SCS notice periods and termination payments in the Civil Service Management Code.

Service contracts[1]

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. Executive members hold open-ended appointments, unless otherwise stated in the governance statement. 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 Executive Committee members during 2022 to 2023.

1 This section has been subject to external audit.

+ **Read Civil Service Commission recruitment principles at www.civilservicecommission.independent.gov.uk/civilservice-recruitment**

Executive Committee (ExCom) and non-executive members remuneration and pension benefits

The following table provides details of salaries and pension entitlements of the department's most senior officials.

Details of job roles and terms of appointment can be found on pages 95 to 102.

Table 27: 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	2022-23	2021-22	2022-23	2021-22	2022-23	2021-22	2022-23	2021-22	2022-23	2021-22
Jim Harra	185–190	180-185	–	15-20	200	–	–	–	185–190	200-205
Angela MacDonald	150–155	145-150	–	-	–	–	59	59	210–215	205-210
Penny Ciniewicz	140–145	140-145	–	–	100	–	–	82	140–145	145-150
Sophie Dean[3]	15–20[4] (90-95)	90-95	5–10	5-10	-	–	11	26	35–40	125-130
Katherine Green[3]	10–15[4] (90-95)	90-95	5–10	5-10	-	–	2	22	20–25	120-125
Alan Evans	140–145	140-145	10–15	10-15	-	–	-3[5]	28	150–155	180-185
Justin Holliday	165–170	165-170	–	0-5	100	–	-10[5]	40	155–160	210-215
Myrtle Lloyd	130–135	120-125	–	–	-	–	22	89	150–155	210-215
Joanna Rowland	145–150	125-130	–	10-15	-	–	14	51	155–160	190-195
Daljit Rehal	200–205	195-200	40–45	35-40	-	–	78	77	320–325	315-320
Jonathan Russell	130–135	115-120	0–5	5-10	-	–	–	–	130–135	125-130
Carol Bristow[6]	105–110 (120-125)	–	10–15[6]	–	200	–	49	–	170–175	–
Esther Wallington	110–115[7]	125-130[7]	–	–	-	–	45	49	155–160	170-175
Jonathan Athow	130–135	60-65 (125-130)	0–5	–	200	–	–	-12	130–135	45-50
Suzanne Newton[8]	10–15 (120-125)	–	–	–	-	–	2	–	15–20	–

1 This section has been subject to external audit.
2 Opted out of pension scheme.
3 Left ExCom. Katherine Green on 20 May 2022 and Sophie Dean on 31 May 2022.
4 The full-time full year equivalent salary is £125,000-£130,000 (2021 to 2022 £125,000-£130,000). Sophie Dean and Katherine Green job shared, working part-time hours (0.7 FTE each).
5 Where there is no or a small pay rise, the increase in pension due to extra service may not be sufficient to offset the inflation increase – that is, in real terms, the pension value can reduce, hence the negative values.
6 Joined ExCom on 15 May 2022. Some of the bonus relates to prior director role for performance in 2021 to 2022.

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 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.

Pension scheme	Accrued annual pension at pension age and related lump sum (£000) as at 31 March 2023[9]	Real increase in pension and related lump sum at pension age (£000)	Cash Equivalent Transfer Value (CETV) (to the nearest £000)			Employer contribution to partnership pension account (to the nearest £100)
			as at 31 March 2023[9]	as at 31 March 2022[10]	Real increase	
Partnership Pension Account	–	–	–	–	–	27,600
Alpha	40–45	2.5–5	552	481	32	–
–	–	–	–	1,040[2]	–	–
Alpha	30–35	0–2.5	467	453	7	–
Alpha	30 – 35 plus a lump sum of 55 – 60	0 – 2.5 plus a lump sum of 0	487	480	–	–
Alpha	75–80	0–2.5	1,383	1,255	-22	–
Alpha	85–90	0–2.5	1,416	1,296	-31	–
Alpha	45–50	0–2.5	733	653	3	–
Alpha	45–50	0–2.5	572	513	2	–
Alpha	10–15	2.5–5	174	100	51	–
Partnership Pension Account	–	–	–	–	–	23,200
Alpha	60–65	2.5–5	1,096	950	36	–
Alpha	35–40	2.5–5	434	384	21	–
Partnership Pension Account	–	–	–	796[11]	–	17,600[11]
Alpha	50–55	0–2.5	721	714	–	-

7 The full-time equivalent salary is £140,000-£145,000 (2021 to 2022: £140,000-£145,000). Esther worked part-time hours 0.9 FTE until September 2022. Since October 2022 she now works 0.7 FTE.
8 Joined ExCom on 20 February 2023.
9 Unless stated otherwise, values reported are as at 31 March 2023 or the date the individual ceased to be a member of ExCom where earlier.
10 Unless stated otherwise, values reported are as at 31 March 2022 or the day before the individual was appointed to ExCom where later.
11 Opted out of alpha pension scheme and joined the Partnership Pension Account.

Explanatory notes for tables 27 and 28

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 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 the transfer of pension rights. The value of pension benefits can vary from year to year, due to things like the date that an individual joined or left, or 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.

CETV figures are calculated using the guidance on discount rates for calculating unfunded public service pension contribution rates that was extant at 31 March 2023. HM Treasury published updated guidance on 27 April 2023; this guidance will be used in the calculation of 2023 to 2024 CETV figures.

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 directors’ 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. Details of job roles and terms of appointment can be found on pages 95 to 102.

Table 28: Non-executive directors’ single total figure of remuneration[1]

	Fees (full year equivalent) (£000)		Benefits in kind (to the nearest £100)		Total (£000)	
	2022-23	2021-22	2022-23	2021-22	2022-23	2021-22
Dame Jayne-Anne Gadhia	25-30	25-30	–	–	25-30	25-30
David Cooper	20-25	15-20 (15-20)	–	–	20-25	15-20
Patricia Gallan	20-25	20-25	–	–	20-25	20-25
Michael Hearty	25-30	25-30	–	–	25-30	25-30
Alice Maynard[2, 3]	05-10 (20-25)	25-30	–	–	05-10	25-30
Paul Morton	15-20	15-20	–	–	15-20	15-20
Juliette Scott	20-25	20-25	–	–	20-25	20-25
Elizabeth Fullerton-Rome	15-20	15-20	–	–	15-20	15-20
Thomas Taylor	15-20	15-20	–	–	15-20	15-20
Jennifer Tippin[4]	0-5 (15-20)	–	–	–	05-10	–

1 This section has been subject to external audit.
2 Fees incorporate the cost of a support worker as a reasonable adjustment under the Equality Act 2010.
3 Left the department on 30 June 2022.
4 Joined the department on 9 January 2023.

Fair pay[1]

Reporting bodies are required to disclose the relationship between the remuneration of the highest-paid director in their organisation and the lower quartile, median and upper quartile remuneration of the organisation's workforce.

The banded remuneration of the highest-paid director in HMRC and VOA in the financial year 2022 to 2023 was £240,000 - £245,000 (2021 to 2022, £235,000 - £240,000) (table 27 on page 144). This was 7.4 times (2021 to 2022, 7.7) the median remuneration of the workforce, which was £32,597 (2021 to 2022, £30,751).

In 2021 to 2022 and 2022 to 2023 no employees received remuneration in excess of the highest paid director. Remuneration ranged from £22,524 to £245,000 (2021 to 2022 £21,249 to £240,000).

Total remuneration 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 29a: Pay ratio

	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2022-23	10.75	7.44	5.76
2021-22	10.75	7.72	5.91

Table 29b: Total pay and benefits and salary component for the employees at the 25th percentile, median and 75th percentile

	25th percentile pay		Median pay		75th percentile pay	
	Total pay and benefits	Salary component	Total pay and benefits	Salary component	Total pay and benefits	Salary component
2022-23	£22,564	£22,524	£32,597	£32,537	£42,077	£42,057
2021-22	£22,084	£22,084	£30,751	£30,751	£40,175	£40,175

In 2022 to 2023 the final pay award of 5% under Pay and Contract Reform was made in June to staff in grades AA to G6. The highest paid directors' total remuneration only increased by 1.2%. In February 2023 around 600 RCDTS Ltd staff were transferred into HMRC. These factors have resulted in the ratio between the median/75th percentile and the highest paid director reducing during 2022 to 2023.

Table 29c: Annual percentage change in remuneration of directors and employees[1]

	Percentage change from prior year	Salary and allowances	Performance pay and bonuses payable	Total remuneration
2021-22 / 2022-23	Highest paid director	1.3%	0.6%	1.2%
	Employees	5.8%	-0.3%	5.8%

1 This section has been subject to external audit.

The table above shows the percentage change in both the highest paid director and employees salary and allowances, performance pay and bonuses payable and non-cash benefits between 2021 to 2022 and 2022 to 2023.

Jim Harra
Accounting Officer
6 July 2023

Parliamentary Accountability

Consolidated Statement of Outturn Against Parliamentary Supply (SOPS)

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 won't 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 the 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 SOPS and Estimates are compiled against the budgeting framework, which is similar to IFRS. An understanding of the budgeting framework and an explanation of key terms is provided on page 74, in the financial review section of the Performance analysis section of the Annual Report. Further information on the Public Spending Framework and the reasons why budgeting rules are different to IFRS can also be found in chapter 1 of the Consolidated Budgeting Guidance, available on GOV.UK.

The SOPS provides a detailed view of financial performance, in a form that is voted on and recognised by Parliament. The financial review, in the Performance analysis section of the Annual Report provides a summarised discussion of outturn against estimate and functions as an introduction to the SOPS disclosures.

Table 30: Summary of Resource and Capital outturn

		Estimate			Outturn			Outturn vs. Estimate, saving	2022-23 £000	2021-22 £000
	SOPS note	Voted	Non-voted	Total	Voted	Non-voted	Total	Voted	Total	Total Outturn
Departmental Expenditure Limit										
– Resource	1.1	6,143,665	256,575	6,400,240	6,069,208	259,413	6,328,621	74,457	71,619	5,716,745
– Capital	1.2	660,511	–	660,511	556,400	–	556,400	104,111	104,111	664,529
Total		**6,804,176**	**256,575**	**7,060,751**	**6,625,608**	**259,413**	**6,885,021**	**178,568**	**175,730**	**6,381,274**
Annually Managed Expenditure										
– Resource	1.1	13,174,598	24,987,480	38,162,078	12,534,958	21,395,291	33,930,249	639,640	4,231,829	51,319,145
– Capital	1.2	110	–	110	1	–	1	109	109	7
Total		**13,174,708**	**24,987,480**	**38,162,188**	**12,534,959**	**21,395,291**	**33,930,250**	**639,749**	**4,231,938**	**51,319,152**
Total		**19,978,884**	**25,244,055**	**45,222,939**	**19,160,567**	**21,654,704**	**40,815,271**	**818,317**	**4,407,668**	**57,700,426**
Of which:										
Total Resource	1.1	19,318,263	25,244,055	44,562,318	18,604,166	21,654,704	40,258,870	714,097	4,303,448	57,035,890
Total Capital	1.2	660,621	–	660,621	556,401	–	556,401	104,220	104,220	664,536
Total		**19,978,884**	**25,244,055**	**45,222,939**	**19,160,567**	**21,654,704**	**40,815,271**	**818,317**	**4,407,668**	**57,700,426**

Figures in the areas outlined in thick line cover the voted control limits voted by Parliament. Refer to the Supply Estimates guidance manual, available on GOV.UK, for detail on the control limits voted by Parliament.

				2022-23 £000	2021-22 £000
	SOPS note	Estimate	Outturn	Variance: saving	Outturn
Net Cash Requirement	**3**	**20,296,561**	**18,816,467**	**1,480,094**	**37,363,662**

				2022-23 £000	2021-22 £000
		Estimate	Outturn	Variance: saving	Outturn
Administration costs	**1.1**	**1,027,207**	**1,003,125**	**24,082**	**884,711**

Although not a separate voted limit, any breach of the administration budget will also result in an excess vote.

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 Cost of Living Payments made in the financial year. It also includes payments to individuals for social benefits, payments in lieu of tax relief and certain rates payments, shown as line L, 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 31) provides analysis of resource expenditure and SOPS 1.2 (table 32) 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 31: Analysis of resource outturn by Estimate line

								2022-23 £000		2021-22 £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	5,203,111	1,008,176	(59,763)	948,413	4,419,352	(168,481)	4,250,871	5,199,284	3,827	4,570,842
B VOA administration	186,075	–	–	–	172,682	(40,134)	132,548	132,548	53,527	143,995
C Utilised provisions	30,000	–	–	–	19,614	–	19,614	19,614	10,386	31,502
D Cost of Living	724,479	–	–	–	717,872	–	717,872	717,872	6,607	–
COVID-19[1]	–	–	–	–	(110)	–	(110)	(110)	110	719,062
Total voted	6,143,665	1,008,176	(59,763)	948,413	5,329,410	(208,615)	5,120,795	6,069,208	74,457	5,465,401
Non-voted:										
E National Insurance Fund	256,575	54,712	–	54,712	204,701	–	204,701	259,413	(2,838)	251,344
Total non-voted	256,575	54,712	–	54,712	204,701	–	204,701	259,413	(2,838)	251,344
Total spending in Departmental Expenditure Limit	**6,400,240**	**1,062,888**	**(59,763)**	**1,003,125**	**5,534,111**	**(208,615)**	**5,325,496**	**6,328,621**	**71,619**	**5,716,745**
Spending in Annually Managed Expenditure										
Voted:										
F Child Benefit	11,859,752	–	–	–	11,595,575	–	11,595,575	11,595,575	264,177	11,420,034
G Tax-Free Childcare	531,957	–	–	–	494,401	–	494,401	494,401	37,556	428,406
H Providing payments in lieu of tax relief to certain bodies	176,992	–	–	–	7,973	–	7,973	7,973	169,019	130,003
I Lifetime ISA	466,809	–	–	–	436,809	–	436,809	436,809	30,000	418,943
J Help to Save	67,522	–	–	–	53,202	–	53,202	53,202	14,320	20,361
K HMRC administration	30,000	–	–	–	33,808	–	33,808	33,808	(3,808)	8,072
L VOA payments of Local Authority rates	71,066	–	–	–	68,117	(3,918)	64,199	64,199	6,867	78,061
M VOA administration	2,000	–	–	–	1,082	–	1,082	1,082	918	1,010
N Utilised provisions	(31,510)	–	–	–	(19,615)	–	(19,615)	(19,615)	(11,895)	(31,510)
O COVID-19[1]	10	–	–	–	(132,476)	–	(132,476)	(132,476)	132,486	16,543,682
Total voted	13,174,598	–	–	–	12,538,876	(3,918)	12,534,958	12,534,958	639,640	29,017,062

								2022-23 £000		2021-22 £000
	Estimate	**Outturn**								
		Administration			**Programme**			**Outturn**	**Variance:**	**Outturn**
	Net Total	**Gross**	**Income**	**Net**	**Gross**	**Income**	**Net**	**Net Total**	**saving/ (excess)**	**Total**
Non-voted:										
P Personal tax credits	10,581,755	–	–	–	8,834,945	–	8,834,945	8,834,945	1,746,810	10,605,482
Q Other reliefs and allowances	14,405,725	–	–	–	12,560,346	–	12,560,346	12,560,346	1,845,379	11,696,601
Total non-voted	24,987,480	–	–	–	21,395,291	–	21,395,291	21,395,291	3,592,189	22,302,083
Total spending in Annually Managed Expenditure	**38,162,078**	**–**	**–**	**–**	**33,934,167**	**(3,918)**	**33,930,249**	**33,930,249**	**4,231,829**	**51,319,145**
Total voted	19,318,263	1,008,176	(59,763)	948,413	17,868,286	(212,533)	17,655,753	18,604,166	714,097	34,482,463
Total non-voted	25,244,055	54,712	–	54,712	21,599,992	–	21,599,992	21,654,704	3,589,351	22,553,427
Total	**44,562,318**	**1,062,888**	**(59,763)**	**1,003,125**	**39,468,278**	**(212,533)**	**39,255,745**	**40,258,870**	**4,303,448**	**57,035,890**

1 Repayments of COVID-19 support schemes received and reported in the Resource Accounts have exceeded expenditure for the financial year 2022 to 2023.

+ 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 32: Analysis of capital outturn by Estimate line

					2022-23 £000	2021-22 £000
	Estimate	Outturn			Variance	Outturn
	Net Total	Gross	Income	Outturn Net total	saving/ (excess):	Total
Spending in Departmental Expenditure Limit						
Voted:						
A HMRC administration	622,489	612,446	(87,894)	524,552	97,937	643,879
B VOA administration	38,022	32,027	(179)	31,848	6,174	20,650
C Utilised provisions	–	–	–	–	–	–
D Cost of Living	–	–	–	–	–	–
Total voted	660,511	644,473	(88,073)	556,400	104,111	664,529
Non-voted:						
E National Insurance Fund	–	–	–	–	–	–
Total non-voted	–	–	–	–	–	–
Total spending in Departmental Expenditure Limit	**660,511**	**644,473**	**(88,073)**	**556,400**	**104,111**	**664,529**
Spending in Annually Managed Expenditure						
Voted:						
F Child Benefit	10	1	–	1	9	7
G Tax-Free Childcare	–	–	–	–	–	–
H Providing payments in lieu of tax relief to certain bodies	–	–	–	–	–	–
I Lifetime ISA	–	–	–	–	–	–
J Help to Save	–	–	–	–	–	–
K HMRC administration	100	–	–	–	100	–
L VOA payments of Local Authority rates	–	–	–	–	–	–
M VOA administration	–	–	–	–	–	–
N Utilised provisions	–	–	–	–	–	–
O COVID-19	–	–	–	–	–	–
Total voted	110	1	–	1	109	7
Non-voted:						
P Personal tax credits[1]	–	146,843	(146,843)	–	–	–
Q Other reliefs and allowances	–	–	–	–	–	–
Total non-voted	–	146,843	(146,843)	–	–	–
Total spending in Annually Managed Expenditure	**110**	**146,844**	**(146,843)**	**1**	**109**	**7**
Total voted	660,621	644,474	(88,073)	556,401	104,220	664,536
Total non-voted	–	146,843	(146,843)	–	–	–
Total	**660,621**	**791,317**	**(234,916)**	**556,401**	**104,220**	**664,536**

1 The transfer of personal tax credit receivables balance to DWP results in Capital Grant in Kind entries that net to nil.

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.

Table 33: Reconciliation of net resource outturn to net operating expenditure

		Reference	2022-23 £000 Outturn	2021-22 £000 Outturn
Statement of Parliamentary Supply: Total resource outturn				
Departmental Expenditure Limit		SOPS 1.1	6,328,621	5,716,745
Annually Managed Expenditure		SOPS 1.1	33,930,249	51,319,145
			40,258,870	**57,035,890**
Excluded from SOPS total resource outturn:				
Expenditure:	Transfer of personal tax credits receivables to DWP		146,843	675,963
	Non-current assets donated via a grant		–	207,424
	Child Benefit (Child Trust Fund)	SOPS 1.2	1	7
	Non-current asset costs outside of budgeting		7,366	(158,024)
Income:	Developer contribution received to purchase non-current assets		–	(84,673)
	Grant capital income and non-current assets received		(488)	–
	Payable to the Consolidated Fund	SOPS 4	(268)	(7,544)
			153,454	**633,153**
Excluded from Consolidated Statement of Comprehensive Net Expenditure (CSoCNE) net operating expenditure:				
Expenditure:	Service concession arrangements liability repayment		(8,396)	(7,641)
			(8,396)	**(7,641)**
Consolidated Statement of Comprehensive Net Expenditure: Net operating expenditure		Page 226	**40,403,928**	**57,661,402**

Explanation of additions and deductions

Transfer of personal tax credits receivables to Department of 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 for the comparative year for non-current assets donated by way of a Capital Grant in Kind relates to the transfer of 100 Parliament Street assets to the Government Property Agency.

Developer contribution

The value of incentives received as we incurred expenditure. IFRS 16 was effective in HMRC from 1 April 2022. Under IFRS 16, there is no longer a difference between treatment in SOPS and Statement of Comprehensive Net Expenditure for developer contribution.

Non-current asset costs outside of budgeting and service concession arrangements

The department has capitalised certain properties that were sold to private sector contractors and subsequently leased back under a Private Finance Initiative (PFI) contract as leases under IFRIC 12 – Service Concession Arrangements. Budgetary treatment for these arrangements is determined in accordance with national accounts methodology to ensure that budgets reflect the fiscal impacts of the transactions.

Income payable to the Consolidated Fund

Income that is either in excess of limits included in the voted estimates 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

The net cash requirement calculation only applies to core department and agency. As noted in the introduction to the SOPS, the outturn and Estimates are compiled against the budgeting framework, not on a cash basis. Therefore, this statement reconciles the resource and capital outturn to the net cash requirement.

Table 34: 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	44,562,318	40,258,870	4,303,448
Capital outturn	1.2	660,621	556,401	104,220
Remove arm's length bodies resource and capital		–	341	(341)
Accruals to cash adjustments:				
Remove non-cash items:				
Depreciation and amortisation		(541,211)	(473,886)	(67,325)
New provisions and adjustments to existing provisions		(32,000)	(20,984)	(11,016)
Other non-cash items		–	(29,801)	29,801
Reflect movement in working balances:				
Increase/(decrease) in inventories		–	190	(190)
Increase/(decrease) in receivables		292,378	64,097	228,281
(Increase)/decrease in payables		567,000	(66,981)	633,981
Use of provisions		31,510	19,615	11,895
Other adjustments:				
Remove non-voted budget items		(25,244,055)	(21,491,395)	(3,752,660)
Net cash requirement		**20,296,561**	**18,816,467**	**1,480,094**

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 us, 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 35: Analysis of income payable to the Consolidated Fund

		Outturn 2022-23 £000		Outturn 2021-22 £000	
	Reference	**Accruals**	**Cash basis**	**Accruals**	**Cash basis**
Income outside the ambit of the Estimate	SOPS 2	268	268	7,544	7,544
[Excess] cash surrenderable to the Consolidated Fund		–	–	–	–
Total amount payable to the Consolidated Fund	Page 230 (in CSoCiTE)	**268**	**268**	**7,544**	**7,544**

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 196 to 223.

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 page 214.

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 36: Losses statement

				2022-23				2021-22
	Core department and agency		Departmental group		Core department and agency		Departmental group	
	cases	£m	cases	£m	cases	£m	cases	£m
COVID Schemes								
Job Retention Scheme	–	–	–	–	155	0.8	155	0.8
Self Employed Income Support Scheme	1	–	1	–	360	0.3	360	0.3
Working Households Receiving Tax Credits	–	–	–	–	2,929	1.5	2,929	1.5
Personal tax credits remissions[2]	592,956	178.2	592,956	178.2	499,438	24.2	499,438	24.2
Personal tax credits write-offs	4,991	3.1	4,991	3.1	6,759	5.6	6,759	5.6
Child Benefit remissions and write-offs	40,729	8.6	40,729	8.6	53,133	5.5	53,133	5.5
Exchange rate losses	29	0.1	29	0.1	40	0.8	40	0.8
Others	253	(0.9)	253	(0.9)	1,006	(1.0)	1,006	(1.0)
Total	**638,959**	**189.1**	**638,959**	**189.1**	**563,820**	**37.7**	**563,820**	**37.7**

In 2022 to 2023 £181.3 million of personal tax credit debt was remitted/written off as it was uncollectable (2021 to 2022 £29.8 million). For further information see the Resource Accounts on pages 249 to 250 (notes 5.1.1 and 5.1.2).

In 2022 to 2023 the department wrote off £8.6 million of Child Benefit debt that was uncollectable (2021 to 2022 £5.5 million).

There were no individual cases of more than £300,000.

1 This section has been subject to external audit.

2 The significant increase in personal tax credits remissions is due to a bulk remission exercise undertaken during 2022 to 2023.

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, Annex 4.13.

Table 37: Special payments

				2022-23				2021-22
	Core department and agency		Departmental group		Core department and agency		Departmental group	
	cases	£m	cases	£m	cases	£m	cases	£m
Payments and accruals[2]	1,408	4.4	1,408	4.4	27,317	15.5	27,317	15.5

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 2022 to 2023, we made 10 payments totalling £348,090 (2021 to 2022 17 payments totalling £519,369) in respect of severance cases. The highest payment was £196,000 (2021 to 2022 £87,000) and the lowest payment was £590 (2021 to 2022 £490). The median payment was £16,750 (2021 to 2022 £25,000).

HMRC has made a number of special payments, in agreement with HMT, to European Economic Area and Swiss residents, who did not apply for EU Settlement Scheme Status by 30 June 2021 deadline. Failure to meet the deadline, meant that these citizens faced losing their legal entitlement to access government benefits and services. These special payments enable HMRC and DWP to support and protect our most financially vulnerable claimants, for a time limited period whilst their status is resolved. HMRC paid 687 claims at a value of £0.5 million (2021 to 2022 13,211 claims at a value of £11.6 million), with the highest payment at £19,128, and with an average payment of £678.

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 Special payments, in agreement with HM Treasury, to European Economic Area and Swiss residents, who did not apply for EU Settlement Scheme Status by 30 June 2021, have been reported on a paid basis.

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 £10 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 £121.2 million and as this figure is not material to the accounts the department has not published a separate income note.

Table 38: Analysis of income where full cost exceeds £10 million

			2022-23 £m			2021-22 £m
	Income	**Full cost**	**Surplus/ (deficit)**	**Income**	**Full cost**	**Surplus/ (deficit)**
Fees and charges raised by the Valuation Office Agency (VOA)						
District valuer services	17.1	16.7	0.4	16.2	14.4	1.8
Business rates and Council Tax	12.8	12.5	0.3	9.6	8.7	0.9
Fees and charges raised by the core department						
Memorandum of Terms of Occupation (MoTO)[2]	46.0	46.0	–	59.1	59.1	–
National Minimum Wage	27.8	27.8	–	25.6	25.6	–
Economic Crime Supervision[3]	26.9	26.6	0.3	24.9	20.1	4.8
UK Border Agency	11.5	11.5	–	11.5	11.5	–
Collection of student loans	9.7	9.7	–	10.2	10.1	0.1
Total	**151.8**	**150.8**	**1.0**	**157.1**	**149.5**	**7.6**

1 This section has been subject to external audit.

2 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.

3 This was formerly called Anti-Money Laundering Service.

Remote contingent liabilities[1]

In addition to contingent liabilities reported within the meaning of IAS 37, the department also reports liabilities for which the likelihood of a transfer of economic benefit in settlement is too remote to meet the definition of contingent liability.

The department has the following quantifiable remote contingent liabilities.

Table 39: Indemnities

	1 April 2022 £m	Increase in year £m	Liabilities crystallised in year £m	Obligation expired in year £m	31 March 2023 £m	Amount reported to Parliament by departmental minute £m
Indemnities	12.2	65.2	–	(21.1)	56.3	–

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.

Reconciliation of contingent liabilities included in the supply estimate to the Resource Accounts

Quantifiable Contingent Liabilities:

Description of Contingent Liabilities	Supply Estimate (£000)	Amount disclosed in Resource Accounts (£000)	Variance (Estimate – Amount disclosed in Resource Accounts, £000)
Legal claims	123,025	139,438	(16,413)
Other	76,029	56,392	19,637
Valuation Office Agency	1,000	–	1,000

Quantifiable Contingent Liabilities:

Description of Contingent Liabilities	Included in the Supply Estimate (Yes/No)	Included in these financial statements (Yes/No)	Explanation of difference
Legal claims	Yes	Yes	Amount disclosed in this Resource Account was £16.4 million (13%) greater than the Estimate. This is due to the value of existing cases increasing as cases progress and also new cases being created.
Other	Yes	Yes	Amount disclosed in this Resource Account was £19.6 million (26%) less than the Estimate. This is mainly due to cases becoming accruals and provisions.
Valuation Office Agency	Yes	Yes	There has been no material move in the contingent liability, further details of which are not disclosed so as not to prejudice the outcome of litigation.

Jim Harra
Accounting Officer

6 July 2023

Our accounts

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 2023 under the Exchequer and Audit Departments Act 1921.

The financial statements comprise HM Revenue and Customs Trust Statement's:

- Statement of Financial Position as at 31 March 2023;
- Statement of Revenue, Other Income and Expenditure and Statement of Cash Flows for the year then ended; and
- the related notes including the significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and UK adopted international accounting standards.

In my opinion, the financial statements:

- give a true and fair view of the state of HM Revenue and Customs Trust Statement's affairs as at 31 March 2023 and of the net revenue for the year then ended; and
- 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 for opinions

I conducted my audit in accordance with International Standards on Auditing (UK) (ISAs UK), applicable law and Practice Note 10 *Audit of Financial Statements and Regularity of Public Sector Entities in the United Kingdom (2022)*. 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 am independent of HM Revenue and 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.

The framework of authorities described in the table below has been considered in the context of my opinion on regularity.

Framework of authorities	
Authorising legislation	Exchequer and Audit Departments Act 1921 Commissioners for Revenue and Customs Act 2005
Parliamentary authorities	Exchequer and Audit Departments Act 1921
HM Treasury and related authorities	Managing Public Money

Conclusions relating to going concern

In auditing the financial statements, I have concluded that HM Revenue and 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 and 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 Principal 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 Trust Statement is adopted in consideration of the requirements set out in HM Treasury's Government Financial Reporting Manual, which requires 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.

Overview of my audit approach

Key audit matters

Key audit matters are those matters that, in my professional judgment, were of most significance in the audit of the financial statements for the current period and include the most significant risks of material misstatement (whether or not due to fraud) that I identified, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of my audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters.

This is not a complete list of all risks identified through the course of my audit but only those areas that had the greatest effect on my overall audit strategy, allocation of resources and direction of effort. I have not, for example, included information relating to the work I have performed around potential for management override of controls, the migration of VAT traders to the Enterprise Tax Management Platform (ETMP) accounting system as part of making tax digital, the transfer of banking from the Receipts Clearing System (RCS) to the Electronic Banking System (EBS) and payments due to the Consolidated Fund which are areas where my work has not identified any matters to report.

The key audit matters were discussed with the Audit and Risk Committee; its report on matters that it considered to be significant to the financial statements is set out in the Governance Statement.

Key audit matter 1 – IT Systems that impact financial reporting

Description of risk

HMRC's IT environment is complex with a number of new and legacy IT systems supporting a wide range of taxes. Due to the significant reliance on IT systems, effective General IT Controls are critical to allow reliance to be placed on the completeness and accuracy of financial data. IT audit forms a core part of my assurance of the tax administration and financial reporting systems.

<table>
<tr>
<td>How the scope of my audit responded to the risk</td>
<td>My IT specialists carried out work in the following areas:

Testing of General IT controls including change management, access management, computer operations and systems development
Examining the end-to-end business processes to identify the key controls whose absence or failure would significantly increase the possibility of a material error. The type of controls vary from manual controls to fully automated controls embedded within the IT applications
Where key controls are identified, testing the supporting IT General Controls for the application(s) involved (around Access, Change and Operations)
Testing of IT interfaces for significant taxes such as Self Assessment, Corporation Tax and VAT.

Key observations
I am satisfied that HMRC's overall IT control environment appropriately supports the financial reporting process.</td>
</tr>
</table>

Key audit matter 2 - Presumed Risk of Fraud in Revenue Recognition

Description of risk

Under International Standard on Auditing (UK and Ireland) 240 there is a presumed significant risk of material misstatement due to fraud in revenue recognition. HMRC's Trust Statement reports £814 billion of tax revenue in accordance with the revenue recognition requirements of the Government Financial Reporting Manual (FReM).

An element of the revenue figure relies on judgement and is brought to account through material accounting estimates which could, in theory, be subject to manipulation. The focus of my audit is, therefore, on those areas of revenue that are subject to high degrees of estimation and where the application of HMRC's accounting policy for the recognition of revenue requires judgements to be made. I consider that this risk relates primarily to the Accrued Revenue Receivable (ARR) estimates in relation to taxes and duties such as Self-Assessment income tax and Corporation Tax, where management need to make judgements on the amount of revenue accrued as tax returns reporting taxpayer liabilities or associated tax payments are not filed until after the Trust Statement has been published.

How the scope of my audit responded to the risk

My response to addressing the risk of material misstatement in this area included:

- Reviewing the tax stream methodologies that set out how revenue for each tax stream are accounted for and assured. I considered whether the accounting treatments set out in those methodologies are applied consistently and are aligned to the revenue recognition criteria set out in HM Treasury's Financial Reporting Manual.
- Evaluating the assumptions and underlying data that determine the revenue recognition point
- Considering the judgements around accounting for certain taxes on a cash or partial accruals basis and ensuring that HM Treasury dispensation for accounting on a cash basis is in place where required; and
- Testing the judgements applied when deciding whether postponed tax liabilities properly meet revenue recognition criteria and so should be brought to account.

Key observations

Based on the evidence reviewed and the audit work completed I have not identified any instances of fraud in revenue recognition.

Key audit matter 3 – Corporation Tax and Self-Assessment Accrued Revenue Receivable Estimates

Description of risk

HMRC relies on complex models to calculate the value of the Corporation Tax (CT) and Self Assessment (SA) Accrued Revenue Receivable (ARR) balance in the Trust Statement. The CT ARR estimate reported in the 2022-23 accounts is £6.3 billion. The SA ARR balance reported in the 2022-23 accounts is £25.3 billion.

I consider this gives rise to significant risks for the audit due to the complexity of the models, the extent of estimation uncertainty arising from the need for management to make significant judgements around the balance of revenue accrued and apply assumptions around areas such as late payments, overpayment and economic determinants when producing the estimate.

In planning the audit, I considered that the prevailing economic conditions may increase the level of estimation uncertainty and that HMRC may need to revisit some long-standing assumptions, including: those that rely on historical data such as income growth rates; and those that are affected by the impact of the COVID-support schemes on taxable income for SA and late payments and overpayments assumptions for CT.

How the scope of my audit responded to the risk

My response to addressing the risk of material misstatement in this area included:

- Understanding and evaluating the design and implementation of controls around the preparation of the estimates including the quality assurance processes and the results of any retrospective review of the estimate
- Testing the completeness and accuracy of the input data in the models including assurance from my IT auditors in relation to system generated reports used in the model
- Evaluating the models to confirm that they are operating in accordance with their design
- Assessing the completeness and appropriateness of significant assumptions including assumptions on late payments, and overpayments for CT and self employed income growth and dividend income growth for SA
- Evaluating the sensitivity analysis on key assumptions outlined above.
- Engaging my own experts in modelling to support my work evaluating the methodology, logical integrity and assumptions applied in the estimates performed by management
- Identifying where management have used experts and evaluating the competence, capabilities and experience of those experts. This has included confirming that the scope of their work is appropriate and sufficient for the purposes relied upon by management
- Reviewing management's assessment of estimation uncertainty
- Reviewing the disclosures to confirm that the recorded amounts reflect the outputs of the model; and that the narrative disclosures are adequate and appropriate.

Key observations

Based upon the evidence reviewed and the audit work completed, I am satisfied that the CT and SA ARR balances are reasonably stated and adequately disclosed in the accounts.

Key audit matter 4 – Oil and Gas Decommissioning provision

Description of risk

The Oil and Gas Decommissioning provision reflects HMRC's estimate of the repayments of tax it expects to make to companies in future periods as they decommission oil and gas fields in the North Sea. It was valued at £4.5 billion at 31 March 2023.

The provision is material and inherently uncertain in that it forecasts the future costs and profitability of the oil and gas sector, alongside other key assumptions such as the future oil and gas prices and decommissioning costs, in arriving at an estimate of HMRC's liability. Accordingly, I consider the provision to represent a significant risk in the context of my audit.

Key features that necessarily drive complexity and estimation uncertainty in the model include: the use of micro-simulation modelling techniques; the number of data sources and economic determinants applied; the long-range nature of the key assumptions extending out to 2064-65; the complex coding required in arriving at the model outputs; the current volatility of oil and gas prices; expected company behaviours and the impact of climate change on future production.

How the scope of my audit responded to the risk

My response to addressing the risk of material misstatement in this area included:

- Understanding and evaluating the design and implementation of controls around the preparation of the estimates including the quality assurance processes and the results of any retrospective review of the estimate
- Assessing the approach to measuring the provision against the requirements of IAS 37
- Testing the completeness and accuracy of the input data in the model including field and company ownership and field forecasts
- Evaluating the model to confirm that it is operating in accordance with its design
- Assessing the completeness and appropriateness of significant assumptions including assumptions on decommissioning expenditure and oil and gas prices.
- Evaluating the sensitivity analysis on key assumptions
- Reviewing the model to confirm that it is operating in accordance with its design.
- Re-performing the calculation using an auditor generated model and confirm that the output is materially consistent with the figure disclosed by HMRC
- Identifying where management have used experts and evaluating the competence, capabilities and experience of those experts. This has included confirming that the scope of their work is appropriate and sufficient for the purposes relied upon by management
- Engaging my own experts in Modelling to support my work evaluating the methodology, logical integrity and assumptions applied in the estimates performed by management
- Reviewing management's assessment of estimation uncertainty
- Reviewing the disclosures to confirm that the recorded amounts reflect the outputs of the model; and that the narrative disclosures are adequate and appropriate.

Key observations

Based upon the evidence reviewed and the audit work completed, I am satisfied that the oil and gas decommissioning provision is reasonably stated and adequately disclosed in the accounts.

Key audit matter 5 – VAT and Self-Assessment Repayments

Description of risk

The revenue repayable by HMRC each year is significant at £130.3 billion (£126.6 billion in 2021-22). The two largest components of repayments are VAT £107.2 billion (£107.4 billion in 2021-22) and income tax £15.6 billion (2021-22: £14.1 billion). For both VAT and income tax, HMRC uses TRUCE (the Transaction Risking Upstream in a Connect Environment) to identify and stop repayments that may require investigation.

There is a risk that repayments may be made for the incorrect amount, or where the taxpayer is not properly entitled to it. These repayments would be considered to be inconsistent with the relevant legislation; and so the expenditure (the net of repayments and related revenue) in the Trust Statement would be considered to be 'irregular'. There is also a risk that repayments are made to entities for which financial sanctions are in place, but where no licence has been obtained by HMRC to authorise these payments. These would also be 'irregular'.

My risk assessment identified that the risk of irregular repayments is more likely to arise in VAT and Self Assessment (as repayments in these taxes can be generated without a corresponding overpayment). Accordingly, the focus of our work on repayments arising from those tax streams.

How the scope of my audit responded to the risk

My response to addressing the risk of material misstatement and irregularity in this area included reviewing the:

- End-to-end process for automated risk-assessment of repayment claims (TRUCE), including the design, implementation and operating effectiveness of key controls with the support of our IT audit specialists.
- Underlying testing and authorisation documentation for risk rules and scorecards, as well as review of TRUCE performance.
- Minutes of relevant governance groups to ensure appropriate oversight of risk rules and changes.
- HMRC processes for obtaining licenses which regularise any transactions with individuals and entities on the financial sanctions list. Our procedures relating to sample tests include consideration of potential payments made to parties that have been sanctioned by the UK.
- Risk rules that are built into tax stream systems and assessing management actions to implement previous recommendations relating to repayments; as well as assessing if risk rules are regularly updated to be effective given the current fraud risks relating to repayments.

Testing was also carried out on a sample of cash repayments for VAT and Self Assessment to assess the validity and regularity of these repayments.

Key observations

Based upon the evidence reviewed and the audit work completed, I am satisfied that repayments are reasonably stated, are regular and adequately disclosed in the accounts.

Key audit matter 6 – Impairment of Receivables and ARR

Description of risk

As agreed with HM Treasury, HMRC's accounting policy is to apply the simplified approach for impairments under IFRS 9 available for trade receivables to tax and duty receivables and accrued revenue receivables.

Under IFRS 9, in addition to the information from past events and current conditions, impairment should also be measured using forecasts of future economic conditions available at the reporting date. HMRC has historically calculated the impairment of receivables and accrued revenue receivables balances based on prior year collection statistics and revenue losses. The prevailing economic conditions have had a significant impact on businesses and individuals in 2022-23 which required HMRC to revisit and update its impairment methodology. As well as using prior year data HMRC have also considered the age of debt and the speed of debt clearance. Determining the recoverability of receivables is a key source of estimation uncertainty which needs to be adequately and appropriately measured and disclosed in the accounts.

Tax debt was £43.9 billion at 31 March 2023, £4.7 billion (11.9%) more than the debt reported at 31 March 2022. The tax debt balance is lower than the £68.5 billion reported at the height of the pandemic but remains significantly higher than the pre-pandemic level.

How the scope of my audit responded to the risk

My response to addressing the risk of material misstatement in this area included:

- Understanding and evaluating the design and implementation of controls around the preparation of the impairment estimate including the quality assurance processes
- Testing the completeness and accuracy of the input data in the model including assurance from my IT auditors in relation to system generated reports used in the model
- Assessing the completeness and appropriateness of significant assumptions including assumptions on level of aged debts, speed of debt clearance and impact of economic uncertainty
- Evaluating the sensitivity analysis on key assumptions
- Evaluating the model to confirm that it is operating in accordance with its design.
- Reviewing management's assessment of estimation uncertainty
- Reviewing the disclosures to confirm that the recorded amounts reflect the outputs of the model; and that the narrative disclosures are adequate and appropriate.

Key observations

Based upon the evidence reviewed and the audit work completed, I am satisfied that the impairment of receivables and ARR is reasonably stated and adequately disclosed in the accounts.

Application of materiality

Materiality

I applied the concept of materiality in both planning and performing my audit, and in evaluating the effect of misstatements on my audit and on the financial statements. This approach recognises that financial statements are rarely absolutely correct, and that an audit is designed to provide reasonable, rather than absolute, assurance that the financial statements are free from material misstatement or irregularity. A matter is material if its omission or misstatement would, in the judgement of the auditor, reasonably influence the decisions of users of the financial statements.

Based on my professional judgement, I determined overall materiality for HM Revenue and Customs' financial statements as a whole as follows:

	Departmental group
Materiality	£8.1 billion
Basis for determining materiality	1% of revenue of £814 billion (2021-22 £731 billion)
Rationale for the benchmark applied	The main driver of the Trust Statement is revenue, with the underlying purpose for its production to communicate the tax revenues collected by Government. The Trust Statement has limited expenditure. The key Statement of Financial Position balances relate to accrued revenue receivables which are part of the overall revenue. I consider that the revenue figures are of greatest interest to users of the accounts.

Performance Materiality

I set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 75% of materiality for the 2022-23 audit (2021-22: 70%). In determining performance materiality, I have also considered the uncorrected misstatements identified in the previous period.

Other Materiality Considerations

Apart from matters that are material by value (quantitative materiality), there are certain matters that are material by their very nature and would influence the decisions of users if not corrected. Assessment of such matters needs to have regard to the nature of the misstatement and the applicable legal and reporting framework, as well as the size of the misstatement.

I applied the same concept of materiality to my audit of regularity. In planning and performing audit work in support of my opinion on regularity and evaluating the impact of any irregular transactions, I considered both quantitative and qualitative aspects that would reasonably influence the decisions of users of the financial statements.

Error Reporting Threshold

I agreed with the Audit and Risk Committee that I would report to it all uncorrected misstatements identified through my audit in excess of £1 million, as well as differences below this threshold that in my view warranted reporting on qualitative grounds. I also report to the Audit and Risk Committee on disclosure matters that I identified when assessing the overall presentation of the financial statements

Total unadjusted audit differences reported to the Audit and Risk Committee would have decreased revenue by £2.1 billion. The unadjusted audit differences comprise of known differences which would decrease revenue by £132 million and extrapolated differences which would decrease revenue by £2 billion.

Audit scope

The scope of my audit was determined by obtaining an understanding of HM Revenue and Customs' and its environment, including department-wide controls, and assessing the risks of material misstatement.

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.

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 information given in the 'Performance Overview', 'Performance Analysis' and 'Our Accountability' for the financial year for which the financial statements are prepared is consistent with the financial statements and is in accordance with the applicable legal requirements.

Matters on which I report by exception

In the light of the knowledge and understanding of HM Revenue and 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' parts of the Annual Report.

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 by HM Revenue and Customs or returns adequate for my audit have not been received from branches not visited by my staff; or
- I have not received all of the information and explanations I require for my audit; or
- the financial statements are not in agreement with the accounting records and returns; 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 Report, the Principal Accounting Officer is responsible for:

- maintaining proper accounting records;
- providing the C&AG with access to all information of which management is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- providing the C&AG with additional information and explanations needed for his audit;
- providing the C&AG with unrestricted access to persons within HM Revenue & Customs from whom the auditor determines it necessary to obtain audit evidence;
- ensuring such internal controls are in place as deemed necessary to enable the preparation of financial statements to be free from material misstatement, whether due to fraud or error;
- ensuring that the financial statements give a true and fair view and are prepared in accordance with HM Treasury Directions made under the Exchequer and Audit Departments Act 1921; and
- assessing HM Revenue and Customs Trust Statement's 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 and Customs Trust Statement 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.

Extent to which the audit was considered capable of detecting non-compliance with laws and regulations including fraud

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. The extent to which my procedures are capable of detecting non-compliance with laws and regulations, including fraud is detailed below.

Identifying and assessing potential risks related to non-compliance with laws and regulations, including fraud

In identifying and assessing risks of material misstatement in respect of non-compliance with laws and regulations, including fraud, I:

- considered the nature of the sector, control environment and operational performance including the design of HM Revenue and Custom's accounting policies,
- inquired of management, HM Revenue and Customs' head of internal audit and those charged with governance, including obtaining and reviewing supporting documentation relating to HM Revenue and Customs' policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations;
  - detecting and responding to the risks of fraud; and
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations including HM Revenue and Customs' controls relating to compliance with the Exchequer and Audit Departments Act 1921, Commissioners for Revenue and Customs Act 2005, Managing Public Money and the Finance Act 2022.
- Inquired of management, HM Revenue and Customs' head of internal audit and those charged with governance whether:
  - they were aware of any instances of non-compliance with laws and regulations;
  - they had knowledge of any actual, suspected or alleged fraud.
- discussed with the engagement team and internal specialists on IT and analytical methodology regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, I considered the opportunities and incentives that may exist within the HM Revenue and Customs for fraud and identified the greatest potential for fraud in the following areas: revenue recognition, posting of unusual journals, accounting for estimates and regularity of repayments. In common with all audits under ISAs (UK), I am also required to perform specific procedures to respond to the risk of management override.

I also obtained an understanding of HM Revenue and Customs' framework of authority as well as other legal and regulatory frameworks in which HM Revenue and Customs operates. I focused on those laws and regulations that had a direct effect on material amounts and disclosures in the financial statements or that had a fundamental effect on the operations of HM Revenue and Customs. The key laws and regulations I considered in this context included the Exchequer and Audit Departments Act 1921, Commissioners for Revenue and Customs Act 2005, Finance Act 2022, Managing Public Money and relevant tax legislation.

In addition, I considered the audit risks arising from potential bias in the accounting estimates.

Audit response to identified risk

To respond to the identified risks resulting from the above procedures:

- I reviewed the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described above as having direct effect on the financial statements;
- I enquired of management, the Audit and Risk Committee and in-house legal counsel concerning actual and potential litigation and claims;
- I reviewed minutes of meetings of those charged with governance and the Board and internal audit reports;
- in addressing the risk of fraud through management override of controls, I tested the appropriateness of journal entries and other adjustments; assessed whether the judgements on estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business;
- I reviewed the processes, verified 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
- I tested 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 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.

Other auditor's responsibilities

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.

Gareth Davies
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

11 July 2023

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 & Customs and of its Departmental Group for the year ended 31 March 2023 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 2022. The financial statements comprise the Department's and the Departmental Group's:

- Statement of Financial Position as at 31 March 2023;
- Statements of Comprehensive Net Expenditure, Statement of Cash Flows and Statement of Changes in Taxpayers' Equity for the year then ended; and
- the related notes, including the significant accounting policies

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and UK adopted international accounting standards.

In my opinion the financial statements:

- give a true and fair view of the state of the Department and the Departmental Group's affairs as at 31 March 2023 and their net operating expenditure 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.

Qualified opinion on regularity

In my opinion, except for the effect of the matters described in the *Basis for qualified opinion on regularity* section, in all material respects:

- the Statement of Outturn against Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2023 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 Corporation Tax research and development reliefs

Note 5.1.4 to the Resource Accounts records Corporation Tax research and development reliefs expenditure of £10.2 billion in 2022-23. 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 a random enquiry programme, 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 £1.05 billion (13.3% of related expenditure).

Error and fraud in Personal Tax Credits

Note 5.1.1 to the Resource Accounts records Personal Tax Credits expenditure of £8.8 billion in 2022-23. 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 2022-23 are not available until June 2024. Therefore, the estimates of error and fraud in 2021-22 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 2022-23.

For 2022-23 the mid-point of the Department's estimates, which are based on the latest available data for 2021-22, are:

- overpayments of £510 million (4.5% of related expenditure); and
- underpayments of £40 million (0.4% 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 Corporation Tax research and development reliefs and Personal Tax Credits 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 R1 to R48 provides further details on the basis for my qualified audit opinion on regularity.

Basis for opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs UK), applicable law and Practice Note 10 *Audit of Financial Statements and Regularity of Public Sector Bodies 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 Department and its Group 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.

The framework of authorities described in the table below has been considered in the context of my opinion on regularity.

Framework of authorities	
Authorising legislation	Primary legislation relating to taxation and benefits such as the Corporation Tax Act 2010, Tax Credits Act 2002 and Child Benefit Act 2005.
Parliamentary authorities	Supply and Appropriations Act
HM Treasury and related authorities	Managing Public Money

Conclusions relating to going concern

In auditing the financial statements, I have concluded that the Department and its Group's 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 the Department or its Group's 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 the Department and its Group is adopted in consideration of the requirements set out in HM Treasury's Government Financial Reporting Manual, which requires 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.

Overview of my audit approach

Key audit matters

Key audit matters are those matters that, in my professional judgment, were of most significance in the audit of the financial statements for the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditor, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of the audit of the financial statements as a whole, and in forming my opinion thereon. I do not provide a separate opinion on these matters.

Except for the matters described in the *Basis for qualified opinion on regularity* section above relating to the regularity of Corporation Tax research and developments reliefs expenditure and Personal Tax Credits expenditure, which are covered more fully in my report on pages R1 to R48 and not in the table below, I have determined that there are no other key audit matters to communicate in my certificate and report.

This is not a complete list of all risks identified through the course of my audit but only those areas that had the greatest effect on my overall audit strategy, allocation of resources and direction of effort. I have not, for example, included information relating to the work I have performed around potential for management override of controls or transactions with the Consolidated Fund, as areas where my work has not identified any matters to report.

The key audit matters were discussed with the Audit and Risk Committee; its report on matters that it considered to be significant to the financial statements is set out in the Governance Statement.

<table>
<tr><th colspan="2">Key audit matter 1 – IT Systems that impact financial reporting</th></tr>
<tr><td colspan="2">Description of risk
HMRC’s IT environment is complex with a number of new and legacy IT systems supporting a wide range of expenditure, benefits, tax credits and tax reliefs. Due to the significant reliance on IT systems, effective General IT Controls are critical to allow reliance to be placed on the completeness and accuracy of financial data. IT audit forms a core part of my assurance over the systems for providing support through benefits, credits and reliefs and financial reporting systems.</td></tr>
<tr><td>How the scope of my audit responded to the risk</td><td>My IT specialists carried out work in the following areas:
• Testing of General IT controls including change management, access management, computer operations and systems development
• Examining the end-to-end business processes to identify the key controls whose absence or failure would significantly increase the possibility of a material error. The type of controls vary from manual controls to fully automated controls embedded within the IT applications
• Where key controls are identified, testing the supporting IT General Controls for the application(s) involved (around Access, Change and Operations)
• Testing of IT interfaces for significant benefits such as tax credits, child benefit and corporation tax R&D reliefs
Key observations
I am satisfied that HMRC’s overall IT control environment appropriately supports the financial reporting process.</td></tr>
</table>

Key audit matter 2 – Error and fraud in Child Benefit expenditure

Description of risk

Child Benefit expenditure is highly material to the Resource Accounts (£11.6 billion in 2022-23). Where claims for Child Benefit result in overpayments arising from error or fraud, the transactions are contrary to the relevant primary legislation and, therefore, considered to be irregular. The estimated rate of error and fraud in Child Benefit expenditure reported in 2021-22 was 0.9% (£105 million). I did not consider this to be material and did not qualify my 2021-22 regularity opinion on that basis. I identified the level of error and fraud in Child Benefit expenditure as a significant risk for my 2022-23 audit due to the risk it could rise to levels that I consider to be material in the context of my regularity opinion because of more error and fraud being identified in HMRC's case testing.

HMRC's estimate of error and fraud in Child Benefit expenditure is derived from a complex model and involves significant judgement and the application key assumptions. HMRC has set out the method it used to develop the estimate in note 5.2 of the Resource Accounts.

How the scope of my audit responded to the risk

I have reviewed the design and implementation of preventative and detective controls as follows and reviewed the compliance interventions made by HMRC and the results of its error and fraud analytical programme (EFAP) the production of the estimate

I have undertaken the following substantive procedures:

- Reviewed the methodology used by HMRC to produce the sample of cases to be tested in the EFAP which forms the basis of the estimate of error and fraud across the population;
- Reperformed a sample of cases tested in the EFAP and a sample of non-response cases subjected to a desk-based analysis to confirm compliance with Child Benefit rules.
- Evaluated the reasonableness of the key assumptions implicit in the model used to generate the estimate.
- Assessed whether changes to the methodology in 2023-24 for sampling non-response cases would affect 2022-23 and concluded that it would not have an impact to make the level of error and fraud reported in 2022-23 material.

Key observations

For 2022-23, HMRC has estimated the level of error and fraud in Child Benefit expenditure to be 0.8% (£90 million). Based upon the evidence reviewed and the audit work completed, I do not consider this to be material to the accounts and have not qualified my regularity opinion in that respect.

Key audit matter 3 – Measurement of Corporation Tax research and development reliefs expenditure

Description of risk

Corporation Tax research and development reliefs expenditure and liabilities are calculated using a model produced by HMRC statisticians. The model uses past claims data to forecast current year expenditure and liabilities on qualifying expenditure incurred by claimants, but where the claim has not yet been submitted. Expenditure on Corporation Tax research and development reliefs was £10.2 billion in 2022-23, which is highly material to the Resource Accounts.

There is a risk of material misstatement due to the significant estimation uncertainty inherent in the calculation of the expenditure and liabilities. Estimation uncertainty is driven by the fact that Corporation tax reliefs expenditure and related accruals are estimated using analysis of historic relief claims and applying forecast growth and uplift assumptions, and adjustments made for planned changes in relevant policy and rates. This is because of the time lag in the expenditure for which relief is being claimed and the filing of the CT claim in relation to that expenditure of at least two years. HMRC has set out the method used to develop the estimate in note 5.1.4 of the accounts.

How the scope of my audit responded to the risk

- I assessed the process for creating the estimate against the requirements of the accounting standards. I reviewed the design and implementation of controls relating to the production of the estimate.
- Engaged my own experts in Modelling to support my work evaluating the methodology, logical integrity and assumptions applied in the estimates performed by management.
- Engaged my IT auditors to agree significant input data streams to source records and examined the code used to extract the data from HMRC systems.
- I evaluated the reasonableness of the key assumptions implicit in the model, comparing past estimates with actual outturn where possible. I reviewed the disclosures in the accounts, particularly in relation to estimation uncertainty, sensitivity analysis and significant accounting judgements.

Key observations

Based upon the evidence reviewed and the audit work completed, I am satisfied that expenditure and liabilities reported in the accounts in respect of Corporation Tax research and development reliefs are reasonably stated and adequately disclosed in the accounts.

Key audit matter 4 – Adoption of IFRS 16 (Leases)

Description of risk

HMRC has adopted IFRS 16 (Leases) for the first time in 2022-23. HMRC disclosed operating lease commitments of £2.1 billion in 2021-22, which were accounted for under the previous leasing standard, IAS 17, and related mainly to the property leases in respect of HMRC's estate. I identified the adoption of IFRS 16 as a significant risk for my 2022-23 audit due to the material values and complexity involved with HMRC's leases, particularly around determining the appropriate treatment of sub-lease arrangements. I identified the following specific areas of focus for my work:

- The opening register of leases and contracts might be incomplete;
- Contracts might be classified incorrectly;
- IFRS 16 expedients might have been applied inappropriately; and
- The method used for calculating the lease liability might not be appropriate.

How the scope of my audit responded to the risk	• We have identified the controls in place in relation to accounting for leases and assessed the design and implementation of internal controls present within the processes to identify leases, reviewing lease contracts, construct a model to calculate lease expenditure, residual lease balances and calculating lease liabilities. We did not rely on these controls and our assurance is gained from the substantive testing undertaken which is set out below. • I tested a sample of leases, examining the calculation of lease expenditure, lease liabilities and the right-of-use asset, and the reporting of lease balances. I assessed the completeness and accuracy of all lease disclosures, including the accounting policy note for the adoption of IFRS 16. **Key observations** Based upon the evidence reviewed and the audit work completed, I am satisfied that the right of use assets and lease liabilities arising from the adoption of IFRS 16 are reasonably stated and adequately disclosed in the accounts.

Application of materiality

Materiality

I applied the concept of materiality in both planning and performing my audit, and in evaluating the effect of misstatements on my audit and on the financial statements. This approach recognises that financial statements are rarely absolutely correct, and that an audit is designed to provide reasonable, rather than absolute, assurance that the financial statements are free from material misstatement or irregularity. A matter is material if its omission or misstatement would, in the judgement of the auditor, reasonably influence the decisions of users of the financial statements.

Based on my professional judgement, I determined overall materiality for the Department and the Departmental Group's financial statements as a whole as follows:

	Departmental group
Materiality	£407,000,000
Basis for determining materiality	1% of gross expenditure of £40.7 billion (2021-22: £58.0 billion)
Rationale for the benchmark applied	HMRC is funded primarily from the Consolidated Fund and expenditure is the most significant element of the accounts by value. The Group's primary activities, as reported in its Resource Accounts, are to ensure appropriate payment of personal tax credits, Child Benefit, Corporation Tax reliefs and other reliefs, to pay its staff and to manage its administration costs. As most of HMRC's activities relate to the parent department, I consider that the expenditure figures are likely to be of greatest interest to users of the accounts. The Group includes the Valuation Office Agency and Revenue and Customs Digital Technology Services Limited. Expenditure in these two components is less than 1% of the Group as whole, which I do not consider to be material.

Performance Materiality

I set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Group and the Department's performance materiality was set at 50% (£204 million) of Group materiality for the 2022-23 audit (2021-22: 51% (£209 million)). In determining performance materiality, I have considered the uncorrected misstatements identified in the previous period.

Other Materiality Considerations

Apart from matters that are material by value (quantitative materiality), there are certain matters that are material by their very nature and would influence the decisions of users if not corrected. Such an example is any errors reported in the Related Parties note in the financial statements. Assessment of such matters needs to have regard to the nature of the misstatement and the applicable legal and reporting framework, as well as the size of the misstatement.

I applied the same concept of materiality to my audit of regularity. In planning and performing audit work in support of my opinion on regularity and evaluating the impact of any irregular transactions, I considered both quantitative and qualitative aspects that would reasonably influence the decisions of users of the financial statements.

Error Reporting Threshold

I agreed with HMRC's Audit and Risk Committee that I would report to it all uncorrected misstatements identified through my audit in excess of £300,000, as well as differences below this threshold that in my view warranted reporting on qualitative grounds. I also report to the Audit and Risk Committee on disclosure matters that I identify when assessing the overall presentation of the financial statements

Total unadjusted audit differences reported to the Audit and Risk Committee would have reduced net expenditure and increased net assets by £89.7 million. The unadjusted audit differences comprise of known errors which would increase expenditure and reduce net assets by £6.9 million and extrapolated differences which would decrease expenditure and increase net assets by £96.6 million.

Audit scope

The scope of my Group audit was determined by obtaining an understanding of the Department, the Departmental Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level.

For HM Revenue and Customs I cover over 99% of the Group's gross expenditure, assets and liabilities through the audit of the Core Department. I examined the consolidation data for the Valuation Office Agency (VOA) and Revenue and Customs Digital Technology Services (RCDTS) to confirm that their results are correctly reported in the Department's consolidated financial statements. I also liaise with the auditors of VOA and RCDTS to consider any risks arising in those component audits and their impact on the Group as a whole.

This work covered substantially all of the Group's assets and net expenditure, and together with the procedures performed at group level, gave me the evidence I needed for my opinion on the Group financial statements as a whole

Other Information

The other information comprises information included in the Annual Report, but does not include the financial statements nor my auditor's certificate and 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.

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 part of the Staff and Remuneration report to be audited has been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000.

In my opinion, based on the work undertaken in the course of the audit:

- the parts of the 'Our accountability' report subject to audit 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 and is in accordance with the applicable legal requirements.

Matters on which I report by exception

In the light of the knowledge and understanding of the Department and its Group and their 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 by the Department and its Group or returns adequate for my audit have not been received from branches not visited by my staff; or
- I have not received all of the information and explanations I require for my audit; or
- the financial statements and the parts of the 'Our accountability' report subject to audit 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 parts of the Remuneration and Staff Report to be audited is not in agreement with the accounting records and returns; 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 section of the Annual Report, the Accounting Officer is responsible for:

- maintaining proper accounting records;
- providing the C&AG with access to all information of which management is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- providing the C&AG with additional information and explanations needed for his audit;
- providing the C&AG with unrestricted access to persons within the Department and its Group from whom the auditor determines it necessary to obtain audit evidence;
- ensuring such internal controls are in place as deemed necessary to enable the preparation of financial statements to be free from material misstatement, whether due to fraud or error;
- ensuring that the financial statements give a true and fair view and are prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000;
- ensuring that the Annual Report, which includes the Remuneration and Staff Report, is prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and
- assessing the Department and its Group's 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 the Department and its Group 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.

Extent to which the audit was considered capable of detecting non-compliance with laws and regulations including fraud

I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of non-compliance with laws and regulations, including fraud. The extent to which my procedures are capable of detecting non-compliance with laws and regulations, including fraud is detailed below.

Identifying and assessing potential risks related to non-compliance with laws and regulations, including fraud

In identifying and assessing risks of material misstatement in respect of non-compliance with laws and regulations, including fraud, I:

- considered the nature of the sector, control environment and operational performance including the design of the Department and its Group's accounting policies.
- Inquired of management, the Department's head of internal audit and those charged with governance, including obtaining and reviewing supporting documentation relating to the Department and its Group's policies and procedures relating to:
  - o identifying, evaluating and complying with laws and regulations;
  - o detecting and responding to the risks of; and
  - o the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations including the Department and its Group's controls relating to the Department's compliance with the Government Resources and Accounts Act 2000; Managing Public Money; Supply and Appropriation (Main Estimates) Act 2022; and primary legislation relating to taxation and benefits such as the Corporation Tax Act 2010, Tax Credits Act 2002 and Child Benefit Act 2005
- inquired of management, the Department's head of internal audit and those charged with governance whether:
  - o they were aware of any instances of non-compliance with laws and regulations;
  - o they had knowledge of any actual, suspected, or alleged fraud,
- discussed with the engagement team including non-significant component audit teams and the relevant internal specialists on analytical methodology and error and fraud, regarding how and where fraud might occur in the financial statements and any potential indicators of fraud

As a result of these procedures, I considered the opportunities and incentives that may exist within the Department and its Group for fraud and identified the greatest potential for fraud in the following areas: revenue recognition, posting of unusual journals, complex transactions, developing significant accounting estimates; and expenditure incurred in respect of Personal Tax Credits and Corporation Tax research and development reliefs expenditure. In common with all audits under ISAs (UK), I am also required to perform specific procedures to respond to the risk of management override.

I obtained an understanding of the Department and Group's framework of authority as well as other legal and regulatory frameworks in which the Department and Group operates. I focused on those laws and regulations that had a direct effect on material amounts and disclosures in the financial statements or that had a fundamental effect on the operations of the Department and its 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 2022, employment legislation and relevant tax legislation.

In addition, I considered the audit risks arising from potential bias in the Department's accounting estimates and the potential for material fraud and error to be present in expenditure incurred by the Department in respect of: Personal Tax Credits, Corporation Tax research and development reliefs expenditure and Child Benefit.

Audit response to identified risk

To respond to the identified risks resulting from the above procedures:

- I reviewed the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described above as having a direct effect on the financial statements;
- I enquired of management, the Audit and Risk Committee and in-house legal counsel concerning actual and potential litigation and claims;
- I reviewed minutes of meetings of those charged with governance and the Board and internal audit reports;
- in addressing the risk of fraud through management override of controls, I tested the appropriateness of journal entries and other adjustments; assessed whether the judgements on 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
- I reviewed the processes, verified the data used and considered 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 Child Benefit.

I also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and non-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 certificate.

Other auditor's responsibilities

I am required to obtain appropriate evidence sufficient to give reasonable assurance that the Statement of Outturn against 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 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.

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.

Error and fraud in Corporation Tax research and development reliefs and Personal Tax Credits

I have prepared a Report on HM Revenue & Customs' 2022-23 Accounts, under Section 2 of the Exchequer and Audit Departments Act 1921, on pages R1 to R48. This includes further information on the qualification of my audit opinion on the regularity of Corporation Tax research and development reliefs and Personal Tax Credits:

- Corporation Tax research and development reliefs – paragraphs 2.1 to 2.21 on pages R35 to R42.
- Personal Tax Credits – paragraphs 3.1 to 3.18 on pages R43 to R47.

Gareth Davies
Comptroller and Auditor General

National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

11 July 2023

Trust Statement

Statement of Revenue, Other Income and Expenditure

For the year ended 31 March	Note	2023 £bn	2022 £bn
Taxes and duties			
Income Tax	2.1	258.0	233.4
Value Added Tax	2.2	166.9	148.8
Corporation Tax	2.3	80.5	68.3
Hydrocarbon oils duties	2.4	25.0	25.8
Stamp taxes	2.5	19.0	18.7
Capital Gains Tax	2.6	17.0	15.8
Alcohol duties	2.7	12.3	13.1
Tobacco duties	2.8	9.4	10.2
Other taxes and duties	2.9	43.8	33.3
Total taxes and duties		**631.9**	**567.4**
Other revenue and income			
National Insurance Contributions	3.1	175.8	158.3
Student Loan recoveries	3.3	4.0	3.2
Fines and penalties	3.4	2.3	2.2
Total other revenue and income		**182.1**	**163.7**
Total revenue		**814.0**	**731.1**
Less expenditure			
Impairment charges	4.5	(8.2)	(2.5)
Provisions in-year expenditure movement	6.1	5.5	(1.8)
Total expenditure		**(2.7)**	**(4.3)**
Less disbursements			
National Insurance Contributions paid and payable to the National Insurance Funds and National Health Services	3.1	(174.8)	(158.3)
Appropriation of revenue to Resource Account	3.2	(21.1)	(21.9)
Student Loan recoveries paid and payable to the Department for Education	3.3	(4.0)	(3.2)
Taxation paid to the Isle of Man	3.5	(0.3)	(0.3)
Total disbursements		**(200.2)**	**(183.7)**
Total expenditure and disbursements		**(202.9)**	**(188.0)**
Net revenue for the Consolidated Fund		**611.1**	**543.1**

There were no recognised gains or losses accounted for outside the above Statement of Revenue, Other Income and Expenditure.

The notes at pages 199 to 223 form part of this statement.

Statement of Financial Position

As at 31 March	Note	2023 £bn	2022 £bn
Non-current assets			
Receivables falling due after one year	4	2.1	1.8
Current assets			
Receivables	4	38.7	35.0
Accrued revenue receivable	4	131.1	120.7
Total current assets		**169.8**	**155.7**
Total assets		**171.9**	**157.5**
Current liabilities			
Payables	5	(25.8)	(22.5)
Accrued revenue payable	5	(45.6)	(44.5)
Deferred revenue	5	(2.9)	(2.7)
Cash and cash equivalents	5.4	(1.4)	(1.6)
Total current liabilities		**(75.7)**	**(71.3)**
Assets less current liabilities		**96.2**	**86.2**
Non-current liabilities			
Provision for liabilities	6	(7.5)	(13.6)
Total assets less total liabilities		**88.7**	**72.6**
Balance on Consolidated Fund Account	7	**88.7**	**72.6**

Jim Harra
Accounting Officer

6 July 2023

The notes at pages 199 to 223 form part of this statement.

Statement of Cash Flows

For the year ended 31 March	2023 £bn	2022 £bn
Net revenue for the Consolidated Fund	611.1	543.1
(Increase) / decrease in non-cash assets	(14.4)	(13.9)
Increase / (decrease) in non-cash current liabilities	4.6	8.7
Increase / (decrease) in provision for liabilities	(6.1)	0.7
Net cash flow from operating activities	**595.2**	**538.6**
Less: Cash paid to the Consolidated Fund	(595.0)	(538.6)
Increase/(decrease) in cash and cash equivalents in this period	0.2	–
Net funds as at 1 April (opening cash and cash equivalents balance)	(1.6)	(1.6)
Net funds as at 31 March (closing cash and cash equivalents balance)	**(1.4)**	**(1.6)**

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 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 preparation

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 2022 to 2023 Financial Reporting Manual (FReM) issued by HM Treasury
- International Financial Reporting Standards (IFRS) adapted or interpreted for the public sector context
- using the historical cost convention in accordance with the FReM, where assets are recorded at their original value
- accounting policies detailed in subsequent notes.

The accounting policies have been developed by HMRC and have been reviewed during 2022 to 2023. 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 COVID-19 support payments recovered as Income Tax or Corporation Tax (notes 2.1 and 2.3), taxation due to the Isle of Man (note 3.5), revenue losses (note 4.4), and Certificates of Tax Deposit (note 8), which are rounded to the nearest £1 million, due to the much smaller amounts disclosed in these notes.

Basis of accounting

The majority of taxes and duties are accounted for on an accruals basis.

As agreed with HM Treasury the following elements are accounted for on a partial accrual 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:

- Corporation Tax for smaller companies that do not pay by instalments – note 2.3
- Capital Gains Tax reported via Self Assessment – note 2.6

As agreed with HM Treasury the following elements and some repayments are accounted for on a cash basis:

- VAT Import One Stop Shop – note 2.2
- Stamp Duty – note 2.5

- National Insurance classes 1A and 1B – note 3.1
- Student Loans – note 3.3
- Interest on receivables – note 4.1

Accounting for these elements on a cash basis does not have a material impact on revenue.

Significant accounting estimates

The preparation of the financial statements includes the use of estimates and assumptions. Although the estimates have been prepared using the best information available at the time of producing, actual results may differ from those estimates. The significant accounting estimates with a risk of a material change to the carrying value within the next year in terms of IAS 1, 'Presentation of Financial Statements', are:

- Income Tax self assessment Accrued Revenue Receivable – note 4.2.2
- Corporation Tax (Quarterly Instalment Payers) Accrued Revenue Receivable – note 4.2.3
- Tax receivable and accrued revenue receivable impairment – note 4.3
- Provision for liabilities – note 6

1.2 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 (these are described in note 2 for material taxes and duties),
- the revenue can be measured reliably, and
- it is probable that the economic benefits from the taxable event will flow to HMRC.

Revenues are deemed to accrue evenly over the period for which they are due.

1.3 The tax gap

The tax gap is not recognised or measured 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 and what is actually collected.

Further information on the tax gap can be found in the section 'Performance analysis, collecting the right tax' (page 17).

2. Accounting policies and analysis

2.1 Income Tax

For the year ended 31 March	2023 £bn	2022 £bn
Pay As You Earn and other Income Tax	209.8	188.4
Self Assessment	47.7	44.6
Simple Assessment	0.5	0.4
Total	**258.0**	**233.4**

The taxable event for Income Tax (IT) is the earning of assessable income during the taxation period by the taxpayer. Accrued revenue for Self Assessment is required to be estimated, as tax returns reporting taxpayer liabilities are not filed until after the Trust Statement has been published. See note 4.2.2 for further information.

COVID-19 support payments are recoverable as IT 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. For the year ended 31 March 2023, COVID-19 support payments recovered via IT totalled £228 million (£67 million in 2021 to 2022).

IT includes amounts collected on behalf of the Scottish and Welsh devolved administrations, further details of which are set out in note 12.

2.2 Value Added Tax

For the year ended 31 March	2023 £bn	2022 £bn
Gross revenue	274.1	256.2
Less: revenue repayable	(107.2)	(107.4)
Net revenue	**166.9**	**148.8**

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.

Import One Stop Shop (IOSS) is a monthly VAT reporting and payment system for imports. VAT return information reported via IOSS is not available at the time of producing the accounts so this is recognised on a cash basis (see note 1.1).

2.3 Corporation Tax

For the year ended 31 March	2023 £bn	2022 £bn
Total	**80.5**	**68.3**

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 related to the taxation period are not filed until after the Trust Statement has been published. See note 4.2.3 for further information.

CT is accounted for on a partial accrual basis, as agreed with HM Treasury (see note 1.1), because not enough information is known to reliably accrue for the revenue for smaller companies that do not pay by instalments. There is no accrued revenue receivable estimate in the Statement of Financial Position for these smaller companies.

Estimates for some corporation tax reliefs (CTR), those where there is, or could be, a payable element in excess of negative taxation, are reported in the Resource Accounts. As per the FReM, disbursements of £12.2 billion (£11.0 billion in 2021 to 2022) were made from the Trust Statement to the Resource Accounts to fund the CTR expenditure reported in the Resource Accounts. For further information see note 5.1.4 in the Resource Accounts.

COVID-19 support payments are recoverable as 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. For the year ended 31 March 2023, COVID-19 support payments recovered via CT totalled £206 million (£73 million in 2021 to 2022).

2.4 Hydrocarbon oils duties

For the year ended 31 March	2023 £bn	2022 £bn
Total	**25.0**	**25.8**

The taxable event for Hydrocarbon oils 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).

2.5 Stamp taxes

For the year ended 31 March	2023 £bn	2022 £bn
Stamp Duty Land Tax	15.2	14.2
Stamp Duty Reserve Tax	2.5	2.9
Stamp Duty	1.2	1.5
Annual Tax on Enveloped Dwellings	0.1	0.1
Total	**19.0**	**18.7**

The taxable event for:

- Stamp Duty Land Tax (SDLT) is the purchase of property.
- Stamp Duty Reserve Tax and Stamp Duty 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 (see note 1.1).
- Annual Tax on Enveloped Dwellings (ATED) is a company owning or part-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 Capital Gains Tax

For the year ended 31 March	2023 £bn	2022 £bn
Total	**17.0**	**15.8**

The taxable event for Capital Gains Tax (CGT) is the disposal of a chargeable asset leading to a taxable gain.

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 (see note 1.1).

2.7 Alcohol duties

For the year ended 31 March	2023 £bn	2022 £bn
Wine, cider and perry	4.7	4.9
Spirits	4.1	4.5
Beer	3.5	3.7
Total	**12.3**	**13.1**

The taxable event for alcohol duties is the date of production, date of import or date of 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).

2.8 Tobacco

For the year ended 31 March	2023 £bn	2022 £bn
Cigarettes	7.1	7.6
Hand-rolling tobacco	2.1	2.4
Cigars	0.1	0.1
Tobacco for heating and other	0.1	0.1
Total	**9.4**	**10.2**

The taxable event for tobacco duties is the date of production, date of import or date of 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 Other taxes and duties

For the year ended 31 March	Note	2023 £bn	2022 £bn
Insurance Premium Tax		7.6	6.7
Inheritance Tax		7.1	6.1
Customs Duties		5.8	4.9
Energy Profits Levy	2.9.1	4.6	–
Apprenticeship Levy		3.6	3.3
Betting and Gaming duties		3.4	3.1
Air Passenger Duty		3.3	1.2
Bank Surcharge		2.7	2.8
Climate Change Levy		2.1	2.0
Bank Levy		1.1	1.2
Digital Services Tax		0.6	0.5
Landfill Tax		0.6	0.7
Soft Drinks Industry Levy		0.4	0.3
Aggregates Levy		0.4	0.4
Plastic Packaging Tax	2.9.2	0.3	–
Residential Property Developer Tax	2.9.3	0.2	–
Diverted Profits Tax		–	0.2
Petroleum Revenue Tax	2.9.4	–	(0.1)
Total		**43.8**	**33.3**

2.9.1 Energy Profits Levy

The Energy Profits Levy is an additional levy on UK oil and gas profits on top of the existing headline rate of Corporation Tax (CT). The levy is effective for accounting periods beginning on or after 26 May 2022. The levy will apply to a company's profits relating to oil rights and oil extraction activities and is charged as if it were CT. The taxable event for the Energy Profits Levy is the earning of assessable profit during the taxation period by the taxpayer.

2.9.2 Plastic Packaging Tax

Entities that import or manufacture finished plastic packaging components which contain less than 30% recycled plastic are liable to Plastic Packaging Tax if the amount is 10 tonnes or more in the period from 1 April 2022. The taxable event is the import or manufacture of finished plastic packaging components during the taxation period.

2.9.3 Residential Property Developer Tax

Residential Property Developer Tax (RPDT) is a tax on the trading profits of residential property developers charged in addition to standard Corporation Tax (CT). It applies to profits arising from residential property development activity from 1 April 2022. The taxable event for RPDT is the earning of assessable profit during the taxation period by the taxpayer.

2.9.4 Petroleum Revenue Tax

Petroleum Revenue Tax (PRT) is a ‘field-based’ tax charged on the profits arising from individual oil and gas fields that were approved for development before 16 March 1993. The rate of PRT was permanently set at 0% effective from 1 January 2016 but it has not been abolished so that losses (such as losses arising from decommissioning PRT-liable fields) can be carried back against past PRT payments, with HMRC making a provision for this. For further information on oil and gas field decommissioning costs, please see note 6.3.

3. Other revenue, income and disbursements

3.1 National Insurance Contributions

For the year ended 31 March	2023 £bn	2022 £bn
National Insurance Fund Great Britain (NIF GB)	129.8	125.2
National Insurance Fund Northern Ireland (NIF NI)	2.8	2.7
National Health Services (NHS)	43.2	30.4
Total National Insurance Contributions (NICs)	**175.8**	**158.3**
Less: NIC expenditure	(1.0)	–
NICs due to NIF and NHS	**174.8**	**158.3**

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.

NICs 1A and 1B information reported via P11D and P11D(b) forms is not available at the time of producing the accounts so these are recognised on a cash basis (see note 1.1).

3.2 Appropriation of revenue to the Resource Accounts

For the year ended 31 March	2023 £bn	2022 £bn
Corporation tax reliefs	12.2	11.0
Personal tax credits	8.9	10.9
Total Appropriation of revenue to Resource Accounts	**21.1**	**21.9**

The expenditure relating to personal tax credits (PTC) and some corporation tax reliefs (CTR), see note 2.3, 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, these amounts are recorded in the Trust Statement as revenue received and as a disbursement to Resource Accounts.

The reduction in PTC reflects the migration of claimants to Universal Credit, which is accounted for in the Department for Work & Pensions' accounts.

For further information on personal tax credits and corporation tax reliefs, see note 5.1.1 and 5.1.4 respectively, on page 249 and page 253 in the Resource Accounts.

For further reference to the disbursement, see the Consolidated Statement of Changes in Taxpayers' Equity, page 230 in the Resource Accounts.

3.3 Student Loan recoveries

Student Loan repayments are collected on behalf of and paid to the Department for Education (DfE). The majority are collected through PAYE with an element collected through Self Assessment. Any difference between the amount of Student Loan repayments received and the cash paid to the DfE is shown as a payable (refer to note 5 – other taxes and duties).

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 year ended 31 March 2023 net payments to the IoM totalled £304 million (£252 million net payments in 2021 to 2022).

4. Receivables, accrued revenue receivable and impairment charges

	As at 31 March 2023			As at 31 March 2022		
	Receivables	Accrued revenue receivable	Total	Receivables	Accrued revenue receivable	Total
	£bn	£bn	£bn	£bn	£bn	£bn
Non-current assets						
Receivables due after one year:						
Inheritance Tax	2.1	–	2.1	1.8	–	1.8
Non-current assets after impairment	**2.1**	**–**	**2.1**	**1.8**	**–**	**1.8**
Current assets						
Receivables and ARR due within one year:						
Income Tax	11.9	48.7	60.6	10.4	41.9	52.3
Value Added Tax	20.9	46.2	67.1	16.2	46.1	62.3
Corporation Tax	6.2	10.1	16.3	5.5	9.4	14.9
National Insurance Contributions	6.9	17.4	24.3	6.5	16.7	23.2
Other taxes and duties	12.0	10.2	22.2	10.8	8.5	19.3
Current assets before impairment	**57.9**	**132.6**	**190.5**	**49.4**	**122.6**	**172.0**
Less impairment (note 4.3)	(19.2)	(1.5)	(20.7)	(14.4)	(1.9)	(16.3)
Total current assets after impairment	**38.7**	**131.1**	**169.8**	**35.0**	**120.7**	**155.7**
Total assets before impairment	**60.0**	**132.6**	**192.6**	**51.2**	**122.6**	**173.8**
Less impairment (note 4.3)	(19.2)	(1.5)	(20.7)	(14.4)	(1.9)	(16.3)
Total assets after impairment	**40.8**	**131.1**	**171.9**	**36.8**	**120.7**	**157.5**

4.1 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. Accrued interest on interest-bearing receivables is not available at the time of producing the accounts so this is recognised on a cash basis (see note 1.1).

Further information on receivables can be found in the section ‘Performance analysis’, ‘Receivables’ (page 29).

4.2 Accrued revenue receivable

Accrued revenue receivable (ARR) represents amounts of taxes and duties where the taxable event has occurred but the tax 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 self assessment (ITSA) and Corporation Tax (CT), the department has estimated ARR. Due to the nature of tax legislation, ITSA and CT are the most difficult taxes to estimate.

Tax forecasting models are used to produce the ITSA and CT ARR estimates, and take into consideration the economic assumptions prepared for the March 2023 Budget and the Economic and Fiscal Outlook published by the Office for Budget Responsibility (OBR) in March 2023.

These estimates have been prepared using the judgement of professional departmental economists and statisticians.

4.2.1 Uncertainty around the accrued revenue receivable estimates

Conclusions around estimation uncertainty are based on evidence from the performance of our estimation models over previous years, changes to reflect the March 2023 Budget, and the Economic and Fiscal Outlook published by the OBR in March 2023.

Actual outcomes could differ from the estimates used, due to the areas of uncertainty involved.

Each year HMRC reviews the performance of its estimation models. Last year, the ARR underestimation was £4.6 billion (0.6% of 2021 to 2022 total revenue).

The process for each significant estimate is described in more detail below:

4.2.2 Income Tax self assessment

Income Tax self assessment (ITSA) ARR is estimated to be £25.3 billion this year (£20.3 billion in 2021 to 2022), which is included in the total Income Tax ARR of £48.7 billion (£41.9 billion in 2021 to 2022) in note 4.

The SA regime involves long filing and payment lags, so the ARR estimate is driven by the March 2023 Budget forecast and the underlying economic determinants are based on the OBR central forecast rather than by receipts data.

The estimation process has 3 stages:

i) Estimation of 2022 to 2023 accrued tax liabilities due to information from SA returns relating to current year not being available at the point of estimation. Therefore, the March 2023 budget for ITSA forecast has been revised in line with the latest economic and tax receipts data that has been received.

ii) From the figure in (i), a deduction is made to account for payments already received in relation to 2022 to 2023 by the end of the financial year.

iii) A further deduction is made for payments related to the current taxation period but not settled by 31 March. This relates to payments on account due by the following 31 January as these are included within Income Tax receivables (see table above).

The remaining amount is the 2022 to 2023 ARR estimate.

There are several key economic factors that underpin these estimates and are the main contributors to the increase in the ARR estimate for 2022 to 2023. These include self employed 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.

Impact on ITSA ARR of varying key economic factors

Key Assumption (percentage point change)	Increase £bn	Decrease £bn
Self-employed income growth (+/-7%)	1.7	(1.7)
AETR on NSND income of mainly SA individuals[4] (+/-0.6%)	1.6	(1.6)
Dividend AETR of mainly SA individuals[4] (+/-3%)	0.9	(0.9)
NSND SA liability of mainly PAYE individuals[5] (+/-43%)	0.7	(0.7)
Deduction rate on PAYE income of mainly SA individuals[4] (+/-0.55%)	(0.5)	0.5
Dividend AETR of mainly PAYE individuals[5] (+/-1%)	0.5	(0.5)
Land Expenses (+/- 4%)	0.4	(0.4)
Adjustments to Profit (+/-24%)	0.4	(0.4)
Dividend income growth (+/-3%)	0.4	(0.4)

4 Mainly SA Individuals are those within SA who have some Non-Saving Non Dividend (NSND) income from non PAYE sources such as self-employed income, property income, foreign income or do not have a PAYE source

5 Mainly PAYE individuals are those within SA whose NSND is entirely from PAYE sources (Employment/Pension)

4.2.3 Corporation Tax

Corporation Tax (CT) ARR is £10.1 billion (£9.4 billion in 2021 to 2022) which includes an estimated amount of £6.3 billion (£6.5 billion in 2021 to 2022).

HMRC has a number of taxpayer liabilities which have been postponed pending finalisation of enquiries. 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 1.2, is recognised in the accounts. As a result, an amount of £2.3 billion (£1.4 billion in 2021 to 2022) has been included in ARR.

As with SA, the filing of CT returns and related payments are subject to a considerable lag and relate to the accounting periods of taxpayers rather than the current taxation period. Since there is less outturn data available, the ARR estimate is subject to uncertainty.

The key drivers of the ARR estimate are outturn CT receipts and returns received to date and a series of assumptions. The assumptions used are needed to estimate the total amount of accrued tax liabilities arising from profits generated in the taxation period and from CT returns that relate to 2022 to 2023 but are not available at the point of estimation. 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 in 4 Quarterly Instalment Payments (QIPs) for each accounting period of the taxpayer. CT ARR has been estimated where between one and four QIPs for onshore companies have been received using a model that forecasts companies' CT liabilities based on the number and value of QIPs received by a given date.

The key assumptions used in this modelling are the proportion of CT that is paid late and/or overpaid and the proportion of CT liabilities paid in each quarterly instalment. These assumptions are informed by looking at historic trends in outturn data. CT is assumed to accrue evenly throughout the companies' accounting periods.

For accounting periods where no QIPs have been received, ARR has been estimated using OBR's March 2023 Corporation Tax forecast.

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). A similar methodology to that of onshore companies is used for calculating the estimate.

However, 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 year's estimate is based on the OBR's March 2023 North Sea taxes forecast which shows a decrease in receipts from 2022 to 2023 as a result of energy prices falling back from their highs in the summer and autumn 2022. This is a contributing factor to the decrease in the ARR estimate from 2021 to 2022.

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 recent historic data, changes in key assumptions are likely to fall within the ranges in the table below.

Impact on CT ARR of varying key economic factors

Key Assumption (percentage point change)	Increase £bn	Decrease £bn
Late payments (+/-1% point)	0.2	(0.2)
Overpayments (+/-1% point)	(0.2)	0.2
CT liability growth (+/-10% points)	0.4	(0.4)
Proportion of companies' CT liabilities paid with in-year QIPs (+/-1% point)	(0.5)	0.5

4.2.4 Value Added Tax

Value Added Tax (VAT) ARR is £46.2 billion (£46.1 billion in 2021 to 2022). A large amount of the VAT ARR is based on actual return data and is not therefore subject to significant estimation uncertainty. Returns submitted in June and July relating to the current reporting period are not available at the time of producing the ARR so 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. The ARR estimate for 2022 to 2023 is £6.7 billion.

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 and repayments made to government departments. These are based largely on actual return information although some forecast element remains using the methodology described above.

4.3 Impairment of receivables and ARR

	As at 31 March 2023			As at 31 March 2022
	Impairment of Receivables	Impairment of accrued revenue receivable	Total	Total
	£bn	£bn	£bn	£bn
Balance as at 1 April	14.4	1.9	16.3	16.2
Increase/(decrease) in impairment	4.8	(0.4)	4.4	0.1
Balance as at 31 March	**19.2**	**1.5**	**20.7**	**16.3**

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.

4.3.1 Impairment calculation and analysis

The FReM does not require HMRC to determine impairments in accordance with IFRS 9, as the standard relates to financial instruments, and taxes and duties arise from statute and not a contract. However, impairments have been measured applying the expected credit loss (ECL) model set out in IFRS 9.

The ECL model estimates the future recoverability of receivables and ARR based on their age and historic debt recovery rates, accepting that the non-payment risk associated with tax debt increases with age. The uncertain economic conditions in 2022 to 2023 have further increased the likelihood of debts aging and therefore the risk of non-collection.

Accordingly, given the unprecedented economic volatility of recent years, HMRC has considered the following 3 debt scenarios when producing the 2022 to 2023 impairment:

- the lower scenario considers the pre March 2020 recovery rates and applies that to future recoveries
- the middle (base) scenario considers current recovery rates and applies that to future recoveries
- the upper scenario considers the recovery rates between March 2020 and March 2022 and applies that to future recoveries

In all scenarios ARR impairment is based on multi-year collection rates and is the same in each scenario.

The table below provides a summary of the middle (base) scenario:

Age	Gross Balance £bn	Impairment Rate %	Impairment £bn
Accrued revenue receivable	135.9	1.1	1.5
Receivables not overdue	16.0	7.5	1.2
Debts less than 1 year overdue	26.8	20.0	5.4
Debts 1 to 2 years overdue	6.5	55.0	3.6
Debts more than 2 years overdue	10.6	85.0	9.0
Total	**195.8**	**10.6**	**20.7**

HMRC has analysed the clearing of debts over two year periods from the years before and after the pandemic, alongside prior year and industry standard impairment rates, to produce the impairment rates used for each of the debt scenarios.

HMRC has reviewed the Bank of England's Monetary Policy report[1], published in May 2023, to consider current and forecast economic indicators, and studied the effects on debt collection and losses of the global recession in the years following the financial crisis in 2008.

The impairment of receivables (excluding ARR) reached 41.8% in 2009 to 2010 following the 2008 financial crisis, 9.8 percentage points above the 32.0% 2022 to 2023 rate (28.1% in 2021 to 2022). The receivable and debt balances remain higher than their pre-pandemic positions, increasing the risk of non-collection as they age and resulting in a higher impairment rate.

In recent years HMRC has been supporting debt collection activities which include:

- supporting more taxpayers with Time to Pay arrangements compared to prior years, including a 'Breathing Space' scheme which allows customers with debt problems more time from all creditor action
- implementing the 'Debt Respite' scheme, allowing qualifying customers to pay their overdue tax over a 3 to 10 year period
- tailoring debt interventions to customer circumstances such as type, size, behaviour and debt collectability rather than following pre-determined journeys
- recruiting additional debt management staff whilst encouraging customers to use enhanced digital services to further increase the resource available for debt collection activity

Some of these arrangements will result in debts being paid over a longer period of time, which should assist recovery, but extending credit terms may increase the risk of loss.

HMRC has observed a challenging yet more positive economic outlook published by the Bank of England in May 2023 than in previous 2022 to 2023 publications, and therefore consider the middle (base) scenario a reasonable proxy for estimating future recoverability.

The 2022 to 2023 total impairment rate is 10.6%[2] (2021 to 2022 was 9.3%).

4.3.2 Sensitivity Analysis

HMRC recognises that future economic conditions remain uncertain and have produced sensitivity analysis to demonstrate the possible outcomes if the impairment scenario were to differ from the middle (base) scenario.

Potential impact on impairments

Scenario	Change to Impairment £bn
Upper scenario	2.9
Lower scenario	(2.9)

1 https://www.bankofengland.co.uk/monetary-policy-report/2023/may-2023
2 Total impairment divided by total receivables and ARR before impairment

4.4 Revenue losses

For the year ended 31 March			2023			2022
	Remissions £m	Write-offs £m	Total £m	Remissions £m	Write-offs £m	Total £m
Income Tax	216	439	655	241	280	521
Value Added Tax	62	1,742	1,804	12	980	992
Corporation Tax	13	268	281	5	157	162
National Insurance Contributions	30	343	373	40	196	236
Fines and penalties	206	283	489	136	160	296
Other remissions and write-offs	69	79	148	81	119	200
Total revenue losses	**596**	**3,154**	**3,750**	**515**	**1,892**	**2,407**

Revenue losses are reported net of insolvency dividend payments to HMRC and 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.

HMRC write-off debt from the statement of financial position when a customer is formally declared insolvent. The vast majority of revenue losses are driven by individual and business insolvencies. On 31 March 2023, HMRC had £5.1 billion of debt that may go into formal insolvency. Once in formal insolvency, on average the dividend payment HMRC eventually receives is 5% in the pound. In 2022 to 2023 we received £261 million in such dividend payments.

Revenue losses have increased by 56% between 31 March 2022 and 31 March 2023, however they are lower than pre-pandemic levels (8% lower when compared to 31 March 2020).

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 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 20).

Revenue losses – cases more than £10 million

For the year ended 31 March 2023, there were 24 cases (21 cases as at 31 March 2022) where the loss exceeded £10 million, totalling £833 million (£541 million as at 31 March 2022). Details are shown below:

There were 21 write-offs (18 cases as at 31 March 2022) relating to Insolvency and one remission (one case as at 31 March 2022) totalling £579 million (£377 million as at 31 March 2022).

There was one write-off case (one case as at 31 March 2022) of £38 million (£12 million as at 31 March 2022) relating to Missing Trader fraud. All Missing Trader cases are assessed to establish if there is potential to recover revenue and, where appropriate, proactive insolvency action is initiated.

There was a bulk remission for Self Assessment penalties of £216 million (£152 million as at 31 March 2022), 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.

4.5 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	2023 £bn	2022 £bn
Increase in impairment of receivables and ARR	4.3	4.4	0.1
Revenue losses	4.4	3.8	2.4
Total impairment charges		**8.2**	**2.5**

5. Payables, accrued revenue payable and deferred revenue

	As at 31 March 2023				As at 31 March 2022			
	Payables	Accrued revenue payable	Deferred revenue	Total	Payables	Accrued revenue payable	Deferred revenue	Total
	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Income Tax	4.5	1.1	–	5.6	2.1	3.7	–	5.8
Value Added Tax	1.5	19.5	–	21.0	2.9	18.0	0.1	21.0
Corporation Tax	11.7	3.5	0.2	15.4	10.7	1.9	0.4	13.0
National Insurance Contributions	1.0	21.3	–	22.3	1.3	20.7	–	22.0
Other taxes and duties	2.9	0.2	2.7	5.8	2.4	0.2	2.2	4.8
Other payables	–	–	–	–	0.1	–	–	0.1
Payments on account	4.2	–	–	4.2	3.0	–	–	3.0
Current liabilities before cash and cash equivalents	**25.8**	**45.6**	**2.9**	**74.3**	**22.5**	**44.5**	**2.7**	**69.7**
Cash and cash equivalents	1.4	–	–	1.4	1.6	–	–	1.6
Total current liabilities	**27.2**	**45.6**	**2.9**	**75.7**	**24.1**	**44.5**	**2.7**	**71.3**

There are no liabilities in the table above which fall due after one year.

5.1 Payables

Payables are amounts recorded as due to customers by HMRC at the end of the reporting period but payment has not been made. Other payables are amounts mainly due to the Resource Accounts that have not been transferred at the reporting period end date. Payments on account are taxpayer credit amounts that have not been allocated to a tax charge at the reporting period end date.

5.2 Accrued revenue payable

Accrued revenue payable (ARP) is recognised for:

- 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. It is necessary to estimate VAT ARP of £2.3 billion as returns submitted in June and July relating to the current financial year are not available at the time of producing the estimate
- amounts of receivables and accrued revenue receivable that when received will be passed to a third-party after adjusting for expenditure, for example 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 accruing over the taxation period, and for expected Corporation Tax overpayments.

Estimates have been made to support the ARP balances where tax returns reporting taxpayer liabilities or associated tax repayments related to the taxation period are not filed until after the Trust Statement has been published. Each year HMRC reviews the performance of its estimation models. Last year, the ARP underestimation was £0.1 billion (0.01% of 2021 to 2022 total revenue).

5.3 Deferred revenue

Deferred revenue includes duties and taxes paid in the current year which relate to future accounting periods.

5.4 Cash and cash equivalents

This reflects the net position of cash in HMRC bank accounts and payments that have been authorised for issue but the money has not cleared through the banking system as of 31 March.

6. 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 2023 £bn	Total 2022 £bn
Balance as at 1 April	3.2	10.4	13.6	12.9
Provided in the year	1.2	–	1.2	2.8
Provision not required written back	(1.1)	(5.6)	(6.7)	(1.0)
Provision utilised in the year	(0.3)	(0.3)	(0.6)	(1.1)
Balance as at 31 March	**3.0**	**4.5**	**7.5**	**13.6**

Analysis of expected timing of cash flows

	Legal claims £bn	Oil and gas field decommissioning £bn	Total 2023 £bn
Amounts payable within 5 years	3.0	1.8	4.8
Amounts payable after 5 years	–	2.7	2.7
Balance as at 31 March	**3.0**	**4.5**	**7.5**

6.1 Provisions in-year expenditure movement

	Legal claims £bn	Oil and gas field decommissioning £bn	Total 2023 £bn	Total 2022 £bn
Total provided in the year	1.2	–	1.2	2.8
Provision not required written back	(1.1)	(5.6)	(6.7)	(1.0)
Net movement increase/(decrease)	**0.1**	**(5.6)**	**(5.5)**	1.8

6.2 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 2022 to 2023; 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 the recognition of new cases where appropriate. Existing cases may also be revalued, recognised as provisions, or removed from the contingent liability disclosures (i.e. 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 2023, HMRC has 8 cases estimated to have a value of £4.1 billion (compared to 7 cases with an estimated value of £3.2 billion as at 31 March 2022) where the maximum potential tax repayment, before losses, capital allowances and other tax reliefs, is over £100 million. Each case may include a lead case with follower claimants and cover a range of heads of duty, including Corporation Tax, Income Tax and VAT.

Further claimants may opt to follow a lead case but are not yet known to HMRC or the Courts. Wider adoption claims of this nature are difficult to quantify with sufficient reliability and therefore deemed to fall outside of criteria in the relevant accounting standards. They are not recognised in the Accounts or disclosed in these notes.

6.3 Exchequer liabilities arising from oil and gas infrastructure

There are 2 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 3 elements: Ring-fenced Corporation Tax, Supplementary Charge and the Energy Profits Levy.

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 for tax repayments is an estimate based on 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 £4.5 billion has been reported in 2022 to 2023 based on the estimated tax repayments of PRT £1.3 billion (£2.1 billion in 2021 to 2022) and offshore CT £3.2 billion (£8.3 billion in 2021 to 2022) by HMRC to companies over the period to 2065 due to losses from decommissioning expenditure.

The key determinants of the provision estimate are:

- future decommissioning costs from the North Sea Transition Authority's (NSTA) Asset Stewardship Survey,

- oil and gas prices and production from the Office for Budget Responsibility (OBR), Department for Energy Security and Net Zero (DESNZ) and NSTA,
- discount rates from HM Treasury, and
- the US Dollar/Sterling exchange rate from the OBR.

There has been a £5.9 billion decrease in the overall provision since last year. The main causes of the decrease were lower forecast decommissioning expenditure, higher forecast long term oil prices, higher discount rates and a stronger forecast US Dollar compared to Sterling.

The provision utilised in-year is the tax repayments in 2022 to 2023 due to decommissioning expenditure.

Uncertainty around the estimate of the provision

There is inherent uncertainty surrounding forecasting oil and gas revenues over 30+ years ahead.

The largest impact on the size of the provision, and biggest source of uncertainty in estimating it, is quantification of future decommissioning costs. Annually, the NSTA 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.

The provision included in the Trust Statement is calculated using the NSTA's estimate for remaining decommissioning costs due to be published in August 2023. A ten percent increase in the decommissioning cost estimate would increase the provision to £5.0 billion. Similarly a ten percent reduction would decrease the provision to £4.1 billion.

A major economic determinant which drives the provision are oil and gas prices. The model has utilised certain DESNZ 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 £0.3 billion (£0.4 billion).

The provision is also impacted by discount rates 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 £0.2 billion. The same decrease in discount rates would increase the provision by £0.3 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 £0.2 billion decrease in the provision. A 10-cent depreciation of the Dollar results in a £0.2 billion increase in the required provision.

7. Balance on Consolidated Fund Account

Movements on Consolidated Fund account

	2023 £bn	2022 £bn
Balance on Consolidated Fund as at 1 April	72.6	68.1
Net revenue for the Consolidated Fund	611.1	543.1
Less amount paid to Consolidated Fund	(595.0)	(538.6)
Balance on Consolidated Fund Account	**88.7**	**72.6**

8. Certificates of tax deposit

Under the Certificate of Tax Deposit (CTD) scheme, HMRC previously accepted deposits from individuals, businesses and trustees liable for certain taxes. Relevant taxes can be found at www.gov.uk/guidance/certificate-of-tax-deposit-scheme.

HMRC administers the CTD scheme on behalf of HM Treasury. The National Loans Fund (NLF) account includes the CTDs held by the NLF as at 31 March. More information on the NLF account can be found at www.gov.uk/government/collections/hmt-central-funds.

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 2023 totalled £142 million (£32 million in 2021 to 2022).

Delays in processing between redemption of CTDs and the transfer of funds to and from the NLF can result in an outstanding balance at the year end; this balance is included within payables in the Trust Statement – Statement of Financial Position.

9. R.N. Limited

R.N. Limited is a registered company that administers, on behalf of HMRC, the holding of charges securing tax debts owed to HMRC. These tax debts are 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 tax debts. These are not recognised in the Trust Statement until realised. There is no designation order requiring R.N. Limited's financial statement to be consolidated within HMRC's Accounts. R.N. Limited's accounts can be viewed at Companies House.

10. Third party assets

The department holds cash and other assets which have been seized in relation to ongoing legal proceedings. These assets do not belong to the department and do not form part of these accounts although, where seized assets are forfeited without legal proceedings, proceeds are recognised as penalty income.

The department holds amounts in relation to businesses operating under the terms of the Northern Ireland (NI) protocol who have registered with HMRC to use the One Stop Shop (OSS) scheme to report and pay VAT due to the EU. This entails the making of payments to HMRC who will then forward any relevant amounts to the EU. The scheme was implemented on 1 July 2021 and covers goods sold from NI to consumers in the EU.

11. Related party transactions

Due to the nature of HMRC's business, we have a large number of transactions, relating to taxation income, with other government departments and other central government bodies. No Board member, key manager or other related party has undertaken material transactions with the department during the year.

12. Devolved taxes

12.1 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 2022 to 2023 tax year there have been 5 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 2022 to 2023 tax year can be found on the GOV.UK website (https://www.gov.uk/scottish-income-tax).

12.2 Welsh rates of 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 up to the 2022 to 2023 tax year 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.

12.3 Scottish and Welsh rate of Income Tax estimates for 2022 to 2023

The provisional estimate of revenue raised in 2022 to 2023 from Scottish Income Tax is £15.0 billion and from Welsh rates of Income Tax it is £2.6 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 2022 to 2023 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, Wales 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 2019 to 2020. These are also adjusted to take account of the latest 2021 to 2022 Income Tax for the Scottish and Welsh final outturn data. This latter adjustment involves scaling each of the provisional estimates in 2022 to 2023 by the percentage difference between their 2021 to 2022 final outturn data and the underlying methodology's estimates of 2021 to 2022 based on the HMRC Survey of Personal Incomes.

The underlying methodology estimated lower Scottish Income Tax receipts in 2021 to 2022 than the final outturn, therefore, the 2022 to 2023 provisional estimate has been scaled up by a proportionate amount. Conversely, the methodology estimated higher Welsh rates of Income Tax receipts for 2021 to 2022 than the final outturn and the 2022 to 2023 provisional estimate has been scaled down by a proportionate amount.

Further information on revenue for the tax year 2022 to 2023 that becomes available during 2022 to 2023 will allow refinement of these calculations. Updated figures will be disclosed in the 2023 to 2024 Trust Statement, allowing a final reconciliation for the 2022 to 2023 tax year.

12.4 Scottish and Welsh rates of Income Tax outturn for 2021 to 2022

Provisional estimates for Scottish Income Tax of £13.3 billion and £2.4 billion for Welsh rates of Income Tax were disclosed in last year's accounts. Now that HMRC has established over 95% of the tax liabilities for the year, the final outturn figures for 2021 to 2022 have been calculated as £13.7 billion for Scottish Income Tax and £2.4 billion for Welsh rates of Income Tax.

For full details on the 2021 to 2022 outturn please refer to the HMRC publications released on 6 July 2023 Scottish and Welsh Income Tax Outturn Statistics – GOV.UK (www.gov.uk). 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 Resource Accounts, but these are not individually disclosed due to materiality.

13. 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 2023 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”) 2022-23.
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

His Majesty's Treasury

15 December 2022

Resource Accounts

Consolidated Statement of Comprehensive Net Expenditure

for the year ended 31 March 2023

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	2022-23 £m Departmental group	Core department and agency	2021-22 £m Departmental group
Cash items:					
Personal tax credits	5.1.1	8,835.0	8,835.0	10,605.5	10,605.5
Corporation tax reliefs	5.1.4	12,556.4	12,556.4	11,692.8	11,692.8
Child Benefit		11,599.5	11,599.5	11,423.8	11,423.8
Cost of Living Payments		717.9	717.9	–	–
Tax-Free Childcare		494.4	494.4	428.4	428.4
Lifetime ISA		436.8	436.8	418.9	418.9
Help to Save		53.2	53.2	20.4	20.4
COVID-19 support schemes	4.1	(132.5)	(132.5)	17,262.7	17,262.7
Staff and related costs		3,343.2	3,356.3	2,950.4	2,981.9
Goods and services		1,535.3	1,518.3	1,417.4	1,380.9
Service charges		140.7	140.7	184.0	184.0
Payments in lieu of tax relief and rates		76.1	76.1	212.5	212.5
Other cash expenditure		345.1	345.9	479.8	480.4
Non-cash items:					
Transfer of personal tax credit receivables to DWP		146.8	146.8	676.0	676.0
Amortisation	7	330.1	330.1	114.4	114.4
Depreciation	6	151.2	151.2	74.2	74.4
Provisions	13	21.0	21.0	(2.7)	(2.7)
Other		29.8	29.8	90.1	90.1
Total operating expenditure	2	**40,680.0**	**40,676.9**	**58,048.6**	**58,044.4**
Total operating income		**(276.1)**	**(273.0)**	**(387.2)**	**(383.0)**
Net operating expenditure		**40,403.9**	**40,403.9**	**57,661.4**	**57,661.4**
Net expenditure for the year		**40,403.9**	**40,403.9**	**57,661.4**	**57,661.4**
Other comprehensive net expenditure					
Items that will not be reclassified to net operating costs:					
Net loss/(gain) on:					
– revaluation of property, plant and equipment		(2.7)	(2.7)	1.8	1.8
– revaluation of intangible assets		(87.6)	(87.6)	(64.0)	(64.0)
– actuarial revaluation of pension scheme		2.1	2.1	1.5	1.5
Total comprehensive expenditure for the year		**40,315.7**	**40,315.7**	**57,600.7**	**57,600.7**

The notes on pages 231 to 278 form part of these accounts

Consolidated Statement of Financial Position

as at 31 March 2023

This statement presents the financial position of the department. It comprises 3 main components: assets owned or controlled; liabilities owed to other bodies; and equity, the remaining value of the entity.

Consolidated Statement of Financial Position

			2022-23		2021-22
	Note	Core department and agency	£m Departmental group	Core department and agency	£m Departmental group
Non-current assets:					
Property, plant and equipment	6	611.4	611.4	669.5	670.0
Right-of-use assets	6 & 8.1	1,028.4	1,028.4	–	–
Intangible assets	7	2,405.4	2,405.4	2,077.8	2,077.8
Receivables	10	1,250.1	1,250.1	1,201.0	1,194.0
Pension Asset	14	1.7	1.7	4.3	4.4
Total non-current assets		**5,297.0**	**5,297.0**	**3,952.6**	**3,946.2**
Current assets:					
Inventories		2.2	2.2	2.2	2.2
Trade and other receivables	10	1,037.1	1,036.7	991.0	991.8
Cash and cash equivalents	11	77.9	78.6	4,701.5	4,706.2
Total current assets		**1,117.2**	**1,117.5**	**5,694.7**	**5,700.2**
Total assets		**6,414.2**	**6,414.5**	**9,647.3**	**9,646.4**
Current liabilities:					
Trade and other payables	12	(10,571.9)	(10,572.2)	(14,865.4)	(14,864.5)
Liabilities relating to right-of-use assets	8.2 & 12	(65.5)	(65.5)	–	–
Provisions	13	(26.0)	(26.0)	(15.6)	(15.6)
Total current liabilities		**(10,663.4)**	**(10,663.7)**	**(14,881.0)**	**(14,880.1)**
Total assets less current liabilities		**(4,249.2)**	**(4,249.2)**	**(5,233.7)**	**(5,233.7)**
Non-current liabilities:					
Payables	12	(1,845.6)	(1,845.6)	(1,823.0)	(1,823.0)
Liabilities relating to right-of-use assets	8.2 & 12	(1,345.8)	(1,345.8)	–	–
Provisions	13	(133.3)	(133.3)	(142.3)	(142.3)
Total non-current liabilities		**(3,324.7)**	**(3,324.7)**	**(1,965.3)**	**(1,965.3)**
Total assets less total liabilities		**(7,573.9)**	**(7,573.9)**	**(7,199.0)**	**(7,199.0)**
Taxpayers' equity and other reserves:					
General fund		7,733.2	7,733.2	7,317.2	7,317.2
Revaluation reserve		(159.3)	(159.3)	(118.2)	(118.2)
Total equity		**7,573.9**	**7,573.9**	**7,199.0**	**7,199.0**

The notes on pages 231 to 278 form part of these accounts.

Jim Harra
Accounting Officer 6 July 2023

Consolidated Statement of Cash Flows

for the year ended 31 March 2023

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

			2022-23 £m		2021-22 £m
	Note	Core department and agency	Departmental group	Core department and agency	Departmental group
Cash flows from operating activities					
Net operating expenditure		(40,403.9)	(40,403.9)	(57,661.4)	(57,661.4)
Adjustments for non-cash transactions	2	678.9	678.9	952.0	952.2
(Increase)/decrease in trade and other receivables	10	(95.1)	(101.1)	272.0	270.4
Less: Movements in receivables not passing through the Statement of Comprehensive Net Expenditure		117.6	117.6	4.2	4.2
Personal tax credits receivables, adjusted for impairment, transferred to DWP	5.1.2	(146.8)	(146.8)	(676.0)	(676.0)
(Increase)/decrease in inventories		(0.1)	(0.1)	(0.6)	(0.6)
Increase/(decrease) in trade and other payables	12	(4,271.1)	(4,269.6)	(6,994.6)	(6,992.7)
Less: Movements in payables not passing through the Statement of Comprehensive Net Expenditure		4,638.3	4,638.3	5,396.6	5,396.6
Use of provisions	13	(19.6)	(19.6)	(31.5)	(31.5)
Net cash outflow from operating activities		**(39,501.8)**	**(39,506.3)**	**(58,739.3)**	**(58,738.8)**
Cash flows from investing activities					
Additions to property, plant and equipment	6	(65.0)	(64.9)	(232.0)	(232.0)
Less additions to leased property, plant and equipment		3.1	3.1	3.0	3.0
Additions to intangible assets	7	(580.0)	(580.0)	(546.5)	(546.5)
Proceeds of disposal of property, plant and equipment		0.2	0.6	0.8	0.8
Net cash outflow from investing activities		**(641.7)**	**(641.2)**	**(774.7)**	**(774.7)**
Cash flows from financing activities					
From the Consolidated Fund (Supply) – current year		14,194.3	14,194.3	32,149.5	32,149.5
From the Trust Statement		21,148.8	21,148.8	21,929.6	21,929.6
From the National Insurance Fund		258.8	258.8	240.3	240.3

	Note	2022-23 £m Core department and agency	2022-23 £m Departmental group	2021-22 £m Core department and agency	2021-22 £m Departmental group
Capital element of payments in respect of leases and on-Statement of Financial Position PFI contracts		(86.2)	(86.2)	(12.0)	(12.0)
Capital element of receipts in respect of sub-leases		5.9	5.9	–	–
Net financing		**35,521.6**	**35,521.6**	**54,307.4**	**54,307.4**
Net increase/(decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund		**(4,621.9)**	**(4,625.9)**	**(5,206.6)**	**(5,206.1)**
Payments of amounts due to the Consolidated Fund		(1.7)	(1.7)	(2.1)	(2.1)
Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund		**(4,623.6)**	**(4,627.6)**	**(5,208.7)**	**(5,208.2)**
Cash and cash equivalents at the beginning of the period	**11**	**4,701.5**	**4,706.2**	**9,910.2**	**9,914.4**
Cash and cash equivalents at the end of the period	**11**	**77.9**	**78.6**	**4,701.5**	**4,706.2**

The notes on pages 231 to 278 form part of these accounts

Consolidated Statement of Changes in Taxpayers' Equity

for the year ended 31 March 2023

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 other reserves 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

		2022-23 Departmental group			2021-22 Departmental group		
	Note	General fund £m	Revaluation reserve[1] £m	Taxpayers' equity £m	General fund £m	Revaluation reserve[1] £m	Taxpayers' equity £m
Balance at 1 April		**(7,317.2)**	**118.2**	**(7,199.0)**	**(9,245.8)**	**103.1**	**(9,142.7)**
IFRS 16 adoption adjustment[2]		(290.0)	–	(290.0)	–	–	–
Net Parliamentary funding – drawn down		14,194.3	–	14,194.3	32,149.5	–	32,149.5
Net Parliamentary funding – deemed[3]		4,694.5	–	4,694.5	9,908.6	–	9,908.6
Funding from Trust Statement[4]		21,148.8	–	21,148.8	21,929.6	–	21,929.6
National Insurance Fund		263.2	–	263.2	255.2	–	255.2
Supply (payable)/receivable adjustment		(72.3)	–	(72.3)	(4,694.5)	–	(4,694.5)
Income payable to the Consolidated Fund		(0.3)	–	(0.3)	(7.5)	–	(7.5)
Net expenditure for the year		(40,403.9)	–	(40,403.9)	(57,661.4)	–	(57,661.4)
Other net comprehensive expenditure:							
Revaluation of property, plant and equipment		–	2.7	2.7	–	(1.8)	(1.8)
Revaluation of intangible assets		–	87.6	87.6	–	64.0	64.0
Transfer between reserves		49.2	(49.2)	–	47.1	(47.1)	–
Pension reserve actuarial (losses)/gains		(2.1)	–	(2.1)	(1.5)	–	(1.5)
Contributions to LGPS pension fund by DWP		0.6	–	0.6	1.5	–	1.5
Non-cash charges – auditor's remuneration	2	2.0	–	2.0	2.0	–	2.0
Balance at 31 March		**(7,733.2)**	**159.3**	**(7,573.9)**	**(7,317.2)**	**118.2**	**(7,199.0)**

1 The 31 March 2023 balance comprised £13.0 million in relation to property, plant and equipment assets (31 March 2022 £10.4 million, 31 March 2021 £28.1 million) and £146.3 million in relation to intangible assets (31 March 2022 £107.8 million, 31 March 2021 £75.0 million).

2 This represents developer contribution income received and spent before the adoption of IFRS 16.

3 This is any Supply drawn down in the previous year which was not spent at that year-end and, therefore, is available to be spent in a subsequent financial year.

4 Personal tax credits and corporation tax reliefs are funded out of tax receipts from the Trust Statement. Please see the Statement of Revenue, Other Income and Expenditure in the Trust Statement, page 196.

The notes on pages 231 to 278 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 2022 to 2023 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. Net liabilities shown on the Statement of Financial Position are expected to be met by future funding from the Trust Statement, in respect of the corporation tax reliefs which are the primary element, or voted by Parliament annually through Supply and Appropriation Acts. Given there is no reason to believe the resources required to settle these liabilities will not be forthcoming, the Resource Account has been prepared on a going concern basis.

+ **2022 to 2023 FReM:**
www.gov.uk/government/publications/government-financial-reporting-manual-2022-23

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). RCDTS ceased to trade on 31 March 2023.

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, following the Coronavirus Act 2020.

Expenditure on claims for the Coronavirus Job Retention Scheme and Eat Out to Help Out was recognised on an accruals basis in the financial year in which the economic activity being subsidised has, or would have but for the pandemic, taken place.

Expenditure on claims for Self-Employment Income Support Scheme was recognised in the financial year when the claimant fulfilled the performance obligations associated with the grant. The first 3 tranches were recognised in 2020 to 2021 and the fourth and fifth tranches were recognised in 2021 to 2022.

Expenditure for the one-off £500 payment for Working Households Receiving Tax Credits was recognised in the financial year 2021 to 2022.

1.5 Cost of Living Payments

HMRC are jointly delivering the Cost of Living Payments with the Department for Work and Pensions. The payments have been made at a value set down in the Social Security and Additional Payments Act 2022. Cost of Living Payments expenditure is recognised in the financial year when payment due to a customer has been approved by HMRC for payment.

1.6 Tax credits

1.6.1 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, with no intention to sell the debt asset.

Personal 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.

For personal tax credits receivables, there is not a definition of default due to the nature of the legislation surrounding the recovery of overpayments. Personal tax credits receivables are reported net of losses which are defined and detailed in the Losses Statement which is reported in the Parliamentary accountability section on page 162.

1.6.2 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 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 expenditure and income between these accounts and the HMRC Trust Statement, where the related Corporation Tax income is recognised as the taxable events occur and not when returns are filed.

Expenditure and related accrual profiles are estimated by the department’s statisticians using analysis of historic relief claims and applying forecast growth and uplift assumptions and adjustments made for planned changes in relevant policy and rates. This estimation is required due to the time-lag between the end of companies’ accounting periods and the submission of their tax returns. The filing requirements are such that these returns are not due until 12 months after their accounting period end. Additionally, amended claims can be received up to 24 months after their accounting period end.

In subsequent accounting periods the department evaluates any new information available 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 being recognised in reserves.

1.7 Child Benefit[1]

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 as detailed in the Losses Statement which is reported in the Parliamentary accountability section on page 162. Losses are made up of remissions and write-offs.

1.8 Tax-Free Childcare[1]

Tax-Free Childcare expenditure is recognised in the financial year in which the top-up payments are made and is reported in this Resource Account.

1.9 Lifetime ISA (LISA)[1]

LISA expenditure is recognised in HMRC financial statements net of penalties, at the point a claim is paid to the relevant LISA provider.

1.10 Non-current assets

1.10.1 General

Property, 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 if costs exceed £150,000 (VOA: £15,000). For other assets a £5,000 capitalisation threshold applies.

Where a contract contains a lease with a term of more than 12 months (unless the underlying asset is of low value), a right-of-use asset and a lease liability are recognised, representing the obligation to make lease payments and the right to use the underlying leased asset. The lease liability is measured at the net present value of future lease payments (excluding VAT), discounted at the interest rate implicit in the lease. The asset value is calculated as the lease liability net of developer contribution and any lease prepayments made.

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:

1 Payments in respect of Child Benefit, Tax-Free Childcare and Lifetime ISA (LISA) are made in accordance with the relevant legislation.

Asset category – property, plant and equipment	Useful economic life
Land	Not depreciated
Freehold buildings	50 years
Leased serviced accommodation	Period of the lease
Leased IT assets	Period of the lease
Right-of-use 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 economic 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 economic life of all assets is considered on an annual basis and changed if required. A formal impairment review is undertaken on an annual basis for buildings, accommodation refurbishments and developed computer software assets.

1.10.2 Property Plant and Equipment

Property

Buildings to which we are contracted under HMRC Locations Programme are recognised as right-of-use assets with a lease liability measured at the present value of future lease payments, discounted at the interest rate implicit in the lease. Further such leases will be reviewed on a case-by-case basis to ensure they are classified correctly.

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 lease. Contractual payments are apportioned between Consolidated Statement of Comprehensive Net Expenditure, financing and service charges and a Consolidated Statement of Financial Position lease liability.

The department has also capitalised other PFI property interests as leases being service concession arrangements.

Land reported in these Accounts represents the HMRC ownership of land.

Property assets have been stated at current value in existing use using professional valuation on a rolling 5 year programme, all assets will be professionally revalued within this time period. Each year 20% of the 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. 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 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.

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.

1.10.3 Intangibles

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.

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.

1.11 Leases

Like other government bodies, HMRC typically lease properties used for administrative purposes for reasons of efficiency and flexibility. The departmental group also benefits from the lease of vehicles. For other types of assets, the departmental group determines whether to lease or purchase based on value for money considerations, such as whether the underlying asset is required for its entire life or for a more limited period.

IFRS 16 Leases was due for adoption across government bodies reporting under the FReM from 1 April 2022 and therefore has been adopted for the first time in these accounts. IFRS 16, which replaces IAS 17, introduces a single lease accounting model that requires a lessee to recognise assets and liabilities for all leases (except for the exemptions listed below).

Scope and exclusions – the departmental group as lessee

In accordance with IFRS 16 Leases, contracts, or parts of contracts, that convey the right to control the use of an asset for a period, in exchange for consideration, are accounted for as leases. Contracts for services are evaluated to determine whether they convey the right to control the use of an identified asset, incorporating both the right to obtain substantially all the economic benefits from the asset and to direct its use. If so, the relevant part of the contract is treated as a lease.

As adapted by the FReM, IFRS 16 has also been applied to leases with nil or nominal (that is, significantly below market value) consideration and arrangements for sharing accommodation between government departments.

When making the above assessments, the department excludes 2 types of leases: firstly, those relating to low value items, which it considers as those where the underlying asset would have a cost of less than £5,000 when new, provided those items are not highly dependent on or integrated with other items; and secondly, those with a term of less than 12 months.

Initial recognition – the departmental group as lessee

At the commencement of a lease (or on the date of transition to IFRS 16, if later), the department recognises a right-of-use asset, representing our right to use an underlying asset through the lease term, and a lease liability, representing our obligation to make lease payments.

The lease liability is measured at the present value of the remaining lease payments discounted either by the interest rate implicit in the lease or, where this is not readily determinable, the department's incremental rate of borrowing. This rate is advised annually by HM Treasury, 3.51% for leases recognised in 2023 (0.95% 2022). The lease payments will be for the non-cancellable period of each lease together with additional periods for any extension options the department is reasonably certain to exercise; and for leases with the option to terminate where the department is reasonably certain not to exercise that option.

Where a lease contract has expired, but the department remains in occupation pending negotiations for a renewed term, the decision about whether the lease should be recognised factors in an assessment of the economic incentives for both the landlord and the lessee and how long the lease will be in place.

The measurement of lease payments excludes any VAT payable, and irrecoverable VAT is expensed at the point it falls due in line with IFRIC 21 Levies.

The right-of-use asset is measured at the value of the lease liability, adjusted for: any lease payments made before the commencement date; any lease incentives received; any incremental costs of obtaining the lease; and any costs of removing the asset and restoring the site at the end of the lease to the conditions stipulated by the lease terms and conditions.

However, in accordance with the FReM, where the lease requires nil or nominal consideration (usually referred to as a 'peppercorn' lease) the asset will instead be measured at its existing use value, using market prices or rentals for equivalent land and properties, with the difference between the carrying amount of the right-of-use asset and lease liability treated as notional income (or on transition, as a credit to the General Fund).

Enhancements to leased assets, such as alterations to a leased building, are not classified within right-of-use assets but are classified as property, plant and equipment in accordance with the FReM.

The transitional impacts of adopting IFRS 16 are set out in note 8.

Subsequent measurement – the departmental group as lessee

After initial recognition, the right-of-use asset will be measured using the fair value model. The departmental group considers that the cost model (measurement by reference to the lease liability) is a reasonable proxy for fair value, in the case of non-property leases, and for property leases of less than 5 years or with regular rent reviews. For other leases, the asset will be carried at a revalued amount.

The value of the asset will be adjusted for subsequent depreciation and impairment, and for reassessments and modifications of the lease liability as described below. Where the amount of a reduction to the asset exceeds the carrying value of the asset, the excess amount is recognised as expenditure in the Consolidated Statement of Comprehensive Net Expenditure (CSoCNE).

The lease liability will be adjusted for the accrual of interest, repayments, reassessments and modifications. Reassessments are reappraisals of the probability of the options given by the existing lease contract, for example where we no longer expect to exercise an option, and modifications are changes to the lease contract. Reassessments and modifications are accounted for by discounting the revised cash flows: using a revised discount rate where the department becomes or ceases to be reasonably certain to exercise or not exercise an extension or termination option, or the lease is modified to amend the non-cancellable period, change the term of the lease, change the consideration or the scope; or at the existing discount rate where there is a movement in an index or rate that will alter the cash flows, or the amount payable under a residual value guarantee changes.

Expenditure charged to the CSoCNE for each financial year includes interest on the lease liability and a straight-line depreciation charge on the right-of-use asset over the life of the lease, together with any impairment of the right-of-use asset and any change in variable lease payments that was not included in the measurement of the lease payments during the period in which the triggering event occurred.

Lease payments are debited against the liability. Rental payments in respect of leases of low value items, or with a term under 12 months, are also expensed.

Finance and operating leases – the departmental group as lessor

Where the department acts as a lessor or intermediate lessor for an asset it has itself leased, the arrangement will be assessed to determine whether it constitutes a finance lease, this being where the risks and rewards incidental to ownership of an underlying asset are substantially transferred to the lessee. For these leases the asset is derecognised and a receivable representing the net interest in the lease is recognised, with accrued interest being treated as income over its life. Where sublease rental income is inclusive of the value of irrecoverable VAT charged on the head-lease, the value of the VAT is excluded from the receivable and credited directly to the CSoCNE.

All other leases are treated as operating leases and rental income is recognised in the CSoCNE on a straight-line basis.

Transitional arrangements

We have applied a number of options and practical expedients on initial adoption of IFRS 16, these principally being mandated by the FReM.

IFRS 16 has been applied retrospectively using the ‘cumulative catch-up’ approach without restatement of comparative balances, recognising the cumulative impact at the date of transition as an adjustment to the opening balance of taxpayer’s equity. Consequently, the financial statements for 2021 to 2022 have been prepared in accordance with the previously adopted standard, IAS 17 Leases, and comparatives have not been restated.

There has been no reassessment of existing contracts that the department had previously assessed as containing or not containing a lease. However, new contracts will be classified according to the criteria given in IFRS 16.

For leases previously treated as operating leases, right-of-use assets have been measured at the present value of the remaining lease payments, adjusted for any prepayment or accrual balances in respect of the lease payments. The department has used hindsight in determining the remaining term of leases and no adjustment has been made for leases whose term ends within 12 months of the date of first adoption or where the underlying asset had a value of less than £5,000.

For leases previously recognised as finance leases, the carrying amount of the lease liability and the right-of-use asset as at the date of first adoption are the respective carrying amounts of the lease liability and leased asset as determined immediately before that date, in accordance with IAS 17.

The recognition and measurement exemption for short-term leases has been applied.

Where the department subleases a right-of-use asset, the classification of the sublease as a finance or operating lease has been reassessed. Where an arrangement previously treated as an operating lease is found to be a finance lease, it has been treated as a new lease, commencing on the date of first adoption.

In addition, the department has elected not to apply IFRS 16 to leases of intangible assets.

Estimates and judgements

Where a lease is embedded in a contract for services, the amount to be recognised as the right-of-use asset and lease liability should be the stand-alone price of the lease component only. Where this is not readily observable, a determination will be made by reference for other observable data, such as the fair value of similar assets or price of contracts for similar non-lease components.

As described above, the department has determined the lease term by assessing the level of certainty as to whether termination or extension options will be exercised. In making these judgements, reliance has been placed on the professional judgement of estates staff, supported by information on corporate asset management plans, other business strategies, investment already made in the underlying asset, ongoing business needs and market conditions.

The department has determined that the cost model is a reasonable proxy for fair value in most cases because the rents payable are aligned to open market rates. In the case of longer leases, where there are not regular rent reviews, there is a greater chance of divergence between cost and fair value, hence a professional revaluation is appropriate.

1.12 Pensions

1.12.1 Civil Service Pension Schemes

The Principal Civil Service Pension Scheme (PCSPS) and the Civil Servants and Others Pension Scheme (CSOPS) known as Alpha, are unfunded and contributory defined benefit schemes. The departmental group recognises the expected cost of these elements. This is determined systematically and rationally over the period during which we benefit from employees' services by payment to the PCSPS and CSOPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS and CSOPS. Further information can be found within the accounts of Civil Service Pensions.

+ **Civil Service Pensions**
www.civilservicepensionscheme.org.uk/about-us/resource-accounts/

1.12.2 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 that can be viewed at www.gov.uk/government/organisations/valuation-office-agency**

1.12.3 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).

1.12.4 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: www.gov.uk/government/organisations/companies-house by 31 December 2023.**

1.13 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.

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) (2022) 08.

1.13.1 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 1.70% as set by HM Treasury (2021 to 2022: (1.30)%).

1.13.2 Remote Contingent liabilities

For Parliamentary reporting and accountability purposes certain statutory and non-statutory contingent liabilities where the likelihood of a transfer of economic benefit is remote, are disclosed separately, in accordance with the requirements of Managing Public Money. Remote contingent liabilities are reported in the Parliamentary accountability section on page 165.

1.14 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.

1.15 Critical accounting judgements and key sources of estimation

The preparation of financial statements in accordance with IFRS requires the use of certain accounting estimates. It also requires management to exercise judgement in the process of applying the department's accounting policies.

The areas that involve a higher degree of judgement or complexity, or where the assumptions and estimates are significant to the Resource Accounts, are as follows:

Personal tax credits expenditure

Personal tax credits, reported at note 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 206), to these accounts on an accruals accounting basis.

Finalisation is the process, occurring after the financial year end, by which claimants confirm their actual income and other circumstances for the previous award year. These accounts include an estimate of the finalisation exercise relating to 2022 to 2023. The estimate produced for financial year 2022 to 2023 considers the impact of claimants migrating to DWP under Universal Credit throughout 2023 to 2024 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, forecast growth rates and planned changes in relevant tax policy and rates.

The key assumptions in the estimates for corporation tax reliefs are:

- the proportion of company tax returns for the latest year's outturn data used in the estimate that have not been received or processed at the time the data extract is taken for the estimate (referred to as the "uplift factor")
- the forecast growth rate

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 FReM does not require HMRC to determine impairments in accordance with IFRS 9 for tax credits and benefits, as the standard relates to financial instruments, and credits and benefits arise from statute and not a contract. However, to the extent applicable and feasible, impairment of receivables has been calculated in accordance with this standard.

The following receivables balances have been impaired: personal tax credits, Child Benefit, law costs, and other receivables (see note 10).

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:

- 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 a reasonable proxy for recovery rates that inform our scenario analysis,
- the migration of claimants to Universal Credit affects debt movements and it is therefore necessary to assess the effect of HMRC debt recovery efficiency in isolation from the effect of the rate of transition to Universal credit,
- external future economic developments will not significantly affect recovery rates
- the discount rate applied to future recoveries is 1.9%, in accordance with Public Expenditure System papers published for government by HM Treasury,
- the consideration of the following 3 debt 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, and
    - 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 scenarios will occur with a 10% likelihood and the base scenario with an 80% likelihood.

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.

1.16 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 17 Insurance Contracts

IFRS 17 is the new accounting standard for Insurance Contracts and aims to make risk transfer contracts more comparable between entities. While the standard, which will replace IFRS 4: Insurance Contracts, will be effective for annual reporting periods beginning on or after 1 January 2023, an implementation date for government has been confirmed as 1 April 2025. HMRC are currently engaging in the cross-government consultation process to assess the impacts of the new standard.

2. Expenditure

	Note	Core department and agency 2022-23 £m	Departmental group 2022-23 £m	Core department and agency 2021-22 £m	Departmental group 2021-22 £m
Personal tax credits	5.1.1	**8,835.0**	**8,835.0**	**10,605.5**	**10,605.5**
Corporation tax reliefs	5.1.4	**12,556.4**	**12,556.4**	**11,692.8**	**11,692.8**
Child Benefit					
Child Benefit[1]		11,595.6	11,595.6	11,420.0	11,420.0
Guardian's Allowance (funded from National Insurance Fund)		3.9	3.9	3.8	3.8
		11,599.5	**11,599.5**	**11,423.8**	**11,423.8**
Cost of Living Payment		**717.9**	**717.9**	**–**	**–**
Tax-Free Childcare		**494.4**	**494.4**	**428.4**	**428.4**
Lifetime ISA		**436.8**	**436.8**	**418.9**	**418.9**
Help to Save		**53.2**	**53.2**	**20.4**	**20.4**
COVID-19 support schemes[2]	4.1				
Coronavirus Job Retention Scheme		(130.9)	(130.9)	8,200.9	8,200.9
Self-Employment Income Support Scheme		(1.5)	(1.5)	8,343.4	8,343.4
Eat Out to Help Out		–	–	(0.7)	(0.7)
Working Households Receiving Tax Credits		(0.1)	(0.1)	719.1	719.1
		(132.5)	**(132.5)**	**17,262.7**	**17,262.7**
Staff and related costs	p.135				
Wages and salaries		2,438.8	2,449.4	2,176.0	2,202.2
Other pension costs		630.3	631.2	559.9	562.1
Less capitalised costs		(62.2)	(62.2)	(51.6)	(51.6)
Social security costs		266.6	267.9	219.1	222.2
Travel, subsistence and hospitality		41.7	42.0	16.5	16.5
Recruitment and training		31.4	31.4	26.5	26.5
Early severance schemes[3]		(3.4)	(3.4)	4.0	4.0
		3,343.2	**3,356.3**	**2,950.4**	**2,981.9**

	Note	Core department and agency	2022-23 £m Departmental group	Core department and agency	2021-22 £m Departmental group
Service charges					
IT Public Private Partnership contract (PPP) payments		84.8	84.8	136.2	136.2
Accommodation PFI and non-PFI contract payments		37.4	37.4	36.7	36.7
Interest charges		17.4	17.4	8.8	8.8
Indexation of liability on PFI deals		–	–	0.8	0.8
IT Public Private Partnership interest charges		1.1	1.1	1.5	1.5
		140.7	**140.7**	**184.0**	**184.0**
Goods and services					
IT services and consumables		1,024.2	1,006.8	933.0	896.5
Contracted out services		305.2	305.2	301.9	301.9
Printing, postage, stationery and office supplies		58.6	58.6	51.8	51.8
Legal and investigation		52.7	52.7	35.1	35.1
Enforcement costs		41.1	41.1	37.5	37.5
Telephone expenses		29.6	30.0	38.7	38.7
Other goods and services		18.9	18.9	17.6	17.6
Consultancy		5.0	5.0	1.8	1.8
		1,535.3	**1,518.3**	**1,417.4**	**1,380.9**
Payments in lieu of tax relief and rates		**76.1**	**76.1**	**212.5**	**212.5**
Other cash expenditure					
Accommodation expenses		211.4	211.4	252.9	252.9
Operating leases		38.2	38.2	157.4	157.4
National Insurance Fund other government department collection service		51.3	51.3	52.0	52.0
Losses and special payments (excluding Child Benefit, tax credits & COVID-19 support schemes)		3.6	3.6	4.7	4.7
Auditors remuneration and expenses[4]		–	0.1	0.1	0.1
Other		40.6	41.3	12.7	13.3
		345.1	**345.9**	**479.8**	**480.4**

	Note	2022-23 £m Core department and agency	2022-23 £m Departmental group	2021-22 £m Core department and agency	2021-22 £m Departmental group
Non-cash items:					
Amortisation, depreciation and impairments					
Amortisation	7	330.1	330.1	114.4	114.4
Depreciation	6	151.2	151.2	74.2	74.4
Loss on impairment of non-current assets		10.7	10.7	19.3	19.3
		492.0	**492.0**	**207.9**	**208.1**
Provisions for liabilities and charges	13	21.0	21.0	(2.7)	(2.7)
Other non-cash					
Transfer of personal tax credits receivables to DWP		146.8	146.8	676.0	676.0
Auditors remuneration and expenses[4]		2.0	2.0	2.0	2.0
Other		17.1	17.1	68.8	68.8
		165.9	**165.9**	**746.8**	**746.8**
Total non-cash items		**678.9**	**678.9**	**952.0**	**952.2**
Total operating expenditure		**40,680.0**	**40,676.9**	**58,048.6**	**58,044.4**

1 Child Benefit expenditure includes amounts paid to higher rate taxpayers earning greater than £50,000 per annum. It is estimated that £487 million (2021 to 2022: £454 million) will be recovered via future Income Tax charges arising from payments of Child Benefit to those earning over £50,000 in 2022 to 2023. These Income Tax charges are accounted for in the Trust Statement. The prior year comparative has been revised.

2 Negative value represents repayment of COVID-19.

3 Early severance schemes includes an adjustment of £4.5 million in 2022 to 2023 relating to 2019 to 2020 exit scheme cases where no further payments are required.

4 The NAO did not undertake 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.

3.1 Expenditure and income by reportable segment

			2022-23 £m			2021-22 £m
	Gross expenditure	Income	Net expenditure	Gross expenditure	Income	Net expenditure
Reportable segment						
Customer Services	927.6	46.4	881.2	868.0	33.1	834.9
Customer Strategy and Tax Design	233.7	7.1	226.6	208.7	17.1	191.6
Customer Compliance	1,602.5	72.5	1,530.0	1,391.8	84.9	1,306.9
Solicitors Office and Legal Services	130.0	7.0	123.0	100.7	7.5	93.2
Borders and Trade	375.0	11.9	363.1	485.0	5.1	479.9
Chief Digital and Information Officer Group	1,118.6	53.4	1,065.2	959.2	47.1	912.1
Chief Finance Officer Group	490.2	70.1	420.1	645.9	170.1	475.8
Chief People Officer Group	113.0	6.8	106.2	115.8	8.8	107.0
Chief Executive Office	2.2	–	2.2	2.2	–	2.2
Transformation Group	225.9	0.9	225.0	133.9	0.5	133.4
Communications	22.6	0.6	22.0	20.9	0.1	20.8
Valuation Office Agency	218.2	47.1	171.1	207.3	42.5	164.8
Total	**5,459.5**	**323.8**	**5,135.7**	**5,139.4**	**416.8**	**4,722.6**

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

	2022-23 £m	2021-22 £m
Total net expenditure reported for operating segments	**5,135.7**	**4,722.6**
COVID-19 support schemes	(132.5)	17,262.7
Cost of Living Payment	717.9	–
Personal tax credits	8,835.0	10,605.5
Child Benefit and Child Trust Fund	11,599.5	11,423.8
Corporation tax reliefs	12,556.4	11,692.8
Lifetime ISA	436.8	418.9
Depreciation/Amortisation/Impairment	488.6	202.2
Transfer of personal tax credits receivables to DWP	146.8	676.0
Tax-Free Childcare	494.5	428.4
Help to Save	53.1	20.4
Payments in lieu of tax relief	7.9	130.0
Payments of Local Authority Rates	64.2	78.1
Net Operating Expenditure in Statement of Comprehensive Net Expenditure	**40,403.9**	**57,661.4**

4. COVID-19 Support schemes

4.1 COVID-19

The COVID-19 support schemes were created as part of the government's response to the coronavirus pandemic. HMRC had delivery responsibility and funding from HM Treasury for the Coronavirus Job Retention Scheme, Self-Employment Income Support Scheme, Working Households Receiving Tax Credits and Eat Out to Help Out.

4.1.1 COVID-19 expenditure

The COVID-19 support schemes ended during 2021 to 2022, so there was no significant expenditure related to them in 2022 to 2023.

In 2022 to 2023, HMRC continued to receive repayments in respect of the COVID-19 support schemes. Repayments occur when customers entitled to a grant choose to repay it, or when customers repay following a prompt from HMRC or an unprompted disclosure. Amounts recovered through tax returns and tax charges are not included in these Resource Accounts and are recorded in the Statement of Revenue, Other Income and Expenditure in the Trust Statement.

Analysis of COVID-19 support scheme expenditure

				2022-23 £m				2021-22 £m
	Claims approved	Repay-ments	Accrual	Expendi-ture	Claims approved	Repay-ments	Accrual	Expendi-ture
Coronavirus Job Retention Scheme	0.1	(131.0)	–	(130.9)	8,725.2	(525.6)	1.3	8,200.9
Self-Employment Income Support Scheme	0.1	(1.6)	–	(1.5)	8,371.7	(28.4)	0.1	8,343.4
Working Households Receiving Tax Credits	0.1	–	(0.2)	(0.1)	718.9	–	0.2	719.1
Eat Out to Help Out	–	–	–	–	–	(0.7)	–	(0.7)
Total	**0.3**	**(132.6)**	**(0.2)**	**(132.5)**	**17,815.8**	**(554.7)**	**1.6**	**17,262.7**

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 of 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 include a payment of entitlement 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 (see note 1.15 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 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.

Analysis of personal tax credits expenditure

			2022-23 £m			2021-22 £m
	Child Tax Credit	Working Tax Credit	Total tax credits	Child Tax Credit	Working Tax Credit	Total tax credits
Tax credits	7,209.4	1,577.3	8,786.7	8,379.3	2,069.0	10,448.3
Movement in impairment of receivables	(107.9)	(25.1)	(133.0)	104.8	22.6	127.4
Remissions/write-offs	106.0	75.3	181.3	21.2	8.6	29.8
Total personal tax credits	**7,207.5**	**1,627.5**	**8,835.0**	**8,505.3**	**2,100.2**	**10,605.5**

+ **Further information on the operation of personal tax credits can be found at www.gov.uk/government/organisations/hm-revenue-customs**

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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 responsibility for recovering personal tax credits debt for customers who have made a claim to Universal Credit (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 in the Financial Statements. The debt stock is impaired consistently with IFRS 9 (Financial Instruments) and in line with HMRC policy.

Personal tax credits receivables

	Note	2022-23 £m	2021-22 £m
			£m
Receivables as at 1 April		**3,326.8**	**4,302.2**
Adjustment to prior year finalisation estimate		152.8	(1.2)
Estimated overpayment of awards prior to finalisation[1]		235.0	247.0
Overpayments identified from change of circumstances in year		265.4	824.0
Transferred to DWP[2]		(290.7)	(1,440.7)
Recoveries made		(544.7)	(574.7)
Remissions/write-offs		(181.3)	(29.8)
Receivables as at 31 March		**2,963.3**	**3,326.8**
Impairment as at 1 April		**1,646.4**	**2,283.7**
– Transferred to DWP[3]		(143.9)	(764.7)
– Movement in impairment		(133.0)	127.4
Impairment at 31 March		**1,369.5**	**1,646.4**
Net receivables at 31 March		**1,593.8**	**1,680.4**
Of which:			
Amounts expected to be recovered within one year	10	464.8	486.4
Amounts expected to be recovered in more than one year	10	1,129.0	1,194.0
Total		**1,593.8**	**1,680.4**

1 The range of the estimate is £130 million to £360 million (2020 to 2021: £130 million to £360 million).

[2 & 3] Summary of receivables transferred to DWP

	2022-23	2021-22
Gross receivables	290.7	1,440.7
Impairments	(143.9)	(764.7)
Net receivables transferred to DWP	**146.8**	**676.0**

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, under IFRS 9 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 included in note 1.15.

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 impairment is calculated in yearly bandings with historic recovery rates for each year being applied to cover the entire aged debt balance. The table below provides a summary of the impairment information:

	Gross receivable £m	Impairment £m	Net receivable £m
Total HMRC debt	**2,963.3**	**1,369.5**	**1,593.8**
of which debt less than one year old	387.7	64.2	323.5
of which debt more than one but less than 5 years old	941.7	273.5	668.2
of which debt more than 5 but less than 10 years old	907.6	417.7	489.9
of which debt more than 10 years old	726.3	614.1	112.2

Sensitivity analysis

There is a significant degree of uncertainty around the assumptions that underpin the ECL model. The sensitivity analysis below provides an indication of the impact on the estimate if key assumptions were to change.

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%	(70.0)
The lower recovery scenario was applied to 100% of the debt stock (as opposed to 10%).	9%	275.0

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 £100 million and the upper end is £345 million.

The estimate produced for 2021 to 2022 considers the impact of claimants migrating to Universal Credit in the next financial year using the best available information. The impacts of COVID-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 2 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 2021 to 2022, based on a random sample of 2,000 enquiries. As shown in the table below, the central estimate of error and fraud overpayment rate has decreased by 0.2% to 4.5% and the central estimate of error and fraud underpayment rate has decreased by 0.4% to 0.4%, from the 2021 to 2022 estimates. Please see page 22 of the Annual Report for more detail. We will be developing alternative methods of measuring error and fraud for the next Annual Report and Accounts, as the current approach becomes less viable due to the reducing tax credits population as claimants move to Universal Credit.

Estimated value of personal tax credits error and fraud and as a percentage of final award value

	2021-22 awards £m			2020-21 awards £m		
	Lower bound	Central estimate	Upper bound	Lower bound	Central estimate	Upper bound
Overpayments to claimants	440 (3.9%)	510 (4.5%)	580 (5.2%)	630 (4.1%)	730 (4.7%)	830 (5.4%)
Underpayments to claimants	30 (0.2%)	40 (0.4%)	60 (0.5%)	100 (0.6%)	120 (0.8%)	140 (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 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

		2022-23 £m	2021-22 £m
Research and development:	Small and Medium Enterprises (SME) scheme	6,492.5	5,895.6
	Research and development expenditure credits (RDEC)	3,701.0	3,620.4
Creative industries:	High-end Television Tax Relief	952.5	867.1
	Film Tax Relief	824.7	829.0
	Theatre Tax Relief	224.6	104.0
	Video Games Tax Relief	208.8	246.3
	Orchestra Tax Relief	42.5	21.8
	Children’s Television Tax Relief	29.6	23.4
	Animation Tax Relief	26.2	23.5
	Museums and Galleries Tax Relief	8.3	15.1
Land Remediation Relief		45.3	46.8
Enhanced Capital Allowance		0.4	0.2
Vaccine Research Relief[1]		–	(0.4)
Total		**12,556.4**	**11,692.8**

1 Relief ceased in 2016 to 2017.

In accordance with our accounting policy set out in note 1.6.2, of the expenditure reported in 2022 to 2023 above, £2,525.0 million relates to our final estimate for 2017 to 2018:

Expenditure relating to 2017-18:

	Estimate reported in 2017-18 (£m)	Final estimate (£m)	Included in value reported in these accounts (£m)
Research and development SME	1,380.8	2,737.5	1,356.7
Research and development RDEC	1,498.5	2,413.0	914.5
Creative industries	796.9	1,043.9	247.0
Land Remediation	26.6	33.4	6.8
Total	**3,702.8**	**6,227.8**	**2,525.0**

Corporation tax reliefs expenditure and related accruals are estimated using analysis of historic relief claims and applying forecast growth and uplift assumptions, and adjustments made for planned changes in relevant policy and rates, by the department's statisticians. 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 1.6.2). The settled values for 2017 to 2018 are reported in 2022 to 2023.

Research and development tax relief

The cut-off date for data used in the research and development tax relief estimate for the financial year 2022 to 2023 were claims for the 2021 to 2022 financial year processed by 31 January 2023. The percentage uplift factor applied for claims not received at the cut off date is:

- R&D SME claims: for negative taxation element 58.3%; for payment element 25.6%
- R&D Expenditure Credit (RDEC) claims: 41.8%

The forecast growth assumption used for the 2022 to 2023 R&D reliefs estimates are:

- R&D expenditure, on which RDEC is claimed, will grow by 6.9% in 2022 to 2023, calculated as the OBR ICC determinant
- R&D expenditure on which R&D SME relief is claimed, will grow by 9.0% in 2022 to 2023. This is calculated as the OBR ICC investment determinant plus an additional expenditure growth rate of 2.2% to reflect the fact that R&D SME growth has exceeded the OBR ICC business investment determinant in recent years.

Sensitivity analysis has been applied to understand the degree of uncertainty in the estimates if the key assumptions 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.

Change to key assumption:	Change in assumption	Variation £m	Change in assumption	Variation £m
R&D SME uplift for 2021 to 2022 vary by up to 11.0%[1]	Increase by 11.0%	375	Decrease by 11.0%	(375)
RDEC uplift for 2021 to 2022 varies by up to 6.0%[2]	Increase by 6.0%	92	Decrease by 6.0%	(92)
R&D SME expenditure growth in 2022 to 2023 varies by up to +9.0%/-6.4%[3]	Increase by 9.0%	425	Decrease by 6.4%	(301)
RDEC expenditure growth in 2022 to 2023 varies by up to +2.1%/-.19.7%[4]	Increase by 2.1%	56	Decrease by 19.7%	(512)

1 For the R&D SME uplift factors, the change to the key assumption is based on maximum variations seen in recent years, based on a 31 January cut-off date for data.

2 For R&D RDEC uplift factor, the change to the key assumption is based on maximum variations seen in recent years between the actual increase and the uplift assumption.

3 For the R&D SME expenditure growth, the increase is based on the upper end of the range being the highest growth in the last 3 years and the decrease is based on the lowest growth in the last 3 years.

4 For the RDEC expenditure growth, the increase is based on the RDEC growth being in line with SME assumed growth for 2022 to 2023 and the decrease is based on the lowest growth in the last 3 years.

Creative industries reliefs

The key assumptions underpinning the creatives industries reliefs are similar to those used for R&D relief.

For High-end Television Tax Relief, Film Tax Relief and Video Games Tax Relief, the 3 largest creative industries reliefs for financial year 2021 to 2022, the cut-off date for data used in the estimate for the financial year 2022 to 2023 was claims processed for the financial year 2021 to 2022 by 3 March 2023. For the other creative industries tax reliefs, we have used outturn data for the financial year 2020 to 2021 processed by 17 May 2022.

The forecast growth rate assumptions used for the financial year 2022 to 2023 are:

- High-end Television Tax Relief, Video Games Tax Relief, Animation Tax Relief and Children's TV Tax relief will grow in line with the OBR nominal GDP determinant.
- Film Tax Relief growth rate is based on the British Film Institute's (BFI's) research statistics 'Film and high-end television production in the UK: Q1 2023', published in May 2023, and applying a lag profile to reflect BFI statistics allocate all the expenditure to the year in which the film starts its principal photograph and tax relief is typically spread over the start year and following years.
- Theatre Tax Relief, Orchestra Tax Relief and Museum & Galleries Tax Relief expenditure is forecast to be the estimated expenditure for the financial year 2019 to 2020 (pre-COVID-19) increased annually by the OBR nominal GDP determinant per year, before making an adjustment for the estimated impact of the increase in the rate of these reliefs which commenced on 27 October 2021.

For High-end Tax Relief and Film Tax Relief, the 2 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.

Change to key assumption:	Change in Assumption	Variation £m	Change in Assumption	Variation £m
High-end Television Tax Relief expenditure growth in 2022 to 2023 varies by up to +5.0%/-4.4%[1]	Increase by 5%	41	Decrease by 4.4%	(36)
Film Tax Relief expenditure growth in 2022 to 2023 varies by up to +11.2%/-46.8%[2]	Increase by 11.2%	56	Decrease by 46.8%	(233)

1 For High-end Television Tax Relief, the increase is based the upper end of the range being the highest growth in the last 3 years and the decrease is based on the average growth rate in the last 3 years.

2 For Film Tax Relief, the upper end of the range is based on growth being one-and-a-quarter times the applied growth rate; this is based on a time-adjusted profile of film production expenditure published by the British Film Institute. The lower end of the range is the average expenditure growth in the last 3 years.

5.1.5 Corporation tax reliefs – R&D error and fraud

An estimate of error and fraud has been included in these accounts since 2019 to 2020 in response to the increasing take up of these reliefs over recent years.

Following the Annual Report & Accounts for the financial year 2019 to 2020, we undertook a Random Enquiry Programme (REP) for Small and Medium Enterprise (SME) claims based on a random sample of 500 claims received in 2020 to 2021.

The Resource Accounts for the financial year 2022 to 2023 is the first set of accounts for which there have been a sufficient number of cases closed in the REP to be able to use the results in estimating the rate of error and fraud in R&D expenditure in the Resource Accounts. Given the lag between R&D expenditure and the filing deadline for making R&D claims and amendments, the sample taken related to claims received in 2020 to 2021, which covered R&D expenditure by companies in the financial years 2018 to 2019, 2019 to 2020 and 2020 to 2021. Therefore, we are reporting an updated estimate of error and fraud relating to the financial year 2020 to 2021 in these Accounts.

For large businesses (LB) claiming RDEC, the estimate is derived using a combination of data for the population reviewed through our compliance processes due to the involvement of dedicated Customer Compliance Managers who work with large businesses eligible for RDEC reliefs, and an estimate for the remaining population using comparable error rates from Tax Gaps. HMRC analysts have used 2020 to 2021 compliance data from our Large Business team, to estimate the error and fraud within the R&D tax relief expenditure for Large Business customers claiming RDEC in 2020 to 2021.

For the SME scheme, this represents a significant methodological improvement by way of moving from an assumption-based methodology to an evidence driven random enquiry program. For LB claiming RDEC, the approach is similar to that used to calculate R&D error and fraud in previous years.

The movement in the estimated rate of R&D error and fraud for 2020 to 2021 from that reported in the Annual Report & Accounts for 2020 to 2021 is explained at page 23.

Estimated value of R&D error and fraud and as a percentage of the estimated R&D tax relief expenditure

	2020-21	
	Estimate of the rate of error and fraud	Implied monetary value of error and fraud £bn
Error and fraud – SME Scheme[1]	24.4%	1.04
Error and fraud – RDEC[2&3]	3.6%	0.09
Error and fraud – Total R&D tax relief expenditure[4]	16.7%	1.13

1 Revised figures for 2020 to 2021 – the estimated of rate of error and fraud for the SME Scheme for 2020 to 2021 previously reported in the Annual Report & Accounts was 5.5% (£303 million) of the expenditure estimate originally reported for 2020 to 2021.

2 Revised figures for 2020 to 2021 – the estimated of rate of error and fraud for RDEC for 2020 to 2021 previously reported in the Annual Report & Accounts was 0.9% (£33 million) of the expenditure estimate originally reported for 2020 to 2021.

3 RDEC includes claims made by LB and SME claiming RDEC.

4 Revised figures for 2020 to 2021 – previously reported in Annual Report & Accounts: estimated of rate of error and fraud for total R&D tax relief expenditure for 2020 to 2021 was 3.6% (£336 million).

For the SME estimate, we estimated ranges which illustrates 95% confidence interval for the error and fraud estimate.

For LB claiming RDEC, given the assumption-based methodology used to calculate error and fraud, statistical confidence intervals cannot be calculated. Therefore, upper and lower bounds have been derived based on best and worst-case scenarios for the rate of error and fraud within the non-reviewed populations. For the upper estimate we assume the level of risk in the non-reviewed population is 4%. For the lower estimate, we assume there is no risk in the non-reviewed population, as in the reviewed population.

Whilst we attempt to capture all reasonable possibilities within our ranges they do not exhaust the range of reasonable possible outcomes and it is possible that actual values may fall outside the ranges.

Applying the resultant lower, middle and upper bound rates for SME and LB claiming RDEC to the estimated R&D corporation tax relief expenditure for the financial year 2020 to 2021 (as reported in the Resource Accounts for 2020 to 2021) gives the results below.

	Lower bound		Most likely		Upper bound	
	£bn	%	£bn	%	£bn	%
SME scheme	0.81	19.1	1.04	24.4	1.44	33.9
RDEC scheme	0.07	2.6	0.09	3.6	0.13	5.1
Combined	0.88	13.0	1.13	16.7	1.57	23.2

Also impacting the quantitative estimates of error and fraud for 2020 to 2021 are revisions to the estimated expenditure base of R&D corporation tax reliefs for that year. As explained in note 5.1.4 there are timing lags between companies' accounting periods during which underlying R&D expenditure is incurred and submission of their corporation tax returns and R&D relief claims related to that year. Our estimates of reliefs expenditure are therefore revised over a 5-year period after which they are considered final, and an adjustment is made to each year's expenditure base for the final change in estimate relating to the period five years preceding. However, as this adjustment relates to a different financial year, we have excluded it from calculation of our revised 2020 to 2021 error and fraud estimates above. We have additionally used the latest estimate of 2020 to 2021 R&D reliefs expenditure, which captures the impact to date of the anticipated 5-year adjustment. This further decreases the 2020 to 2021 expenditure base, reflecting overestimations in initial estimates for this year during the economic uncertainty of the pandemic.

	2020-21 expenditure initially estimated £m	Final adjustment relating to 2015-16 £m	Total expenditure reported in 2020-21 Annual Report and Accounts £m	Updated estimate for 2020-21 £m
R&D SME	4,719.7	766.1	5,485.8	4,254.1
RDEC	3,052.8	786.5	3,839.3	2,510.8
Other – Creative Industries/ Land remediation/Vaccine Research	1,142.7	228.3	1,371.0	1,062.8
Total	**8,915.2**	**1,780.9**	**10,696.1**	**7,827.7**

Quantifications for error and fraud in subsequent years' expenditure, including for that reported in these accounts, will be performed once relevant available data is available. While the above results are indicative of higher levels of error and fraud than previously estimated, applying the rates above to estimates of subsequent years' expenditure would not give a reliable estimate of error and fraud in those years. There is considerable uncertainty ahead of performing random enquiries for these years because of policy and operational measures introduced to the R&D schemes, which have been designed to reduce the rate of error and fraud.

However, for illustrative purposes, we have considered the possible error and fraud position for 2022 to 2023 expenditure. Where we have a more robust evidence base for operational measures already introduced affecting expenditure in 2022 to 2023, our best judgement is that these will reduce the level of error and fraud for the SME scheme by £250 million. This is equivalent to a reduction of the rate of error and fraud in the SME scheme of around 5 percentage points compared with 2020 to 2021. We have been unable to quantify the impact of policy measures, particularly measures to mandate digital claims and require additional information, which will also impact claims relating to expenditure in 2022 to 2023. Taking account of the estimated level of expenditure in 2022 to 2023 (£7.9 billion excluding a final adjustment relating to 2017 to 2018), and the reductions in the error and fraud rate that we have been able to quantify, this would suggest error and fraud of around £1.05 billion in total across the SME scheme and RDEC (equating to 13.3% of total relevant 2022 to 2023 expenditure). When the full impacts of these changes are available, our assessment is that the true level of error and fraud for expenditure in 2022 to 2023 will be lower than this.

5.2 Child Benefit

For 2022 to 2023 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.

Of the responders 97% were assessed to be compliant, while 72% of non-responders were assessed as likely to be eligible.

Claims were 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.

Non-compliance was assessed for Group 1 as 3% and Group 2, 28%.

For cases where error and fraud was determined from the reply (Group 1), several themes are apparent. In particular, the largest (73%) are error and fraud risks due to claims continuing for children that have left 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

			2022-23 £m			2021-22 £m
	Lower bound	**Central estimate**	**Upper bound**	**Lower bound**	**Central estimate**	**Upper bound**
Child Benefit error and fraud	70 (0.6%)	90 (0.8%)	110 (1%)	75 (0.6%)	105 (0.9%)	135 (1.2%)

From 2023 to 2024 we will change the method of measuring Child Benefit error and fraud to a monthly sampling approach. This will make it easier to assess the duration of error and fraud as we will assess eligibility within each month, rather than the full tax year.

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	2022-23 Total £m
Cost or valuation									
At 31 March 2022	6.6	106.1	350.3	294.9	15.8	63.1	159.2	3.0	999.0
IFRS 16 adoption adjustment	–	1,163.0	(19.0)	–	1.6	–	–	–	1,145.6
At 1 April 2022	6.6	1,269.1	331.3	294.9	17.4	63.1	159.2	3.0	2,144.6
Additions	–	2.0	0.1	21.9	2.2	1.4	37.3	–	64.9
Disposals	–	(71.5)	(7.7)	(14.6)	(0.9)	(7.7)	–	(2.6)	(105.0)
Impairments	–	–	(7.2)	–	–	–	–	–	(7.2)
Reclassifications	13.8	–	119.9	16.6	0.3	11.6	(160.7)	–	1.5
Revaluations[2]	–	(10.2)	–	–	–	–	–	–	(10.2)
At 31 March 2023	**20.4**	**1,189.4**	**436.4**	**318.8**	**19.0**	**68.4**	**35.8**	**0.4**	**2,088.6**
Depreciation									
At 1 April 2022	–	(76.9)	(53.1)	(173.1)	(11.1)	(12.0)	–	(2.8)	(329.0)
Charged in year	–	(70.5)	(35.0)	(37.5)	(1.8)	(6.4)	–	–	(151.2)
Disposals	–	0.2	4.3	12.5	0.9	3.7	–	2.5	24.1
Impairments	–	–	–	–	–	–	–	–	–
Reclassifications	–	–	–	–	–	–	–	–	–
Revaluations[2]	–	7.3	–	–	–	–	–	–	7.3
At 31 March 2023	**–**	**(139.9)**	**(83.8)**	**(198.1)**	**(12.0)**	**(14.7)**	**–**	**(0.3)**	**(448.8)**
Carrying amount at 31 March 2022	6.6	29.2	297.2	121.8	4.7	51.1	159.2	0.2	670.0
Carrying amount at 31 March 2023	**20.4**	**1,049.5**	**352.6**	**120.7**	**7.0**	**53.7**	**35.8**	**0.1**	**1,639.8**

	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	2022-23 Total £m
Of the total:									
Core department	20.4	1,029.8	348.0	120.6	7.0	52.2	35.6	0.1	1,613.7
Valuation Office Agency	–	19.7	4.6	0.1	–	1.5	0.2	–	26.1
Revenue and Customs Digital Technology Services Limited	–	–	–	–	–	–	–	–	–
Carrying amount at 31 March 2023	**20.4**	**1,049.5**	**352.6**	**120.7**	**7.0**	**53.7**	**35.8**	**0.1**	**1,639.8**
The assets are financed as follows:									
Owned	20.4	–	352.6	115.1	5.7	53.7	35.8	0.1	583.4
Leased	–	1,027.1	–	–	1.3	–	–	–	1,028.4
PFI contracts	–	22.4	–	5.6	–	–	–	–	28.0
Carrying amount at 31 March 2023	**20.4**	**1,049.5**	**352.6**	**120.7**	**7.0**	**53.7**	**35.8**	**0.1**	**1,639.8**
Amount relating to right-of-use assets (Note 8.1)	**–**	**1,027.1**	**–**	**–**	**1.3**	**–**	**–**	**–**	**1,028.4**
Carrying amount of property, plant and equipment net of right-of-use assets at 31 March 2023	**20.4**	**22.4**	**352.6**	**120.7**	**5.7**	**53.7**	**35.8**	**0.1**	**611.4**

2021-22

	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 2021	58.4	459.5	335.8	316.4	17.1	66.7	159.3	3.1	1,416.3
Additions	–	–	4.0	72.7	1.8	0.3	153.1	0.1	232.0
Donations	–	–	–	–	–	–	–	–	–
Disposals	(51.8)	(349.0)	(108.2)	(100.5)	(3.1)	(23.6)	–	(0.3)	(636.5)
Impairments	–	–	–	–	–	–	–	–	–
Reclassifications	–	3.8	118.7	6.3	–	19.7	(153.2)	0.1	(4.6)
Revaluations[2]	–	(8.2)	–	–	–	–	–	–	(8.2)
At 31 March 2022	**6.6**	**106.1**	**350.3**	**294.9**	**15.8**	**63.1**	**159.2**	**3.0**	**999.0**
Depreciation									
At 1 April 2021	–	(274.1)	(117.7)	(244.3)	(13.1)	(19.3)	–	(2.7)	(671.2)
Charged in year	–	(5.2)	(35.4)	(26.6)	(0.7)	(6.1)	–	(0.4)	(74.4)
Disposals	–	198.6	99.9	96.2	2.7	13.4	–	0.3	411.1
Impairments	–	–	–	–	–	–	–	–	–
Reclassifications	–	(0.1)	0.1	1.6	–	–	–	–	1.6
Revaluations[2]	–	3.9	–	–	–	–	–	–	3.9
At 31 March 2022	**–**	**(76.9)**	**(53.1)**	**(173.1)**	**(11.1)**	**(12.0)**	**–**	**(2.8)**	**(329.0)**
Carrying amount at 31 March 2021	58.4	185.4	218.1	72.1	4.0	47.4	159.3	0.4	745.1
Carrying amount at 31 March 2022	**6.6**	**29.2**	**297.2**	**121.8**	**4.7**	**51.1**	**159.2**	**0.2**	**670.0**

	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	2021-22 Total £m
The assets are financed as follows:									
Owned	6.6	–	297.2	113.0	4.7	51.1	159.2	0.2	632.0
Leased	–	1.3	–	–	–	–	–	–	1.3
PFI contracts	–	27.9	–	8.8	–	–	–	–	36.7
Carrying amount at 31 March 2022	**6.6**	**29.2**	**297.2**	**121.8**	**4.7**	**51.1**	**159.2**	**0.2**	**670.0**
Of the total:									
Core department	6.6	29.2	294.5	121.3	4.7	49.3	156.6	0.2	662.4
Valuation Office Agency	–	–	2.7	–	–	1.8	2.6	–	7.1
Revenue and Customs Digital Technology Services Limited	–	–	–	0.5	–	–	–	–	0.5
Carrying amount at 31 March 2022	**6.6**	**29.2**	**297.2**	**121.8**	**4.7**	**51.1**	**159.2**	**0.2**	**670.0**

1 See note 1.10.2 for the accounting policy for property assets.

2 See notes 1.2 and 1.10.2 for the accounting policy regarding revaluation of property, plant and equipment.

100 Parliament Street

Disposals in 2021 to 2022 include the 1 October 2021 transfer of land, building and associated assets relating to 100 Parliament Street to the Government Property Agency. The Net Book Values at the time of transfer were Land £51.8 million, Building £150.4 million and Other Assets £5.4 million.

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

					2022-23
	Licences £m	Software £m	Website development £m	Assets under construction £m	Total £m
Cost or valuation					
At 1 April 2022	87.4	4,139.0	14.4	786.1	5,026.9
Additions	19.6	–	–	560.4	580.0
Disposals	(36.8)	(48.2)	–	–	(85.0)
Impairments	–	(3.5)	–	–	(3.5)
Reclassifications	8.9	499.8	–	(510.2)	(1.5)
Revaluation[1]	–	287.2	–	–	287.2
At 31 March 2023	**79.1**	**4,874.3**	**14.4**	**836.3**	**5,804.1**
Amortisation					
At 1 April 2022	(47.7)	(2,890.8)	(10.6)	–	(2,949.1)
Charged in year	(30.7)	(298.7)	(0.7)	–	(330.1)
Disposals	36.4	43.8	–	–	80.2
Impairments	–	–	–	–	–
Reclassifications	(0.4)	0.4	–	–	–
Revaluation[1]	–	(199.7)	–	–	(199.7)
At 31 March 2023	**(42.4)**	**(3,345.0)**	**(11.3)**	**–**	**(3,398.7)**
Carrying amount at 31 March 2022	39.7	1,248.2	3.8	786.1	2,077.8
Carrying amount at 31 March 2023	**36.7**	**1,529.3**	**3.1**	**836.3**	**2,405.4**
The assets are financed as follows:					
Owned	36.7	1,529.3	3.1	836.3	2,405.4
Leased	–	–	–	–	–
PFI contracts	–	–	–	–	–
Carrying amount at 31 March 2023	**36.7**	**1,529.3**	**3.1**	**836.3**	**2,405.4**
Of the total:					
Core department	36.7	1,523.3	3.1	786.6	2,349.7
Valuation Office Agency	–	6.0	–	49.7	55.7
Revenue and Customs Digital Technology Services Limited	–	–	–	–	–
Carrying amount at 31 March 2023	**36.7**	**1,529.3**	**3.1**	**836.3**	**2,405.4**

	Licences £m	Software £m	Website development £m	Assets under construction £m	Total £m
					2021-22
Cost or valuation					
At 1 April 2021	103.6	3,858.7	19.9	612.1	4,594.3
Additions	20.0	–	–	526.5	546.5
Disposals	(38.9)	(301.7)	(5.5)	–	(346.1)
Impairments	–	(19.3)	–	–	(19.3)
Reclassifications	2.7	354.5	–	(352.5)	4.7
Revaluation[1]	–	246.8	–	–	246.8
At 31 March 2022	**87.4**	**4,139.0**	**14.4**	**786.1**	**5,026.9**
Amortisation					
At 1 April 2021	(60.5)	(2,912.9)	(14.4)	–	(2,987.8)
Charged in year	(24.6)	(88.2)	(1.6)	–	(114.4)
Disposals	37.4	294.7	5.4	–	337.5
Impairments	–	–	–	–	–
Reclassifications	–	(1.6)	–	–	(1.6)
Revaluation[1]	–	(182.8)	–	–	(182.8)
At 31 March 2022	**(47.7)**	**(2,890.8)**	**(10.6)**	**–**	**(2,949.1)**
Carrying amount at 31 March 2020	43.1	945.8	5.5	612.1	1,606.5
Carrying amount at 31 March 2022	**39.7**	**1,248.2**	**3.8**	**786.1**	**2,077.8**
The assets are financed as follows:					
Owned	39.7	1,248.2	3.8	786.1	2,077.8
Leased	–	–	–	–	–
PFI contracts	–	–	–	–	–
Carrying amount at 31 March 2022	**39.7**	**1,248.2**	**3.8**	**786.1**	**2,077.8**
Of the total:					
Core department	39.7	1,241.6	3.8	763.8	2,048.9
Valuation Office Agency	–	6.6	–	22.3	28.9
Revenue and Customs Digital Technology Services Limited	–	–	–	–	–
Carrying amount at 31 March 2022	**39.7**	**1,248.2**	**3.8**	**786.1**	**2,077.8**

1 See notes 1.2 and 1.10.3 for the accounting policy regarding revaluation of intangible assets.

8. Leases

8.1 Right-of-use assets recognised in Statement of Financial Position (SoFP)

				2022-23 Departmental group
		Buildings	**Vehicles**	**Total £m**
Cost:	At 1 April 2022	1,164.4	1.6	1,166.0
	Additions	2.0	0.5	2.5
	Disposals	(71.5)	–	(71.5)
	Revaluations	(0.2)	–	(0.2)
Depreciation:	At 1 April 2022	(0.1)	–	(0.1)
	Charged in-year	(67.7)	(0.8)	(68.5)
	Disposal	0.2	–	0.2
Carrying amount at 31 March 2023		1,027.1	1.3	1,028.4

8.2 Lease liabilities recognised in Statement of Financial Position

Maturity analysis

		2022-23 £m
	Core department & agency	**Departmental group**
Buildings		
Not later than one year	80.8	80.8
Later than one year and not later than 5 years	351.8	351.8
Later than 5 years	1,154.0	1,154.0
Less interest element	176.7	176.7
Present Value of obligations	1,409.9	1,409.9
Vehicles		
Not later than one year	0.4	0.4
Later than one year and not later than five years	1.0	1.0
Later than 5 years	–	–
Less interest element	–	–
Present Value of obligations	1.4	1.4
Total Present Value of obligations	**1,411.3**	**1,411.3**
Current portion	65.5	65.5
Non-current portion	1,345.8	1,345.8

8.3 Amounts recognised in the Statement of Comprehensive Net Expenditure (SoCNE)

		2022-23 £m
	Core department & agency	Departmental group
Variable lease payments not included in lease liabilities	(3.7)	(3.7)
Income from subleasing right-of-use assets	(3.4)	(3.4)
Income from short term and low value leases	(5.2)	(5.2)
Depreciation	68.5	68.5
Interest expense	14.6	14.6
Non-recoverable VAT	16.3	16.3
Expense related to short-term leases	5.2	5.2
Expense related to low-value asset leases (excluding short-term leases)	0.2	0.2
Total charged to the SoCNE under IFRS 16	**92.5**	**92.5**

Total charged to the SoCNE under IFRS 16 above is materially the same as would have been charged under IAS 17.

8.4 Amounts recognised in Consolidated Statement of Cash Flows

		2022-23 £m
	Core department & agency	Departmental group
Total cash outflow for leases	**(100.0)**	**(100.0)**

8.5 Reconciliation from IAS 17 to IFRS 16

This table reconciles the amounts of the department's operating lease commitments as at 31 March 2022, to the lease liabilities as at 1 April 2022 immediately following adoption of IFRS 16.

		2022-23 £m
	Core department & agency	Departmental group
Closing operating leases disclosed at 31 March 2022	**2,108.5**	**2,108.5**
Leases treated as short term on initial adoption of IFRS 16	(5.6)	(5.6)
Low value leases on initial adoption of IFRS 16	(0.1)	(0.1)
Agreement for lease which had not commenced at 1 April 2022	(217.7)	(217.7)
Leases assessed under IAS 38 Intangibles	(6.6)	(6.6)
Adjustment for different lease term assumptions under IFRS 16	(18.5)	(18.5)
Adjustment for discounting of future cashflows	(159.5)	(159.5)
Non-recoverable VAT	(274.2)	(274.2)
Lease liabilities on SoFP at 31 March 2022	0.6	0.6
Opening IFRS 16 SoFP liabilities at 1 April 2022	**1,426.9**	**1,426.9**

9.1. Commitments under PFI and other service concession arrangements

9.1.1 Off-Statement of Financial Position

The department has no off-Statement of Financial Position PFI contracts.

9.1.2 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 (NEP) held with DWP, St. John's House, Bootle and also commitments in relation to IT infrastructure.

The total amount charged in the Consolidated Statement of Comprehensive Net Expenditure in respect of on-Statement of Financial Position PFI and other service concession arrangement transactions (there were no off-Statement of Financial Position transactions) was £97.8 million (2021 to 2022: £114.6 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 payments comprise 2 elements – lease payments and service elements.

Details of the obligations for lease payments

		2022-23 £m		2021-22 £m
	Core department and agency	Departmental group	Core department and agency	Departmental group
Minimum lease payments:				
Due within one year	11.7	11.7	12.0	12.0
Due between one year and 5 years	34.2	34.2	32.0	32.0
Due later than 5 years	–	–	13.4	13.4
Total minimum lease payments due in future periods	**45.9**	**45.9**	**57.4**	**57.4**

Details of the obligations for service elements

		2022-23 £m		2021-22 £m
	Core department and agency	Departmental group	Core department and agency	Departmental group
Service elements due in future periods:				
Due within one year	33.1	33.1	31.9	31.9
Due between one year and 5 years	68.5	68.5	70.4	70.4
Due later than 5 years	–	–	18.6	18.6
Total service elements due in future periods	**101.6**	**101.6**	**120.9**	**120.9**
Total commitments	**147.5**	**147.5**	**178.3**	**178.3**

9.2 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

		2022-23 £m		2021-22 £m
	Core department and agency	Departmental group	Core department and agency	Departmental group
Property, plant and equipment	0.2	0.2	1.6	1.6
Intangible assets	23.2	23.2	17.1	17.1
	23.4	**23.4**	**18.7**	**18.7**

9.3 Other financial commitments

This note discloses commitments to future expenditure, not otherwise disclosed elsewhere in the financial statements. The department has entered into non-cancellable contracts which are not a lease, PFI contract or other service concession arrangement.

The payments to which the department are committed are as follows:

		2022-23 £m		2021-22 £m
	Core department and agency	Departmental group	Core department and agency	Departmental group
Due within one year	346.3	346.3	266.6	266.6
Due between one year and 5 years	201.6	201.6	234.6	234.6
Due later than 5 years	3.3	3.3	3.5	3.5
	551.2	**551.2**	**504.7**	**504.7**

10. Trade receivables, financial and other assets

		2022-23 £m		2021-22 £m	
	Note	Core department and agency	Departmental group	Core department and agency	Departmental group
Amounts expected to be received within one year:					
Personal tax credits	5.1.2	464.8	464.8	486.4	486.4
Child Benefit[1]		136.4	136.4	33.7	33.7
Statutory Sick Pay Rebate – (DWP)		0.3	0.3	6.9	6.9
Help to Save		9.3	9.3	14.3	14.3
Trade receivables		3.9	4.6	4.4	4.4
Receivable as intermediate lessor		5.1	5.1	–	–
Other receivables[2]		50.4	50.4	45.4	45.5
Deposits and advances		137.9	137.9	119.9	119.9
Value Added Tax		56.9	56.3	54.8	53.5
Prepayments – Child Benefit		37.8	37.8	55.6	55.6
Accrued income, other prepayments		133.8	133.8	169.6	171.6
RCDTS Ltd funding[3]		0.5	–	–	–
		1,037.1	**1,036.7**	**991.0**	**991.8**
Amounts expected to be received in more than one year:					
Personal tax credits	5.1.2	1,129.0	1,129.0	1,194.0	1,194.0
Receivable as intermediate lessor		121.1	121.1	–	–
RCDTS Ltd funding[3]		–	–	7.0	–
		1,250.1	**1,250.1**	**1,201.0**	**1,194.0**

1 This figure is net of provision for impairment amounting to £28.2 million (2021 to 2022: £28.2 million).

2 This figure is net of provision for impairment amounting to departmental group: £21.2 million (2021 to 2022 departmental group: £21.7 million).

3 HMRC has funded RCDTS Ltd for general working capital and investment purposes. This was previously accounted for as a long-term loan arrangement but now reflects the planned closure of RCDTS Ltd.

11. 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

		2022-23 £m		2021-22 £m
	Core department and agency	**Departmental group**	**Core department and agency**	**Departmental group**
Balance at 1 April	4,701.5	4,706.2	9,910.2	9,914.4
Net change in cash and cash equivalent balances	(4,623.6)	(4,627.6)	(5,208.7)	(5,208.2)
Balance at 31 March	**77.9**	**78.6**	**4,701.5**	**4,706.2**
Of which balances were held at:				
Government Banking Service	92.3	93.1	4,698.7	4,703.4
Commercial banks and cash in hand[1]	(14.4)	(14.5)	2.8	2.8
Balance at 31 March	**77.9**	**78.6**	**4,701.5**	**4,706.2**

1 As at 31 March 2023, the balance reflects money being owed to the Trust Statement.

12. Trade payables, financial and other liabilities

	2022-23 £m		2021-22 £m	
	Core department and agency	Departmental group	Core department and agency	Departmental group
Amounts expected to be paid within one year:				
Personal tax credits	377.3	377.3	392.4	392.4
Child Benefit and Tax-Free Childcare[1]	393.2	393.2	171.3	171.3
Trade payables[2]	(2.0)	(2.0)	5.7	5.7
Taxation and social security excluding VAT	61.5	61.5	57.4	58.5
Other payables[1&2]	88.8	88.8	68.6	69.0
Accruals – COVID-19 support schemes	0.1	0.1	1.4	1.4
Accruals – corporation tax reliefs	9,009.3	9,009.3	8,722.8	8,722.8
Other accruals	549.1	549.4	723.7	721.3
Deferred income	16.7	16.7	20.6	20.6
Amounts issued from the Consolidated Fund for Supply but not spent at year end	72.3	72.3	4,694.5	4,694.5
Consolidated Fund Extra Receipts due to be paid to the Consolidated Fund				
Received	5.6	5.6	7.0	7.0
	10,571.9	**10,572.2**	**14,865.4**	**14,864.5**
Liabilities relating to right-of-use assets	65.5	65.5	–	–
	10,637.4	**10,637.7**	**14,865.4**	**14,864.5**
Amounts expected to be paid in more than one year:				
Accruals – corporation tax reliefs	1,814.3	1,814.3	1,782.8	1,782.8
IT Public Private Partnership	2.7	2.7	7.1	7.1
Accommodation PFI	25.0	25.0	29.6	29.6
Accommodation non-PFI	3.6	3.6	3.5	3.5
	1,845.6	**1,845.6**	**1,823.0**	**1,823.0**
Liabilities relating to right-of-use assets	1,345.8	1,345.8	–	–
	3,191.4	**3,191.4**	**1,823.0**	**1,823.0**

1 2021 to 2022 payments of Child Benefits and 'Other payables' (administrative expenses), where cash had not yet left the bank account at the SoFP date, are now treated as payables. Previously, these payables were part of the balance for Government Banking Services (note 11).

2 2021 to 2022 'Trade payables' and 'Other payables' have been re-represented following the reclassification of pension contributions. These were previously accounted for as 'Trade payables', and are now accounted for as 'Other payables'.

12.1 Reconciliation of liabilities arising from financing activities

	Balance at 31 March 2022	Cash flows			Non-cash changes				Balance at 31 March 2023
		IFRS 16 adoption adjustment	Financing cash flows	Net cash requirement	Acquisition	Forex movements	Fair value changes	Disposal	
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Supply – current year	4,694.5	–	14,194.3	(18,816.5)	–	–	–	–	72.3
From the Trust Statement	–	–	21,148.8	(21,148.8)	–	–	–	–	–
From the National Insurance Fund	(4.2)	–	258.8	(263.3)	–	–	–	–	(8.7)
Lease liabilities	45.5	1,515.1	(86.2)	–	8.2	–	–	(34.1)	1,448.5
Total liabilities from financing activities	**4,735.8**	**1,515.1**	**35,515.7**	**(40,228.6)**	**8.2**	**–**	**–**	**(34.1)**	**1,512.1**

	Balance at 31 March 2021	Cash flows			Non-cash changes				Balance at 31 March 2022
		IFRS 16 adoption adjustment	Financing cash flows	Net cash requirement	Acquisition	Forex movements	Fair value changes	Disposal	
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Supply – current year	9,908.6	–	32,149.5	(37,363.6)	–	–	–	–	4,694.5
From the Trust Statement	–	–	21,929.6	(21,929.6)	–	–	–	–	–
From the National Insurance Fund	10.7	–	240.3	(255.2)	–	–	–	–	(4.2)
Lease liabilities	221.8	–	(12.0)	–	3.0	–	0.8	(168.1)	45.5
Total liabilities from financing activities	**10,141.1**	**–**	**54,307.4**	**(59,548.4)**	**3.0**	**–**	**0.8**	**(168.1)**	**4,735.8**

13. 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

		2022-23 £m		2021-22 £m
	Core department and agency	**Departmental group**	**Core department and agency**	**Departmental group**
Balance at 1 April	**157.9**	**157.9**	**192.1**	**192.1**
Provided in the year	52.4	52.4	48.5	48.5
Provisions not required written back	(31.4)	(31.4)	(51.2)	(51.2)
Net expenditure	21.0	21.0	(2.7)	(2.7)
Provisions utilised in the year	(19.6)	(19.6)	(31.5)	(31.5)
Balance at 31 March	**159.3**	**159.3**	**157.9**	**157.9**

13.1 Analysis of expected timing of discounted flows

		2022-23 £m		2021-22 £m
	Core department and agency	**Departmental group**	**Core department and agency**	**Departmental group**
Not later than one year	26.0	26.0	15.6	15.6
Later than one year and not later than 5 years	124.2	124.2	92.4	92.4
Later than 5 years	9.1	9.1	49.9	49.9
Balance at 31 March	**159.3**	**159.3**	**157.9**	**157.9**

	Child Trust Fund	Legal claims	Accommodation costs	Other	Total
	£m	**£m**	**£m**	**£m**	**£m**
Not later than one year	0.1	21.5	3.6	0.8	26.0
Later than one year and not later than 5 years	0.3	105.6	7.4	10.9	124.2
Later than 5 years	–	4.7	3.9	0.5	9.1
Balance at 31 March	**0.4**	**131.8**	**14.9**	**12.2**	**159.3**

13.2 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.

13.3 Legal claims

A provision of £131.8 million (2021 to 2022: £121.6 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.

13.4 Accommodation costs

A provision of £14.9 million has been made (2021 to 2022: £12.6 million) for buildings related claims giving rise to probable liabilities under tenancy agreements.

13.5 Other

Provisions relating to various other claims against the department amount to £12.2 million (2021 to 2022: £23.3 million).

14. 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 227).

15. Contingent liabilities

The department's 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 £139.4 million (2021 to 2022: £131.0 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, 43 cases (2021 to 2022: £0.9 million, 65 cases).

Other – the department has a further number of contingent liabilities amounting to £55.7 million (2021 to 2022: £75.0 million).

16. 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 Department for Levelling Up, Housing and Communities; 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.

Lucy Frazer QC MP, appointed as the Financial Secretary to the Treasury on 16 September 2021 to 7 September 2022, is married to the Chief Executive of Alexander Mann Solutions Ltd (AMS). The Financial Secretary to the Treasury is the departmental minister responsible for HMRC and VOA. AMS are contracted under a Crown Commercial Service framework arrangement to source contractors and temporary workers and was a supplier to HMRC prior to Lucy Frazer's appointment as the Financial Secretary to the Treasury. In the financial year 2022 to 2023, HMRC group paid £196.3 million to AMS (2021 to 2022: £177.0 million). The majority of this cost relates to payments to agency staff, but an element covers the services provided by AMS to source these temporary workers. The Financial Secretary has no role in the decisions relating to this expenditure.

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.

17. Entities within the departmental boundary

The Valuation Office Agency is a supply-financed agency. Its Annual Report and Accounts are published at www.voa.gov.uk.

Revenue and Customs Digital Technology Services Limited is an Arms Length Body. Its Annual Report and Accounts are published at www.gov.uk/government/organisations/companies-house.

18. 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.

19. Events after the reporting period date

We recognise as material non-adjusting events after the reporting date:

As published on 13 March 2023, qualifying low-income households in England, Wales, Scotland and Northern Ireland will receive a Cost of Living Payment of £900. This will be paid in 3 instalments for most people on tax credits and no other low-income benefits. The initial instalment will be £301 paid between 2 and 9 May 2023, the second instalment of £300 will be paid during autumn 2023 and the third instalment of £299 will be paid during spring 2024. The payments are designed to be unequal to minimise fraud risks from those who may seek to exploit this system.

+ **Cost of Living Payments 2023 to 2024 – GOV.UK (www.gov.uk)**

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 3 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. 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.

Appropriation (to Resource Accounts) – these are amounts transferred to the Resource Accounts for the purposes of financing tax reliefs.

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 either present obligations that arise from past events where a payment to settle is less than probable, or 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 HMRC's contingent liabilities comprise the latter. 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 3 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.

Disbursement (to Resource Accounts) – this is the transfer of amounts relating to tax reliefs to the Resource Accounts.

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 (see IFRS below).

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 (also including International Accounting 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.

Import One Stop Shop (IOSS) – monthly VAT reporting and payment system for imports.

Indemnities – will be ordered by the court, on behalf of the insolvency practitioner or solicitors, in case the department has incorrectly wound up a viable business. These indemnities are unlimited, although we calculate a likely value for reporting purposes. The calculation is based on the likely amount that a business could be awarded in proceedings and the likelihood of a successful claim for that amount being made. The indemnity will be in place until the case is settled and the liquidation confirmed.

Intangible assets – these are non-physical assets, for example, developed computer software and website development costs.

Losses – losses are made up of remissions and write-offs. Remission is the process used to identify and separate receivables which the department has decided not to pursue, for example on the grounds of value for money. Write-offs are receivables that are considered to be irrecoverable, for example because there is no practical means for pursuing them.

Managing Public Money – this is a HM Treasury publication giving guidance on how to handle public funds.

Negative tax – this occurs where the amount of the tax credit is less than or equal to the recipient’s tax liability.

Net cash requirement – the amount of funding that the department is entitled to draw down from the Consolidated Fund.

Non-current assets – an asset that is not likely to turn to cash or cash equivalent within one year of the department’s reporting date.

Non-current liabilities – a liability not due to be paid within one year of the department’s reporting date.

Non-voted expenditure – expenditure which is not subject to annual Parliamentary approval and in HMRC’s case mainly relates to tax credits and costs in respect of the National Insurance Fund.

One Stop Shop (OSS) – a quarterly VAT reporting and payment system for distance selling.

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.

Quarterly Instalment Payments (QIPs) – Corporation Tax for large onshore companies paid by 4 quarterly instalment payments each year..

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 been received.

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.

Taxation period – this is the financial year ended 31 March and represents the period over which taxable events occur that generate net tax revenues recognised in the Statement of Revenue, Other Income and Expenditure.

Tax debt – the amount of tax that is overdue for payment and legally enforceable to be collected. Tax debt is included within the Trust Statement receivables balance. 'Receivables' is defined earlier in this glossary.

Three Instalment Payments (TIPs) – Corporation Tax for North Sea companies paid by 3 instalment payments each year.

Trust Statement – the financial statement which reports the revenues, expenditure, assets and liabilities related to taxes and duties collected by the department.

UK GAAP – the generally accepted accounting principles in the UK which are the body of accounting standards and guidance published by the Financial Reporting Council.

Voted expenditure – monies voted to the department by Parliament to cover our expenditure, following the submission of our Estimates. Parliament votes annually on each government department's future expenditure.

Annex 1: Arm’s-length bodies

Information on arm’s length bodies is shown on page 116 within the Principal Accounting Officers report. The following bodies are those within our accounting boundary for 2022 to 2023 that contribute to the departmental group.

				Permanently employed staff		Other staff[1]	
	Total operating income[2] £’000	Total operating expenditure £’000	Net expenditure for the year (including financing) £’000	Number of employees	Staff costs £’000	Number of employees	Staff costs £’000
HMRC	(228,969)	40,373,437	40,144,468	62,725	3,130,137	508	18,874
RCDTS Ltd	–	65,014	65,014	560	12,847	88	–
VOA	(44,052)	238,499	194,447	3,391	167,390	349	14,534

1 “Other staff” includes Fixed Term Appointments and Temporary Fixed Term Appointments. The RCDTS Limited ‘Other staff’ relates to contingent labour and the expenditure is reported under goods and services.

2 As 100% of the income generated by RCDTS Limited 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 Limited income column.

Annex 2: Statistical Tables

This table provides further detail by category on HMRC spending.

Table 1: Total departmental spending (£000)

	2018-19 Outturn	2019-20 Outturn	2020-21 Outturn	2021-22 Outturn	2022-23 Outturn	2023-24 Plans	2024-25 Plans
Resource DEL[1]							
HMRC administration	3,483,718	3,813,617	4,335,323	4,570,843	5,199,284	5,182,044	4,601,235
VOA administration	142,738	164,797	141,100	143,995	132,548	189,939	200,876
Utilised provisions	42,918	54,597	96,219	31,502	19,614	35,000	35,000
National Insurance Fund	282,548	254,332	222,649	251,344	259,413	233,000	233,000
Cost of Living	–	–	–	–	717,872	735,000	–
COVID-19	–	–	–	719,062	-110	–	–
Total Resource DEL	**3,951,922**	**4,287,343**	**4,795,291**	**5,716,746**	**6,328,621**	**6,374,983**	**5,070,111**
Of which:							
Staff costs	2,360,289	2,602,310	2,778,298	2,862,995	3,265,139	3,279,415	3,126,024
Purchase of goods and services	1,199,928	1,207,607	1,494,300	1,842,658	1,903,404	1,780,758	1,735,682
Income from sales of goods and services	-201,710	-204,751	-288,573	-269,435	-268,378	-343,321	-347,536
Current grants to persons and non-profit bodies (net)	1,714	6,277	52,638	743,791	720,321	737,863	2,277
Current grants abroad (net)	1,418	1,287	840	1,025	1,043	–	–
Subsidies to private sector companies	387	–	–	–	–	–	–
Rentals	208,542	296,210	326,652	277,172	159,943	122,147	97,145
Depreciation[2]	288,680	296,137	310,833	174,352	478,237	701,190	379,428
Change in pension scheme liabilities	1,324	-210	-210	–	–	–	–
Other resource	91,350	82,476	120,513	84,188	68,912	96,931	77,091
	3,951,922	**4,287,343**	**4,795,291**	**5,716,746**	**6,328,621**	**6,374,983**	**5,070,111**

1 Outturn values are consistent with those reported in SoPS 1.1 on page 155.

2 Includes impairments.

Note: The totals may differ to the information in the Statement of Parliamentary Supply due to rounding.

Note: Prior year figures may differ slightly to the published account following revisions after certification.

Table 1: Total departmental spending (£000)

	2018-19 Outturn	2019-20 Outturn	2020-21 Outturn	2021-22 Outturn	2022-23 Outturn	2023-24 Plans	2024-25 Plans
Resource AME[1]							
Child Benefit	11,475,319	11,487,105	11,541,713	11,420,034	11,595,575	12,896,922	13,036,525
Tax Free Childcare	115,730	245,524	253,047	428,406	494,401	618,352	664,277
Providing payments in lieu of tax relief to certain bodies	97,388	116,035	140,071	130,003	7,973	179,378	180,000
Lifetime ISA	251,019	225,808	346,120	418,943	436,809	540,474	527,292
Help to Save	–	–	–	20,361	53,202	43,819	42,850
HMRC administration	93,672	82,016	52,212	8,072	33,808	30,000	30,000
VOA – Payments of rates to LAs on behalf of certain bodies	66,785	83,886	75,646	78,061	64,199	84,400	84,400
VOA administration	7,094	1,523	1,184	1,010	1,082	2,000	2,000
Utilised provisions	-42,920	-54,607	-96,223	-31,510	-19,615	-35,000	-35,000
Personal tax credit	22,288,296	18,331,274	15,063,222	10,605,481	8,834,945	8,768,082	3,961,547
Other reliefs and allowances	5,879,196	10,103,140	10,698,573	11,696,601	12,560,346	12,337,164	12,645,593
COVID-19	–	–	81,233,264	16,543,682	-132,476	5,330	–
Total Resource AME	**40,231,579**	**40,621,704**	**119,308,829**	**51,319,144**	**33,930,249**	**35,470,921**	**31,139,484**
Of which:							
Purchase of goods and services	71,679	89,110	95,721	83,492	68,188	89,000	89,000
Income from sales of goods and services	-4,894	-5,224	-4,535	-4,412	-3,918	-4,600	-4,600
Current grants to persons and non-profit bodies (net)	34,231,898	30,418,746	26,770,567	39,076,439	21,426,819	23,051,454	18,417,029
Subsidies to private sector companies	5,876,916	10,100,691	88,673,903	12,186,849	12,423,956	12,338,067	12,641,055
Depreciation[2]	477	1,290	1,785	9,514	12,752	–	–
Take up of provisions	100,289	82,249	50,315	-2,222	22,067	30,000	30,000
Release of provision	-42,920	-54,607	-102,416	-31,299	-19,615	-35,000	-35,000
Change in pension scheme liabilities	–	–	–	–	–	2,000	2,000
Other resource	-1,866	-10,551	3,823,489	783	–	–	–
	40,231,579	**40,621,704**	**119,308,829**	**51,319,144**	**33,930,249**	**35,470,921**	**31,139,484**
Resource budget[1]							
Total Resource DEL	3,951,922	4,287,343	4,795,291	5,716,746	6,328,621	6,374,983	5,070,111
Total Resource AME	40,231,579	40,621,704	119,308,829	51,319,144	33,930,249	35,470,921	31,139,484
Total Resource Budget	**44,183,501**	**44,909,047**	**124,104,120**	**57,035,890**	**40,258,870**	**41,845,904**	**36,209,595**
Of which:							
Depreciation[2]	289,157	297,427	312,618	183,866	490,989	701,190	379,428

1 Outturn values are consistent with those reported in SoPS 1.1 on page 155
2 Includes impairments.

Note: The totals may differ to the information in the Statement of Parliamentary Supply due to rounding.
Note: Prior year figures may differ slightly to the published account following revisions after certification.

Table 1: Total departmental spending (£000)

	2018-19 Outturn	2019-20 Outturn	2020-21 Outturn	2021-22 Outturn	2022-23 Outturn	2023-24 Plans	2024-25 Plans
Capital DEL[1]							
HMRC administration	353,476	328,666	529,830	643,880	524,552	618,485	458,188
VOA administration	8,742	6,362	6,746	20,650	31,848	8,663	10,640
Total Capital DEL	**362,218**	**335,028**	**536,576**	**664,530**	**556,400**	**627,148**	**468,828**
Of which:							
Purchase of assets	387,376	420,306	677,700	982,938	644,473	710,149	485,479
Income from sales of assets	-25,158	-85,278	-141,124	-318,408	-88,073	-83,001	-16,651
	362,218	**335,028**	**536,576**	**664,530**	**556,400**	**627,148**	**468,828**
Capital AME[1&3]							
Child Benefit	2	10	4	7	1	10	–
HMRC administration[2]						99	–
Total Capital AME	**2**	**10**	**4**	**7**	**1**	**109**	**–**
Of which:							
Capital grants to persons & non-profit bodies (net)	2	10	4	7	1	10	–
Depreciation						99	–
	2	10	4	7	1	109	–
Capital budget[1]							
Total Capital DEL	362,218	335,028	536,576	664,530	556,400	627,148	468,828
Total Capital AME	2	10	4	7	1	109	–
Total Capital Budget	**362,220**	**335,038**	**536,580**	**664,537**	**556,401**	**627,257**	**468,828**

1 Outturn values are consistent with those reported in SoPS 1.2 on page 157.
2 HMRC administration included Capital AME due to the introduction of IFRS16.
3 AME figures are usually set at Main Estimate annually. Future years budget not yet available.

Note: The totals may differ to the information in the Statement of Parliamentary Supply due to rounding.
Note: Prior year figures may differ slightly to the published account following revisions after certification.

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)

	2018-19 Outturn	2019-20 Outturn	2020-21 Outturn	2021-22 Outturn	2022-23 Outturn	2023-24 Plans	2024-25 Plans
Resource DEL							
HMRC administration	773,467	767,280	896,424	828,681	948,413	1,031,471	1,013,697
Utilised provisions	7,057	2,208	–	–	–	16,000	16,000
National Insurance Fund	59,264	51,552	50,536	56,030	54,712	53,000	53,000
Total administration budget	**839,788**	**821,040**	**946,960**	**884,711**	**1,003,125**	**1,100,471**	**1,082,697**
Of which:							
Staff costs	335,364	401,196	467,299	437,580	474,413	579,627	570,265
Purchase of goods and services	341,999	245,209	338,798	374,643	450,180	450,246	457,980
Income from sales of goods and services	-35,670	-34,256	-94,044	-94,887	-59,763	-93,222	-91,716
Current grants to persons and non-profit bodies (net)	1,671	1,660	1,661	1,642	1,659	2,063	2,030
Rentals	94,795	132,956	149,860	110,563	39,512	24,896	24,494
Depreciation	76,452	63,784	52,274	30,933	86,522	124,831	107,808
Other resource	25,177	10,491	31,112	24,237	10,602	12,030	11,836
	839,788	**821,040**	**946,960**	**884,711**	**1,003,125**	**1,100,471**	**1,082,697**

Note: The totals may differ to the information in the Statement of Parliamentary Supply due to rounding.

Note: Prior year figures may differ slightly to the published account following revisions after certification.

Annex 3: Sustainability data tables

The data in this annex meets the requirements of the HMT reporting guidance and is in addition to the progress reported against the Greening Government Commitments on pages 64 to 66.

Greenhouse gas emissions

	2020-21	2021-22	2022-23
Non-financial indicators		**tCO_2e, 000s**	
Total gross emissions	50.65	38.87	38.54
Total net emissions	29.23	24.65	25.99
Gross emissions Scope 1 and 2	50.04	37.03	32.85
Gross emissions Scope 3 (business travel)	0.61	1.84	5.69
Energy consumption		**kWh, 000s**	
Electricity: non-renewable	3,991	3,762	2,872
Electricity: renewable	84,586	61,537	59,491
Gas	123,598	89,768	88,635
Oil	9,222	8,709	4,828
Whitehall District Heating	3,003	3,373	N/A
Enviroenergy District Heating	3,973	4,207	N/A
Stratford District Heating	4,132	5,289	6,289
Sheffield District Heating	538	N/A	N/A
Travel breakdown		**tCO_2e, 000s**	
Road	0.88	1.89	2.75
Rail	0.07	0.37	1.86
Air (domestic and overseas)	0.22	0.62	2.23
Financial indicators		**£000**	
Expenditure on energy	22,061	24,540[1]	24,556
Expenditure on accredited offset purchases	–	–	–
Expenditure on official business travel	1,735	6,098	20,405

Waste

		2020-21	2021-22	2022-23
Non-financial indicators			**Tonnes 000s**	
Total waste		4.93	4.80	4.03
Waste	Landfill	0.03	0.01	0.002
	Recycled/composted	4.19	3.64	2.70
	Incinerated/energy from waste[2]	0.72	1.15	1.33
Financial indicators			**£000s**	
Total waste		279	270	226
Waste	Landfill	4	1	0.28
	Recycled/composted	235	204	151
	Incinerated/ energy from waste	40	65	75

1 This has been amended from the figure published in the 2021 to 2022 Annual Report and Accounts.

2 In 2021 to 2022 a small amount of waste (0.22%) was incinerated without energy recovery.

Food waste

		2022-23
		Tonnes
Reuse	Redistribution for human consumption	–
	Animal feed	–
	Bio-based materials/Biochemical processing	–
	Other reuse	–
Waste	Anaerobic Digestion/Codigestion	28.18
	Composting/Aerobic processes	–
	Incineration/Controlled combustion	–
	Land application	–
	Landfill	–
	Sewer/Wastewater treatment	–
	Refuse/Discards/Litter (incl. dumping and unmanaged disposal)	–
	Other	–
	Total food waste	28.18

Finite resource consumption – water

		2020-21	2021-22	2022-23
Non-financial indicators				**m^3 000s**
Water consumption	Supplied	283	239	211
				m^3/FTE
Water consumption	Supplied	3.69	3.80	3.12
Financial indicators				**£000s**
Water consumption	Supplied	1,517	1,305[1]	1,270

Copier paper purchased

	2020-21	2021-22	2022-23
Non-financial indicators	**A4 reams equivalent 000s**		
	23	23	36
Financial indicators	**£000s**		
	67	69	154

1 This has been amended from the figure published in the 2021 to 2022 Annual Report and Accounts.

Air travel breakdown

Non-financial indicators	2020-21 No	2020-21 Kms	2020-21 $mtCO_2e$	2021-22 No	2021-22 Kms	2021-22 $mtCO_2e$	2022-23 No	2022-23 Kms	2022-23 $mtCO_2e$
Total domestic	**782**	**362,751**	**46.87**	**3,335**	**1,488,241**	**193.51**	**13,359**	**5,505,928**	**715.94**
Total international	**282**	**903,857**	**170.48**	**636**	**2,428,117**	**418.58**	**2,400**	**6,488,016**	**1,510.17**
Short haul economy	148	212,805	32.56	329	585,225	88.38	1,127	1,107,488	167.25
Short haul premium economy	–	–	–	–	–	–	–	–	–
Short haul business	–	–	–	4	11,108	2.52	27	34,147	7.73
Short haul 1st	–	–	–	–	–	–	–	–	–
Long haul economy	104	486,355	71.08	146	1,244,143	183.97	632	2,978,393	440.42
Long haul premium economy	16	104,797	24.50	14	139,810	32.37	54	310,958	73.57
Long haul business	14	99,900	42.34	14	111,233	47.70	332	1,649,887	707.50
Long haul 1st	–	–	–	–	–	–	18	78,385	46.36
International non-UK	N/A	N/A	N/A	129	339,598	63.64	210	328,758	67.34

Audio Conferences

	2020-21	2021-22	2022-23
Total number of audio conferences	5,663,712	6,799,672	11,788,133

Demonstrating reductions per FTE

We have compared our footprints per FTE in 2022 to 2023 against the footprints per FTE in 2017 to 2018. There were positive improvements across all the Greening Government Commitment target areas.

Comparisons of footprints per FTE 2017 to 2018, and 2022 to 2023

Greening Government Commitment	2017 to 2018 footprints per FTE	2022 to 2023 footprints per FTE
Greenhouse gas emissions (tonnes of CO2e)	1.16	0.55
Direct building emissions (tonnes of CO2e)	0.32	0.26
Domestic flight emissions (tonnes of CO2e)	0.04	0.01
Waste (tonnes)	0.12	0.06
Water (m^3)	7.12	3.12
Paper (reams of A4)	4.72	0.53

Annex 4: Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013 (Northern Ireland 1997): reports to the Health and Safety Executive

RIDDOR incidents	**2022-23**	**2021-22**
Specified injuries to workers	8	7
Occupational diseases	1	1
Fatal injuries	0	0
Dangerous occurrences	2	0
Over 3 day incapacitation of worker (Northern Ireland)	1	0
Non-fatal accidents to non-workers	0	0
Over 7 day incapacitation of worker	11	10
Total	**23**	**18**

Non-RIDDOR incidents	**2022-23**	**2021-22**
Stress	613	471
Slips/trips/falls	103	49
Violence and verbal abuse	222	126
Environmental	44	22
Road traffic accident	82	54
Bite (animal/insect)	8	1
Burns	33	10
Collision with a moving/fixed object	74	48
Cut	13	6
Manual handling	11	4
Exposure to hazardous substances	6	4
Asbestos, lead, ionising radiation	0	0
Noise[1]	8	8
Electrical	17	9
Musculoskeletal	65	46
Other[2]	23	32
Total	**1,322**	**890**

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.

Report by the Comptroller and Auditor General

HM Revenue & Customs 2022-23 Accounts

This report is published alongside the 2022-23 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

7 July 2023

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 £814.0 billion of tax revenue for 2022-23. Under the Exchequer and Audit Departments Act 1921, the Comptroller and Auditor General (C&AG) must certify whether the Trust Statement is true and fair, and whether HMRC has used the income and expenditure for the purposes Parliament intended. The C&AG has concluded that: • the figures in the Trust Statement are true and fair; and • HMRC has used income and expenditure for the purposes Parliament intended. The 1921 Act also requires the C&AG to consider whether HMRC's systems to collect tax are adequate. We found that HMRC's systems to collect taxes are adequate, subject to the observations in this report and other reports to Parliament.
Resource Accounts	The cost of running HMRC in 2022-23 was £6.9 billion. HMRC paid out £34 billion, including £8.8 billion of Personal Tax Credits and £11.6 billion of Child Benefit. Under the Government Resources and Accounts Act 2000, the C&AG must certify whether HMRC's Resource Accounts are true and fair, and whether HMRC has used the income and expenditure for the purposes Parliament intended. The C&AG has concluded that: • the Resource Accounts are true and fair; but • there remains a material level of error and fraud in Corporation Tax research and development reliefs (Part Two); and • there remains a material level of error and fraud in Personal Tax Credits expenditure (Part Three)
Annual Report	We reviewed HMRC's performance against its main objective of collecting tax revenues and considered the main components of the £814.0 billion raised during 2022-23 (Part One). We reviewed whether HMRC is delivering 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, 2022-23

1 HM Revenue & Customs (HMRC) is responsible for administering the UK's tax system. HMRC's strategic objectives are to:

- 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; and
- support wider government economic aims through a resilient, agile tax administration system.

2 This report sets out our factual commentary on HMRC's performance in 2022-23, together with the reasons and context for the Comptroller and Auditor General's (C&AG's) qualification of his opinion on the regularity of HMRC's 2022-23 Resource Accounts. It draws on the findings from our statutory audit work in respect of HMRC during the period, including the audits of HMRC's financial statements; the adequacy of its systems for collecting revenue; and the value for money it achieved from its spending (see Appendix One). This report does not reach a separate conclusion on the value for money of HMRC's expenditure.

3 In this report we cover:

- HMRC's performance against its 2022-23 objective of collecting revenues and managing compliance, the main components of the £814.0 billion raised in 2022-23 and HMRC's customer service and debt management performance (Part One);
- 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 (Part Two); 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 Personal Tax Credits (Part Three).

Summary findings

Total revenues

4 **HMRC reported total revenues of £814.0 billion for 2022-23, the highest on record, representing an 11.3% increase on 2021-22.** Total revenues increased by £82.9 billion compared with 2021-22 (£731.1 billion). HMRC reported increases in most revenue streams, reflecting the impact of inflation on taxable goods, services and profits, and the freezing of tax bands and thresholds. This increased the size of the taxpayer population and moved some taxpayers into higher tax brackets. Since 2019-20, the year before the COVID-19 pandemic, total revenues have increased by £177.3 billion (27.8%). The four largest components of revenue in 2022-23 were Income Tax, National Insurance Contributions, Value Added Tax (VAT) and Corporation Tax, which together accounted for 83.7% (£681.2 billion) of the total (paragraph 1.2 and Figure 1).

5 **HMRC estimates that the tax gap – the difference between the amount of tax that should, in theory be paid to HMRC, and what was actually paid – has remained at 4.8% of all tax liabilities, equivalent to £35.8 billion in 2021-22.** HMRC's estimate of the tax gap for 2020-21 was 4.8% and £30.8 billion; HMRC revised it down from the 5.1% and £32.2 billion previously reported due to updated data on consumer spending. The tax gap arises for several reasons including mistakes, failure to take reasonable care, avoidance and evasion of tax, and insolvency, and can be affected by factors such as changes in the economy and demographics. In monetary terms, HMRC estimates that the tax gap for personal income taxes, particularly Self Assessment, increased the most. The tax revenue HMRC generated from its tax compliance work declined as a percentage of theoretical tax liabilities in 2020-21 and 2021-22, but HMRC's estimates do not indicate any increase in the size of the tax gap as a result. The pandemic has made reconciling movements in the tax gap to changes in revenue more complex. HMRC defines theoretical tax liabilities as the tax gap plus the amount of tax it actually receives. Its estimate of total theoretical liabilities of £739.3 billion for 2021-22 is just £8.2 billion more than total revenues in that year (paragraphs 1.19 to 1.23 and Figure 4 and Figure 5).

6 **HMRC estimates that the yield from its tax compliance activities in 2022-23 was £34 billion, up 10% compared with 2021-22 but £2 billion below its target.** Compliance yield measures the effectiveness of HMRC's compliance and enforcement activities. It is one of HMRC's main performance measures. The yield reported in 2022-23 is lower than HMRC's target for the year of £36 billion. Compliance yield is affected by interventions in previous years. HMRC explained it is still seeing the effects of reduced compliance activity during the COVID-19 pandemic in its 2022-23 performance. HMRC set its target at a level to maintain the tax gap. HMRC's compliance yield in 2022-23 represents 4.2% of total revenues, the same as in 2021-22 and below the five-year average of 5.2% achieved between 2015-16 and 2019-20 before the pandemic (paragraphs 1.24 to 1.31 and Figure 6 and Figure 7).

7 **Tax debt was £43.9 billion at 31 March 2023, £4.7 billion (11.9%) more than the debt reported at 31 March 2022.** As a proportion of annual revenues, it has remained at 5.4%. The tax debt balance is lower than the £68.5 billion reported at the height of the pandemic but remains significantly higher than the pre-pandemic level. In the five years between 2015-16 and 2019-20, tax debt was typically around £14 billion. The increase in tax debt reported reflects the impact of the current economic conditions on taxpayer finances, meaning more taxpayers are in debt and debts are getting older as taxpayers struggle to pay them. HMRC's research suggests taxpayers may be prioritising other debts before paying their debts to HMRC. There were over one-fifth more new tax debts in 2022-23 than the number of tax debts HMRC was able to clear, while the number of tax debts older than 12 months increased by 25%. HMRC has increased the number of staff to help taxpayers manage their debt and is purchasing data from credit reference agencies to better tailor its debt collection. HMRC has a new strategy to bring down tax debt in the long term but accepts that it will remain at the current higher level throughout 2023-24 (paragraphs 1.10 to 1.15 and Figure 3).

Customer service performance

8 **HMRC's customer service performance remained well below its expected service standards in 2022-23, with particular problems faced by taxpayers wanting to speak to an adviser.** Taxpayers' satisfaction with HMRC's customer services fell further in 2022-23, continuing the trend seen during the pandemic. The performance of HMRC's telephone services was particularly low, with HMRC reporting higher demand than in 2021-22. The average speed of answering calls to HMRC helplines was 16:24 minutes (2021-22: 12:22 minutes), with three-fifths of callers (62.7%) waiting more than 10 minutes to speak to an adviser, up from 46.3% in 2021-22. HMRC's digital services performance was relatively stable. Performance on customer correspondence improved, with 72.7% cleared within 15 working days, but from a low base in 2021-22 of 45.5% and still below HMRC's expected standard of 80%. HMRC says that its existing resources are insufficient to meet forecast demand for phone and post services at the standard it expects. It is instead encouraging taxpayers to self-serve using digital services where they can, although it accepts this transition will take some time. It is employing an average of 1,630 additional temporary staff each month between April and September 2023 to meet some of the additional demand on phone and post services. This follows a reduction of 834 (5%) customer service staff in 2022-23. In recent months it has closed two of its customer helplines: its Self Assessment helpline on a temporary three-month basis, and its VAT registration helpline indefinitely (paragraphs 1.37 to 1.47 and Figure 9 and Figure 10).

Error and fraud in Corporation Tax research and development reliefs and Personal Tax Credits

9 **The C&AG has qualified his opinion on the regularity of HMRC's 2022-23 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 and have proved attractive to those seeking to abuse them, opening up opportunities for fraud. HMRC used the results of a random enquiry programme for the first time to produce an estimate of error and fraud for 2020-21 and in turn an illustrative estimate for 2022-23 of £1.1 billion or 13.3% of related expenditure. This is more than double HMRC's 2021-22 estimate of £469 million (4.9%), which it calculated using its previous methodology, and now provides a more realistic assessment of the rate of error and fraud present in the schemes. HMRC's estimate for 2022-23 includes an assumption that recent compliance interventions will have reduced error and fraud by £250 million. It will not know the actual impact of these interventions until it has completed and evaluated its random enquiries on 2022-23 returns from claimants for that year (paragraphs 2.2 to 2.21 and Figure 11).

10 **HMRC's revised estimate of error and fraud in Corporation Tax research and development reliefs for 2020-21 is £1.1 billion (16.7% of related expenditure).** There is a two-year lag between claimants incurring qualifying expenditure and submitting a return to HMRC. Taken together with the time HMRC needs to open and close its random enquiries, this means that the claims it has currently tested date back as far as 2018-19. HMRC considers that applying the results from its random enquiry programme to 2020-21 expenditure produces the most statistically robust estimate of error and fraud. HMRC estimates that in 2020-21, error and fraud in Corporation Tax research and development reliefs could have been as high as £1.6 billion (23.2%) or as low as £0.9 billion (13.0%) (paragraph 2.13).

11 **HMRC's random enquiry programme found that for the Small- and Medium-sized Enterprise (SME) scheme one-quarter of the value of claims were non-compliant.** Of the £1.1 billion of error and fraud HMRC has estimated for research and development reliefs in 2020-21 as a whole, £1.0 billion relates to the SME scheme. This represents an error and fraud rate of 24.4%, which is among the highest reported across all government spending programmes, including those administered in response to the pandemic. HMRC's random enquiry programme found that 50% of claims filed in 2020-21 that it inspected were non-compliant where some or all of the claim was for expenditure that did not meet the qualifying criteria (paragraphs 2.13 and 2.16 and Figure 11).

12 The C&AG has also qualified his opinion on the regularity of HMRC's 2022-23 Resource Accounts due to the material level of error and fraud in Personal Tax Credits. HMRC's estimate for 2021-22, the most recent available, indicates that error and fraud resulted in overpayments of 4.5% of tax credits expenditure. This is lower than HMRC's revised estimate for the 2020-21 overpayment rate of 4.7%, which it initially reported as 5.0% (note 5.1.3 to the HMRC Resource Accounts). Errors in tax credits resulting in underpayments amounted to 0.4% of expenditure, which is lower than 0.8% in 2020-21. These rates equate to overpayments of £510 million from an estimated 280,000 claims, or on average, £1,821 per claim (a reduction of £220 million compared with finalised 2020-21 estimates) and underpayments of £40 million from an estimated 70,000 claims, or on average £571 per claim (a reduction of £80 million compared with the finalised figures for 2020-21) (paragraphs 3.5 to 3.14 and Figure 12).

Conclusion

13 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 2022-23, 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.

14 HMRC reported record tax revenues for 2022-23, reflecting the impact of inflation on taxable goods, profits and services and the freezing of tax bands and thresholds. This has increased demand for HMRC's services at a time when it is facing its own spending pressures, both of which have affected its performance during the year.

15 HMRC missed its compliance yield target, with yield reported still lower than the average it achieved before the pandemic. This will need to improve if HMRC is to continue to maintain the tax gap. Tax debt remains high as the current economic conditions push more taxpayers into debt and for a longer period of time. HMRC will need to ensure its debt management strategy delivers on its aims of supporting those taxpayers who most need it and collecting tax from those who can afford to pay more quickly.

16 Taxpayers and their agents are still not receiving the support they expect, with customer service performance remaining considerably below HMRC's own targets and historical performance levels. HMRC's plans to move more customer enquiries onto digital channels may address this in the longer term, but it will need to improve how it services current demand while those plans are being implemented and have a contingency should they take longer than anticipated.

17 HMRC now has a more realistic picture of the extent to which Corporation Tax research and development reliefs are being abused. It needs to carefully consider the adequacy of its current compliance approach and the case for inspecting more claims from the period before the point at which the scale of abuse became clear.

Recommendations

18 HMRC should:

a consider whether the scale and focus of its current compliance arrangements for Corporation Tax research and development reliefs are adequate, now that it has a better understanding of the extent to which these schemes are being abused; and

b assess whether it should inspect more Corporation Tax research and development relief claims made prior to the period covered by its latest estimate. This assessment should balance the costs of carrying out further reviews and the expected rate of return on any error and fraud these reviews may identify.

Part One

Performance in 2022-23

1.1 This part of the report sets out HM Revenue & Customs' (HMRC's) performance in 2022-23 in collecting revenues due and managing compliance. Performance is measured by the revenues reported in HMRC's Trust Statement, and the tax gap and compliance yield, which are disclosed in its Annual Report. This part also considers customer service and debt management performance reported by HMRC in 2022-23.

Total revenue in 2022-23

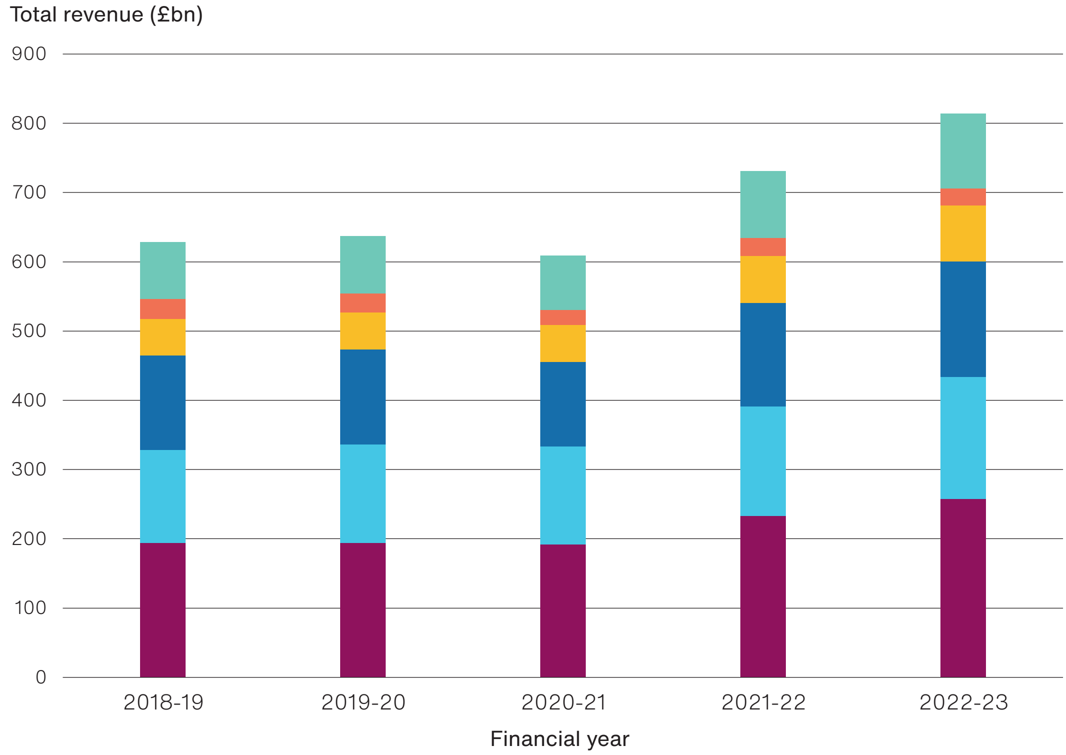
1.2 The total revenue HMRC reported in its Trust Statement for 2022-23 was £814.0 billion (£731.1 billion in 2021-22) (**Figure 1** overleaf).[1] Total revenues increased by £82.9 billion (11.3%), driven by large percentage increases in most taxes. Tax bands and thresholds remained largely unchanged in 2022-23, meaning wage rises increased the size of the taxpayer population and moved some taxpayers into higher tax brackets. Inflationary increases in the prices of taxable goods and services and on companies' profits also contributed to the increase in tax revenues. The following four taxes accounted for 87.3% of the increase: Income Tax (an increase of £24.6 billion (10.5%) from 2021-22), Value Added Tax (VAT) (£18.1 billion, 12.2%), National Insurance Contributions (NICs) (£17.5 billion, 11.1%) and Corporation Tax (£12.2 billion, 17.9%). Total revenues in 2022-23 are the highest ever reported by HMRC and have increased by £177.3 billion (27.8%) since 2019-20, before the COVID-19 pandemic.

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 HMRC receives the cash. Values throughout the report are in nominal terms to maintain consistency with HMRC's Trust Statement and its wider Annual Report and Accounts.

Figure 1

Total revenues reported by HM Revenue & Customs (HMRC), 2018-19 to 2022-23

In 2022-23 total revenues increased by 11.3% to their highest reported level



	2018-19	2019-20	2020-21	2021-22	2022-23
Income Tax (£bn)	194.0	194.2	192.0	233.4	258.0
National Insurance Contributions (£bn)	135.0	141.9	141.5	158.3	175.8
Value Added Tax (£bn)	135.6	137.4	122.1	148.8	166.9
Corporation Tax (£bn)	53.5	53.0	53.7	68.3	80.5
Hydrocarbon oils duty (£bn)	28.0	27.4	21.3	25.8	25.0
Other (£bn)	81.8	82.8	78.2	96.5	107.8
Total revenue (£bn)	**627.9**	**636.7**	**608.8**	**731.1**	**814.0**
Change in total revenue from previous year (£bn)	–	8.8	-27.9	122.3	82.9
Change in total revenue from previous year (%)	–	1.4	-4.4	20.1	11.3

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 Values are in nominal terms to maintain consistency with HMRC's Annual Report and Accounts.

3 Income Tax, National Insurance Contributions, Value Added Tax and Corporation Tax together accounted for 83.7% (£681.2 billion) of total revenue in 2022-23.

Source: National Audit Office analysis of HM Revenue & Customs Trust Statements 2018-19 to 2022-23

1.3 In March 2023, the Office for Budget Responsibility (OBR) forecast that public sector receipts in 2022-23 would increase by £102 billion (11.1%) compared with 2021-22, outperforming growth in the nominal gross domestic product (GDP), which was expected to rise by 7.1%.[2] The OBR's assessment highlighted particularly strong growth in:

- Pay As You Earn (PAYE) and NICs, where most thresholds have been frozen since April 2021. Nominal pay rises since then have both generated new taxpayers, where those individuals now earn more than the tax-free allowance, and moved others into higher tax brackets;
- VAT receipts, which reflects strong growth in nominal consumer spending and the end of some temporary tax cuts that were introduced during the COVID-19 pandemic. VAT cuts for the hospitality industry were in place between 15 July 2020 and 31 March 2022;
- Corporation Tax, with companies' underlying profits in 2022-23 being better than expected, as well as strong growth in sectors such as financial services, retail and professional services that are typically large payers of Corporation Tax; and
- Capital Gains Tax, which has shown stronger-than-expected Self Assessment receipts on liabilities in 2021-22, and higher payments on property disposals.

Repayments

1.4 The total revenue figure of £814.0 billion is net of £130.3 billion of repayments to taxpayers (£126.6 billion in 2021-22) (**Figure 2** 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 it has assessed their full liability, which can lead to repayments.

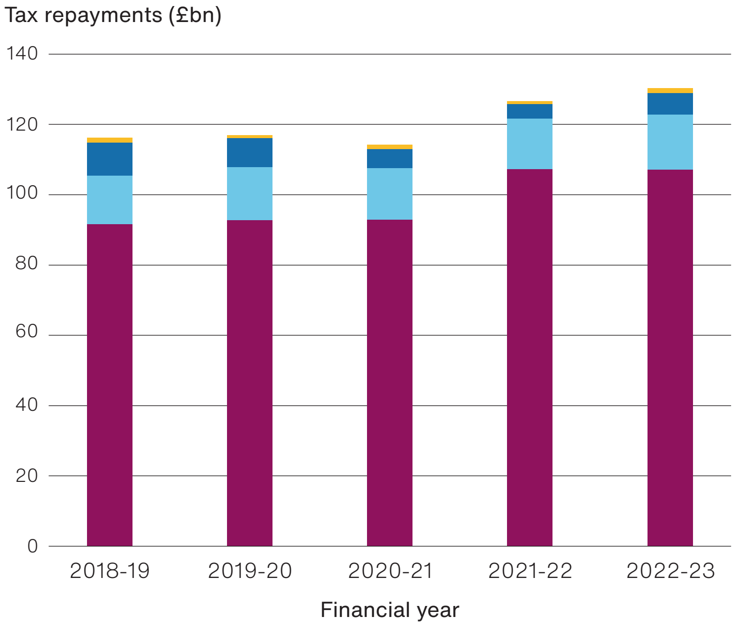
1.5 Most repayments relate to VAT (£107.2 billion in 2022-23, which compares with total VAT revenue in 2022-23 of £166.9 billion). VAT-registered taxpayers can claim back VAT on certain purchases they have made where they relate to the sale of goods and services. This is repaid to taxpayers net of the VAT due to HMRC on the sale of those goods and services.

2 Office for Budget Responsibility, *Economic and fiscal outlook,* March 2023, paragraph 4.6. The large majority of public sector receipts comes from taxes administered by HMRC. Other public sector receipts include Council Tax and Business Rates.

Figure 2

Repayments made by HM Revenue & Customs to taxpayers by tax type, 2018-19 to 2022-23

Total repayments in 2022-23 increased by 2.9%, with most repayments relating to Value Added Tax



	2018-19	2019-20	2020-21	2021-22	2022-23
Value Added Tax (£bn)	91.7	92.9	93.0	107.4	107.2
Income Tax and National Insurance Contributions (£bn)	13.8	15.0	14.6	14.3	15.7
Corporation Tax (£bn)	9.4	8.2	5.5	4.1	6.1
Other (£bn)	1.3	0.9	1.2	0.8	1.3
Total repayments (£bn)	**116.2**	**117.0**	**114.2**	**126.6**	**130.3**

Notes

1 ‘Other’ includes alcohol duties, Capital Gains Tax, hydrocarbon oils duties and stamp duties.

2 Total for 2020-21 does not sum due to rounding.

3 The values presented in this figure are in nominal terms.

Source: National Audit Office analysis of HM Revenue & Customs Trust Statements 2018-19 to 2022-23

Receivables, impairment 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 at 31 March 2023, total HMRC receivables amounted to £192.6 billion – 23.7% of revenue (March 2022: £173.8 billion, 23.8%). This balance consisted of:

- **receivables** – £60.0 billion (31.2%) due from taxpayers but not yet received. This is an increase in the value and proportion outstanding since 31 March 2022 (£51.2 billion, 29.5%). HMRC's analysis indicates there were large increases in the volume of new debt, primarily caused by compliant taxpayers struggling to meet their payment obligations, together with an increase in the aged profile of older debt; and

- **accrued revenue receivables** – an estimated £132.6 billion (68.8%) (31 March 2022: £122.6 billion, 70.5%) of taxes not yet due from taxpayers but related to 2022-23 revenues where a tax return has not been received from the taxpayer by the end of the reporting period.[3] Two-thirds (£6.8 billion) of the £10.0 billion increase in the accrued revenue receivables was attributable to Income Tax, mainly from Self Assessment, due to the growth in income from self-employment and dividends.

1.8 Of the £132.6 billion accrued revenue receivable balance, 92% comprises taxpayer liabilities for Income Tax (£48.7 billion), VAT (£46.2 billion), NICs (£17.4 billion) and Corporation Tax (£10.1 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 4.2 of the Trust Statement.

1.9 We review HMRC's models and assumptions used to calculate the accrued revenue receivables estimates as part of our financial audit of HMRC. As a result of that work, we are satisfied that HMRC's estimates are reasonable based on the data available to HMRC at the time.

3 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.

Tax debt

1.10 As at 31 March 2023, HMRC's tax debt balance was £43.9 billion, £4.7 billion (11.9%) more than the tax debt reported at 31 March 2022 (**Figure 3**).[4] As a proportion of annual revenues, tax debt remained at 5.4%. During 2022-23, the number of taxpayers in debt increased from 7.7 million to 8.4 million. The tax debt balance at 31 March 2023 is lower than the £68.5 billion reported at the height of the pandemic, largely due to the government's Self Assessment and VAT deferral schemes having ended in January and March 2021 respectively and the majority of those debts having now been repaid.

1.11 The tax debt balance remains higher than reported historically. For instance, in the five years between 2015-16 and 2019-20, tax debt was typically around £14 billion. This is partly due to the related increase in tax revenues, but also reflects the impact of the current economic conditions on taxpayer finances, meaning more taxpayers are getting into debt than HMRC can manage and debts are getting older as taxpayers struggle to pay them. HMRC's research suggests taxpayers may be prioritising other debts before paying their debts to HMRC. In a letter to the Committee of Public Accounts in January 2023, HMRC said it expects the debt balance to be at an elevated level into 2023-24.

1.12 The composition of HMRC's tax debt is changing. In 2022-23 HMRC cleared 21.0 million tax debts. The number of new tax debts in the year (25.8 million) increased 7% from 2021-22 and was more than one-fifth higher than the number of debts cleared. HMRC's analysis indicates a large number of taxpayers are getting into debt for the first time as they face temporary financial difficulties. Older debts are also increasing, with a 25% increase in the number of debts older than 12 months. As debts get older, there is an increased risk that HMRC will not be able to recover the debt.

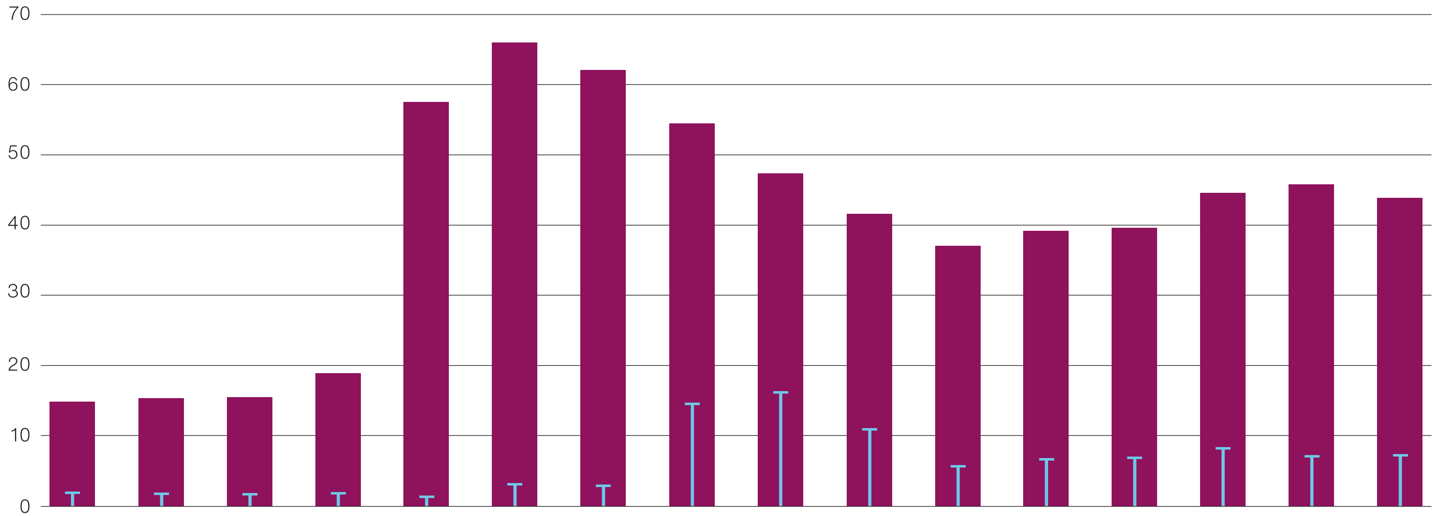
1.13 HMRC considers that the level of 'managed debt' is a good indicator of its debt management performance. Managed debt is mostly debt that is within a time to pay arrangement, but also includes debt that HMRC considers has reached the end of its processes for pursuing and may be considered for remission. As at 31 March 2023, managed tax debt comprised £7.4 billion (16.9% of tax debt), compared with £6.8 billion (17.5%) at 31 March 2022. The average duration of agreed time to pay arrangements has increased from under 10 months in 2019-20 to more than 21 months in 2021-22 and 2022-23.

4 In addition to tax debt, HMRC was owed £2.1 billion in tax credits debt at 31 March 2023, down from £2.4 billion at 31 March 2022.

Figure 3

HM Revenue & Customs' (HMRC's) tax debt and managed tax debt balance, June 2019 to March 2023

Between 31 March 2022 and 31 March 2023, HMRC's tax debt balance increased from £39.2 billion to £43.9 billion



	Jun 2019	Sep 2019	Dec 2019	Mar 2020	Jun 2020	Sep 2020	Dec 2020	Mar 2021	Jun 2021	Sep 2021	Dec 2021	Mar 2022	Jun 2022	Sep 2022	Dec 2022	Mar 2023
Total tax debt balance (£bn)	14.9	15.4	15.5	19.0	57.6	66.0	62.1	54.5	47.4	41.6	37.0	39.2	39.7	44.6	45.8	43.9
(Of which) managed tax debt balance (£bn)	2.1	2.0	1.9	2.0	1.5	3.3	3.1	14.7	16.4	11.1	5.9	6.8	7.0	8.4	7.2	7.4

Notes

1 Data are as at the end of the month.

2 Managed tax debt is tax debt which is within a time to pay arrangement or, since 2020-21, tax debt which HMRC considers has reached the end of its processes for pursuing and may be considered for remission. It is part of the total tax debt balance.

Source: National Audit Office analysis of HM Revenue & Customs data

1.14 HMRC has taken steps to increase its capacity for managing debt. The number of staff in its debt management function increased from 4,289 in 2021-22 to 4,720 in 2022-23. In the Spring Budget 2023, HM Treasury gave HMRC an additional £47.2 million to improve its ability to manage tax debts, including increasing its capacity through debt collection agencies and making it easier for taxpayers to service their own debt arrangements online, for instance, by setting up time to pay arrangements. HMRC expects this investment to help it recover an additional £1.4 billion in tax debt between 2022-23 and 2027-28. HMRC spent £34.0 million in 2022-23 on debt collection agencies to recover tax debt, compared with £20.6 million in 2021-22, and since September 2022 it has entered a new contract that allows it to place more debt with agencies for the same level of investment. In 2022-23, private agencies recovered £813 million in tax debt, an increase from £455 million in 2021-22.

1.15 In a letter to the Committee of Public Accounts in January 2023, HMRC explained its new strategy for managing tax debt. It said its aim is to support customers in short-term financial difficulty to manage their way out of debt quickly and sustainably, while taking enforcement action for taxpayers who can, but choose not to pay. HMRC has expanded its online services to make it easier for taxpayers to manage their debt repayments and has developed six customer profiles so it can tailor its approach to taxpayers in debt. It is using funding from the Spring Budget 2023 to purchase data from credit reference agencies for 2023-24 and 2024-25 to improve the accuracy of its taxpayer segmentation. HMRC told us it expects the long-term impact of its strategy to include taxpayers clearing their debts more quickly and the proportion of older debts reducing.

Impairments

1.16 The receivables balance of £60.0 billion is money that taxpayers were liable for at the end of the financial year but they had not paid. There is a risk that some of the receivables balance will not be collected or may prove not to be due. HMRC estimates the amounts that may not be recovered from taxpayers – for instance where the taxpayer is experiencing financial difficulty – and processes a reduction to the receivables balance in the accounts to reflect this, known as an 'impairment'. HMRC has estimated that it may not be able to collect £19.2 billion (2021-22: £14.4 billion) of these receivables. The impairment as a proportion of receivables increased from 28.1% in 2021-22 to 32.0% in 2022-23. HMRC attributes this to the uncertain economic conditions increasing the volume of older debts, which HMRC has a lower chance of recovering. HMRC's approach to calculating the impairment is set out in Note 4.3 of the Trust Statement.

Losses

1.17 In certain cases, HMRC stops debt collection activity and incurs a 'revenue loss' – such losses are likely to relate to amounts due in earlier financial years. Revenue losses increased 56% between 2021-22 and 2022-23, from £2.4 billion to £3.8 billion, with nearly half (£1.8 billion) relating to VAT debt. There are two forms of revenue losses: write-offs of £3.2 billion during 2022-23 (£1.9 billion in 2021-22) and remissions of £0.6 billion in 2022-23 (£0.5 billion in 2021-22). 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. Revenue losses are mainly driven by individual and corporate insolvencies. Corporate insolvencies in England and Wales increased 36% in 2022-23 as government support to companies during the pandemic ended and the adverse impact the current economic conditions have had on some companies.

Provisions and contingent liabilities

1.18 HMRC recognises a provision in the Trust Statement where it considers that it is probable that it will need to repay taxes already received in the current or previous financial years, in accordance with accounting standards. HMRC has identified two categories of such probable repayments:

- **Legal claims,** where taxpayers have disputed the interpretation of legislation through the courts and want the tax payable to be reassessed. The outcome depends on the court ruling. In 2022-23, HMRC repaid £0.3 billion to taxpayers in respect of legal provisions (2021-22: £0.5 billion). As at 31 March 2023, HMRC expects it will have to repay £3.0 billion (2021-22: £3.2 billion). Claims in respect of Corporation Tax account for 70% of the overall provision. HMRC also separately discloses contingent liabilities for legal claims, where it considers that it is possible, rather than probable, that it will be required to repay tax. Contingent liabilities were £4.1 billion as at 31 March 2023 (2021-22: £3.2 billion).

- **Oil and gas field decommissioning costs,** where companies decommissioning oil and gas infrastructure in the North Sea are entitled to recover tax previously paid in relation to profits from those oil and gas fields. As at 31 March 2023, HMRC estimates that it will have to repay £4.5 billion of tax in relation to oil and gas decommissioning (2021-22: £10.4 billion), based on an estimate of the decommissioning costs they will incur in future periods. The decrease in the 2022-23 estimate relates to sustained increases in oil prices and lower decommissioning costs, both of which are expected to continue for the foreseeable future. The impact of this on oil and gas company profitability is expected to result in less tax being repaid to those companies by HMRC.

Tax compliance

Tax gap

1.19 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".[5] The tax gap occurs for a number of reasons. 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 tax gap can also be affected by factors such as the performance of the economy, demographic changes and the perceived fairness of tax policy. HMRC publishes its tax gap estimates each year. The accounting framework under which HMRC produces its accounts means that the tax gap is not included in its annual Trust Statement.

1.20 On 22 June 2023 HMRC published its latest estimates for the tax gap. It has estimated that the tax gap for 2021-22 – the latest year for which data are available – was 4.8% of total theoretical tax liabilities, or £35.8 billion against total theoretical liabilities of £739.3 billion. It also revised downward its estimate of the tax gap for 2020-21 to 4.8% of total theoretical tax liabilities (£30.8 billion) from the previously reported 5.1% of total theoretical tax liabilities (£32.2 billion). These two years are notable in that they relate to the main time period of the COVID-19 pandemic.

1.21 HMRC's estimate of total theoretical liabilities is difficult to reconcile with total tax revenues for 2021-22 of £731.1 billion, which is just £8.2 billion less than its estimate of total theoretical liabilities. It defines theoretical tax liabilities as the tax gap plus the amount of tax it actually receives. HMRC told us that the relationship between theoretical liabilities and receipts is also complex, and some tax gap models may use tax liabilities instead of actual receipts. In HMRC's *Measuring tax gaps 2023 edition*, it has adjusted the VAT receipts figures used to estimate the VAT gap to account for the impact of the VAT deferred between March 2020 and June 2020 under the VAT payment deferral schemes.

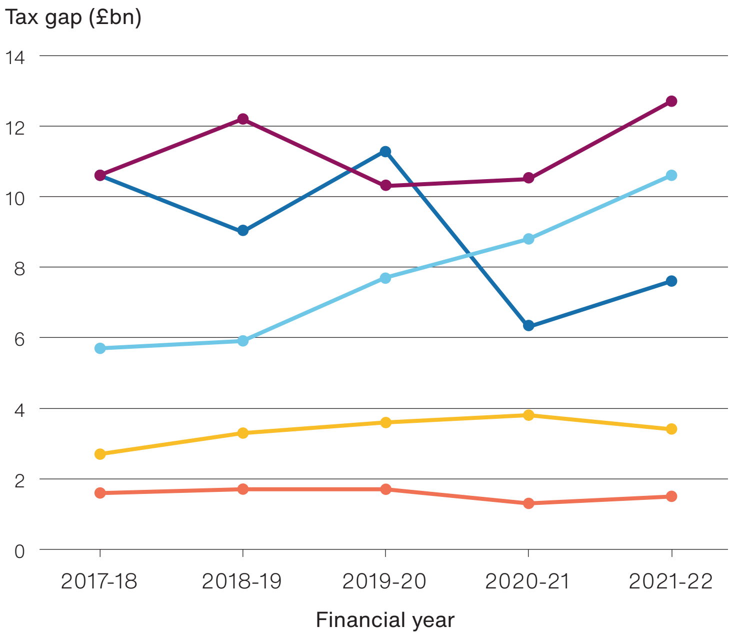
1.22 The tax gap split by different types of tax is shown in **Figure 4**. HMRC revised down its VAT tax gap estimate for 2020-21 due to updated data on consumer expenditure from the Office for National Statistics. In contrast, it revised up its estimate of the Corporation Tax gap due to additional information from random enquiry programmes on levels of tax compliance among small businesses.
For 2021-22 HMRC estimates that the tax gap for personal income taxes increased the most in monetary terms, up £2.2 billion from 2020-21. This was driven by an increase in the tax gap for Self Assessment, which, as a percentage of theoretical tax liabilities, increased from 10.4% in 2020-21 to 11.2% in 2021-22. By customer group, small businesses make up 56% of the tax gap, up from 40% in 2017-18.

5 HMRC's *Measuring tax gaps 2023 edition* is available at: www.gov.uk/government/statistics/measuring-tax-gaps

Figure 4

HM Revenue & Customs' (HMRC's) estimates of tax gap by type of tax, 2017-18 to 2021-22

HMRC's estimates indicate that the tax gap remained at 4.8% of total theoretical tax liabilities, with personal income taxes remaining the largest component



	2017-18	2018-19	2019-20	2020-21	2021-22
Personal income taxes (Income Tax, National Insurance Contributions, Capital Gains Tax) (£bn)	10.6	12.2	10.3	10.5	12.7
Corporation Tax (£bn)	5.7	5.9	7.7	8.8	10.6
Value Added Tax (VAT) (£bn)	10.6	9.0	11.3	6.3	7.6
Excise duty (£bn)	2.7	3.3	3.6	3.8	3.4
Other taxes (£bn)	1.6	1.7	1.7	1.3	1.5
Total tax gap (£bn)	**31.2**	**32.1**	**34.5**	**30.8**	**35.8**
Total tax gap as a percentage of total theoretical liabilities (%)	5.0	4.9	5.2	4.8	4.8

Notes

1 The tax gap is HMRC's estimate of the difference between the total taxes theoretically owed and those actually paid.

2 Total theoretical liabilities are HMRC's estimate of the total amount of tax theoretically owed. The tax gap is generally presented as a proportion of this.

3 The figures presented in this table are in nominal terms.

4 'Other taxes' include stamp duties, Inheritance Tax, Landfill Tax and other taxes, levies and duties.

Source: National Audit Office presentation of HM Revenue & Customs data

1.23 The tax revenue HMRC generates from its tax compliance work (compliance yield) should, in theory, either reduce the tax gap or stop it from increasing. During the pandemic, however, in the years 2020-21 and 2021-22, compliance yield as a proportion of total theoretical tax liabilities declined whereas HMRC's estimates indicate the size of the tax gap also reduced (**Figure 5**). HMRC calculates the tax gap and compliance yield in different ways, based on different time periods, making precise comparisons difficult.

Compliance activities and compliance yield

1.24 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 changes to administrative or filing processes, for instance through HMRC's Making Tax Digital programme.

1.25 The aim of HMRC's compliance work is for everyone to pay the right tax that is legally due, no matter who they are. It considers that its role is to help people to pay the right tax through well-designed systems (preventing non-compliance), to provide education (promoting compliance) and to step in when tax is at risk of not being paid (responding to non-compliance). When taxpayers are not compliant, HMRC's aim is to work with them to get them back on the right track. It will investigate where it believes a business or individual is trying to cheat the tax system. Its compliance strategy is to focus increasingly on preventing non-compliance, which it considers more cost-effective and better for taxpayers if it helps them to get their tax right the first time.

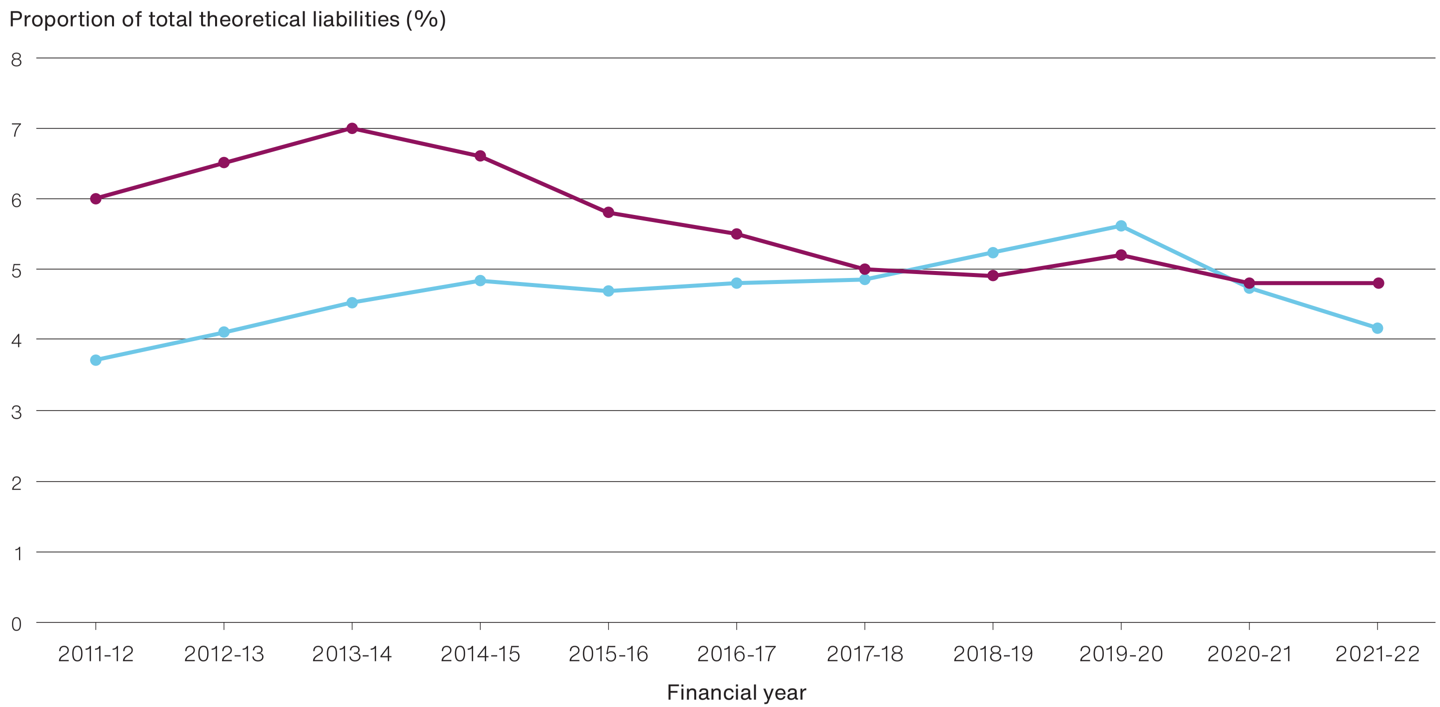
1.26 HMRC measures the effectiveness of its compliance and enforcement activities through compliance yield – that is, the estimate of the additional revenue that HMRC considers it generated, and the revenue losses it prevented. Each year, it agrees a target with HM Treasury and ministers for compliance yield, set at a level that will maintain the tax gap at its current level. Total compliance yield in 2022-23 was £34 billion, a 10% increase compared with 2021-22 (£30.8 billion), and higher than the average over the past five years (2018-19 to 2022-23) of £33.2 billion.[6] Compliance yield for 2022-23 was below the target of £36 billion. HMRC explained that compliance yield is affected by interventions in previous years and that it is still seeing the effects of reduced compliance activity during the COVID-19 pandemic in its 2022-23 performance.

6 The average over the past five years includes two unusual and exceptionally large settlements in 2018-19 and 2019-20.

Figure 5

Compliance yield and tax gap estimates as a proportion of total theoretical tax liabilities, 2011-12 to 2021-22

In 2021-22 the tax gap remained stable despite a decrease in compliance yield



	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Tax gap (%)	6.0	6.5	7.0	6.6	5.8	5.5	5.0	4.9	5.2	4.8	4.8
Compliance yield (%)	3.7	4.1	4.5	4.8	4.7	4.8	4.9	5.2	5.6	4.7	4.2

Notes

1 Compliance yield is defined by HM Revenue & Customs (HMRC) as the revenue collected and protected that would otherwise have been lost to the Exchequer if not for its interventions.

2 The tax gap is HMRC's estimate of the difference between the total taxes theoretically owed and those actually paid.

3 Total theoretical liabilities are HMRC's estimate of the total amount of tax theoretically owed. The tax gap is generally presented as a proportion of this.

4 HMRC's tax gap estimates are not yet available for 2022-23.

Source: National Audit Office analysis of HM Revenue & Customs data

1.27 Compliance yield increased in 2022-23 for three of the five categories that HMRC uses to analyse its compliance performance and decreased for the other two (**Figure 6** on pages R25 and R26). HMRC explained that the changes were due to a variety of factors, including more compliance checks in 2022-23 following reductions in the previous two years due to restrictions on compliance activity and the temporary redeployment of staff to support other parts of HMRC during the pandemic, as well as HMRC's strategy to move more of its compliance activity 'upstream', encouraging voluntary compliance and preventing non-compliance before it happens. HMRC has set an aspiration that upstream work will contribute at least 25% of total compliance yield by 2024-25. HMRC achieved this in 2022-23 but acknowledges it needs to exploit new opportunities, including through legislative changes, to maintain this proportion.

1.28 In May 2023 the Committee of Public Accounts expressed concern that any compliance yield targets stated in cash terms will not be sufficiently stretching during a period of high inflation and recommended that HMRC set a target for compliance yield as a percentage of tax revenues.[7] HMRC explained its compliance yield target takes into account growth in receipts, inflation and changes in the wider economy. In the five years before the pandemic, HMRC's compliance yield was on average 5.2% of total revenues. The Committee said that HMRC will need compliance yield to exceed this historical performance of 5.2% if it is to catch up with the impact of the pandemic. HMRC's compliance yield in 2022-23 equated to 4.2% of total revenues, the same as in 2021-22 (**Figure 7** on page R27).

1.29 In 2022-23, HMRC opened 299,000 compliance cases (2021-22: 265,000) and closed 280,000 (2021-22: 256,000). This represents a reduction of 63,000 (17%) cases opened and 71,000 (20%) cases closed compared with 2019-20 before the pandemic. HMRC says this partly reflects its strategy to focus increasingly on upstream efforts to ensure taxpayers comply in the first place, and to prioritise larger and higher-impact cases. As the nature of cases opened and closed can vary in complexity and duration, HMRC's mix of compliance activity will change year on year and so it considers compliance yield rather than levels of activity to be the key measure of compliance performance.

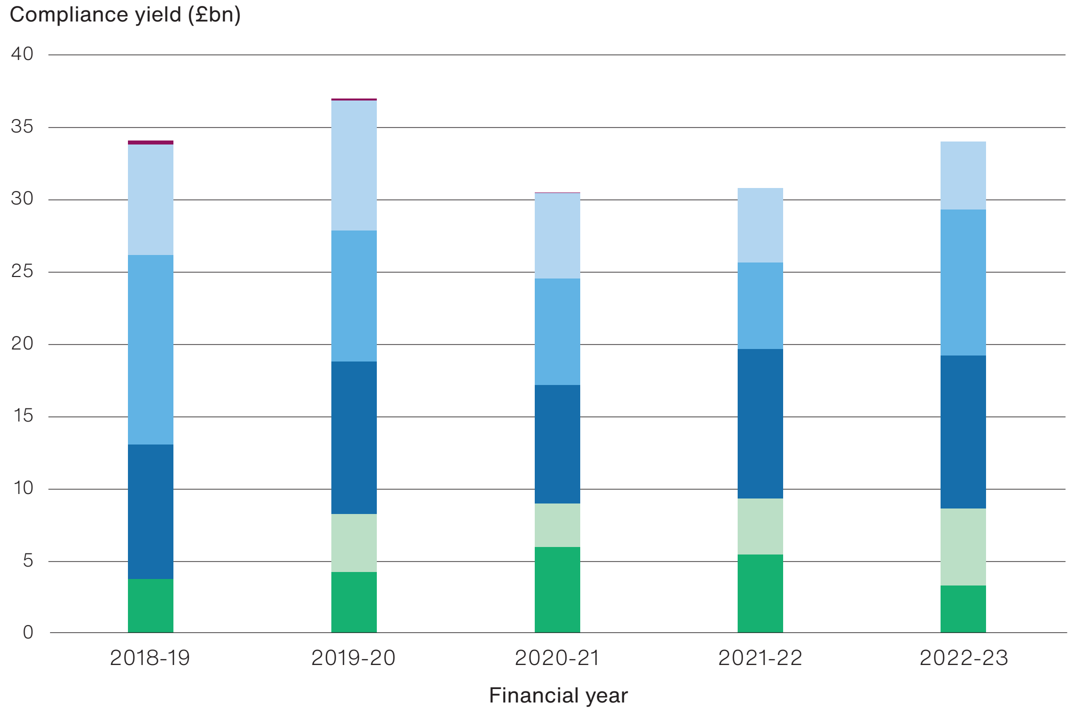
1.30 HMRC's criminal investigations resulted in 240 prosecutions in 2022-23 (2021-22: 236), lower than the 691 prosecutions in 2019-20. HMRC told us that this decrease is a result of delays in the criminal justice system as well as its strategy to increasingly focus its criminal investigations on the most serious cases. In May 2023, the Committee of Public Accounts expressed concern that, without sufficient numbers of prosecutions, HMRC cannot demonstrate a credible deterrent effect from its compliance work.

7 Committee of Public Accounts, *Managing tax compliance following the pandemic*, Session 2022-23, HC 739, May 2023.

Figure 6

Compliance yield performance by category, 2018-19 to 2022-23

Compliance yield reported by HM Revenue & Customs (HMRC) increased by 10.4% in 2022-23



	2018-19	2019-20	2020-21	2021-22	2022-23
Upstream product and process yield (£bn)	3.7	4.2	5.9	5.4	3.3
Upstream operational yield (£bn)	–	4.1	3.1	3.9	5.3
Revenue loss prevented (£bn)	9.3	10.6	8.2	10.3	10.6
Cash expected (£bn)	13.1	9.0	7.4	6.0	10.1
Future revenue benefit (£bn)	7.6	9.0	5.9	5.2	4.7
Accelerated payments (£bn)	0.3	0.1	0.0	–	–
Total compliance yield (£bn)	**34.1**	**36.9**	**30.5**	**30.8**	**34.0**
Percentage change from previous year (%)	–	8.4	-17.6	1.1	10.4

Figure 6 *continued*

Compliance yield performance by category, 2018-19 to 2022-23

Notes

1 Compliance yield is defined by HMRC as the revenue collected and protected that would otherwise have been lost to the Exchequer if not for its interventions.

2 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. Since 2021-22, HMRC has no longer included yield from accelerated payments as a separate category and has instead incorporated it within cash expected and upstream product and process yield.
- Future revenue benefit – estimate of the effect of HMRC's compliance work on taxpayers' future behaviour.
- 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 become a more significant proportion of total yield. It had previously been included as part of 'cash expected'.
- Upstream product and process yield – estimate of the 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 loss 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 – an estimate of the amount of additional revenue paid when HMRC identified past non-compliance.

3 Totals for 2019-20 and 2020-21 do not sum due to rounding.

4 The figures include two unusual and exceptionally large settlements in 2018-19 and 2019-20, which were spread across revenue loss prevented and future revenue benefit.

5 The values presented in this figure are in nominal terms.

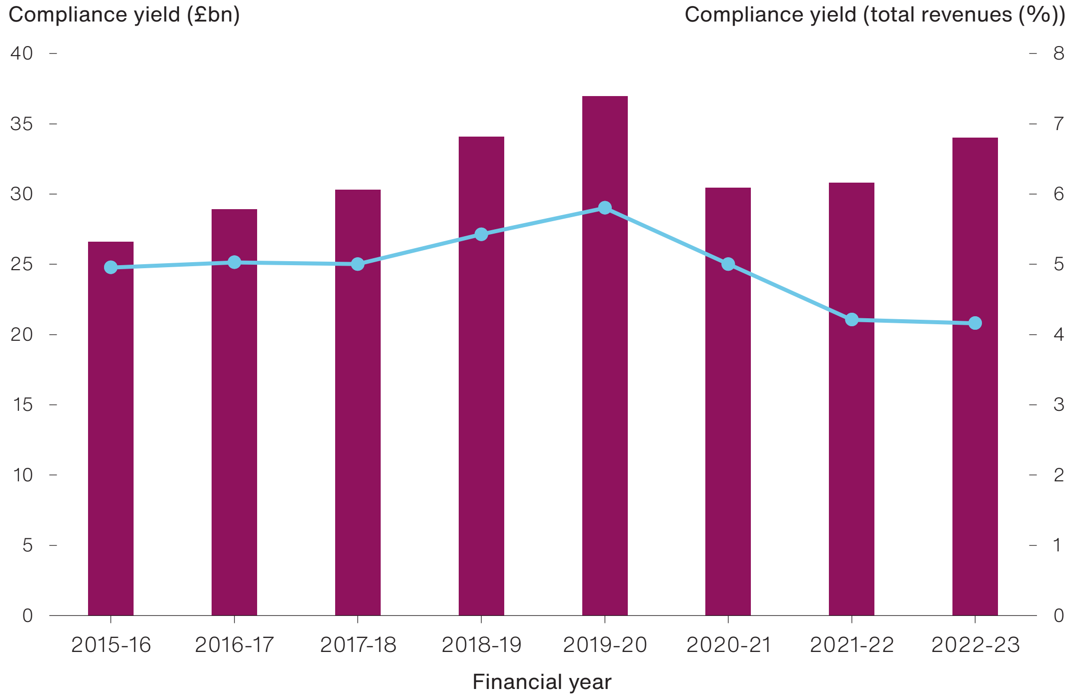
Source: National Audit Office presentation of HM Revenue & Customs data

1.31 HMRC's planned compliance activities are influenced by a number of factors, including compliance yield targets, the relative size of the estimated tax gap in a particular area, and reputational factors and affordability within HMRC budgets. HMRC told us it prioritises its compliance resources in order to ensure sufficient coverage of each area of risk and to maintain levels of voluntary compliance. In 2022-23, HMRC increased its compliance workforce by 12%, from 25,442 to 28,526. In the 2022 Autumn Statement, the government committed an additional £79 million for additional HMRC capacity between 2023-24 and 2027-28 to tackle more cases of serious tax fraud and address tax compliance risks among wealthy taxpayers. HMRC expects this to yield an additional £725 million between 2023-24 and 2027-28.

Figure 7

Compliance yield compared with total revenues, 2015-16 to 2022-23

Compliance yield has fallen as a proportion of total revenues since the start of the COVID-19 pandemic at the end of 2019-20



	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Compliance yield (£bn)	26.6	28.9	30.3	34.1	36.9	30.5	30.8	34.0
Compliance yield (total revenues (%))	5.0	5.0	5.0	5.4	5.8	5.0	4.2	4.2

Notes

1 Compliance yield is defined by HM Revenue & Customs (HMRC) as the revenue collected and protected that would otherwise have been lost to the Exchequer if not for its interventions.

2 Values are in cash terms and have not been adjusted for inflation, to align with conventional reporting of tax revenues. To illustrate how compliance yield performance has changed over time, we have also included it as a proportion of total revenues on a secondary axis.

3 The figures include two unusual and exceptionally large settlements in 2018-19 and 2019-20.

Source: National Audit Office analysis of HM Revenue & Customs data

Error and fraud in the COVID-19 employment support schemes

1.32 The Comptroller and Auditor General qualified his regularity opinion on the 2020-21 and 2021-22 HMRC Resource Accounts due to the material levels of error and fraud present in the main COVID-19 employment support schemes, which comprise: the Coronavirus Job Retention Scheme (CJRS) and the Self-Employment Income Support Scheme (SEISS). The schemes ended in September 2021, so the 2022-23 accounts do not record any related expenditure. The estimated value and rate of error and fraud across the lifetime of the schemes was reported in the 2021-22 accounts as: CJRS £3.5 billion (5.0%) and SEISS £1.0 billion (3.6%).

1.33 In drawing the schemes to a close, HMRC has calculated a final estimate of the levels of error and fraud present in the schemes. These estimates reflect the results of further compliance activity undertaken since HMRC prepared the 2021-22 accounts, details of which are included in HMRC's 2022-23 Annual Report. HMRC's final estimates of error and fraud in respect of the schemes were: CJRS £3.5 billion (5.1%); SEISS £1.5 billion (5.2%) (**Figure 8**). The final estimate for error and fraud across both schemes is £5.0 billion (5.1%) in total, which is £0.5 billion (0.5 percentage points) more than reported in the 2021-22 Annual Report and Accounts.

1.34 The increase in overall error and fraud in the schemes relates mainly to higher levels of non-compliance identified from HMRC's sample testing of SEISS claims since the 2021-22 estimate was produced. HMRC considers that this is largely due to non-compliance with the 'reasonable belief' declaration which it introduced for tranches 4 and 5 of the SEISS scheme. HMRC estimates that this identified a further £615 million of error and fraud compared with its 2021-22 estimate for SEISS, although other causes of error and fraud were lower than HMRC had previously estimated.

1.35 Using additional funding from HM Treasury, HMRC set up a Taxpayer Protection Taskforce in April 2021 to identify and recover error and fraud in the COVID-19 support schemes. By the end of 2022-23, the Taskforce had recovered £520 million of error and fraud in addition to £536 million recovered before the Taskforce was in place. This is compared with HMRC's expectation that the Taskforce will recover between £525 million and £625 million across its lifetime, revised down from between £800 million and £1 billion due to lower levels of error and fraud on the schemes than HMRC anticipated.

1.36 Between March and September 2023, HMRC is shifting the activities of the Taskforce into its business-as-usual tax compliance function. HMRC says that this will help it consider all aspects of a customer's potential non-compliance issues when planning and prioritising its compliance activity. HMRC says it has already tackled the riskiest claims and will see diminishing returns from its compliance work. In 2022-23, HMRC estimates each full-time equivalent officer on the Taskforce returned £0.28 million in prevented or recovered error and fraud, compared with £1.15 million for business-as-usual tax compliance work in recent years.

Figure 8

HM Revenue & Customs' (HMRC's) final central estimate[1] of error and fraud in the main COVID-19 employment support schemes

HMRC has estimated there was £5.0 billion of error and fraud across the lifetime of the schemes

	Coronavirus Job Retention Scheme (CJRS)	Self-Employment Income Support Scheme (SEISS)	Total
Net cost (£bn)	69.2	28.1	**97.3**
HMRC's final central estimate of the cost of error and fraud (£bn)	3.5	1.5	**5.0**
HMRC's final central estimate of the rate of error and fraud (%)	5.1	5.2	**5.1**

Notes

1 HMRC also reports lower and upper estimates of error and fraud.

2 HMRC estimates the residual error and fraud within the schemes. Residual error and fraud is defined as the monetary value of error and fraud remaining after pre-payment checks but before the effects of post-payment compliance activity have been realised. HMRC's estimates of the cost of error and fraud is determined on the basis of gross expenditure less unprompted repayments and repayments related to disclosures. HMRC classify this as net cost.

3 HMRC's estimates of the likely levels of error and fraud in CJRS are based upon a combination of a mandatory random enquiry programme into a sample of claims, and insights from HMRC administrative data; internal and external surveys; pre-payment risking and verification checks; post-payment compliance data; and experience from error and fraud rates in other tax and benefit streams it administers. HMRC's estimates for SEISS are based upon modelling using a combination of a random enquiry programme into a sample of claims, data from 2020-21 and 2021-22 Self Assessment tax returns, insights from HMRC administrative data and post-payment compliance outputs. HMRC's estimates for both CJRS and SEISS remain subject to uncertainty.

Source: National Audit Office analysis of HM Revenue & Customs data

Customer service performance

1.37 This section considers HMRC's customer service performance in 2022-23 and the factors affecting it. It also sets out the latest developments in the measurement of its customer service performance. Taxpayers' satisfaction with HMRC's customer services fell further in 2022-23, continuing a trend seen since the pandemic. HMRC has improved performance on customer correspondence, although from a low base in 2021-22 and still below HMRC's expected standard. Taxpayers' satisfaction with HMRC's digital services remained broadly at 2021-22 levels.

1.38 In 2022-23, HMRC's customer service performance was adversely affected by IT performance problems, particularly towards the end of the 2022 calendar year. For example, between 1 and 5 December 2022, HMRC closed all of its telephone-based services due to poor call quality and the inability of advisers to access relevant information. Webchat was also unavailable at this time. HMRC estimates it would have handled approximately 99,000 calls from taxpayers during the period the telephone services were suspended.[8] In 2022-23, HMRC recorded 45 separate instances of significant disruption to its IT services, up from 25 in 2021-22.

Performance in 2022-23

1.39 In 2021-22, HMRC set out in its Outcome Delivery Plan five priority metrics it would use to monitor its customer service performance, aligned to its strategic objectives. They seek to measure how easy or hard it is for taxpayers to access services, and whether HMRC has helped taxpayers to resolve their queries. For 2022-23, HMRC has added two further priority metrics, on the percentage of customers who were able to resolve their issue ('Once and Done') and performance in clearing customer correspondence within 40 days.

1.40 HMRC published its customer service standards for 2022-23 having not been set any formal targets by HM Treasury for 2021-22 due to the uncertainty caused by the pandemic. HMRC did not meet any of the service standards it set for 2022-23 (**Figure 9**).

1.41 Customer correspondence performance improved compared with the previous year, although HMRC missed its service standard for responding to enquiries within 15 days or 40 days in all four quarters of 2022-23. HMRC reported receiving 10% more items of correspondence requiring a response in 2022-23 compared with 2021-22. HMRC's performance against its Net Easy service standard reduced compared to 2021-22, with performance deteriorating in every quarter in 2022-23, driven by reported problems with the telephone service. HMRC received 9% more calls in 2022-23 compared with 2021-22. Performance in the last quarter of 2022-23 was particularly low. HMRC told us that demand for its services during this period was higher than it had forecast.

1.42 While HMRC has introduced a new set of customer service measures, it has continued to report its performance against most of its long-standing measures, mainly response time. HMRC's reported data show that its performance has declined for all of these measures since 2018-19 except for customer service satisfaction for digital services. Performance declined in 2022-23 for all measures except for customer correspondence (**Figure 10** on page R32). In that time, average call waiting times have more than trebled, from 05:14 minutes to 16:24 minutes, with average wait times exceeding 20 minutes in the last quarter of 2022-23.

8 See HMRC letter to Treasury Committee, dated 7 December 2022, available at: https://committees.parliament.uk/publications/31952/documents/179382/default/

Figure 9

HM Revenue & Customs' (HMRC's) quarterly performance in 2022-23 for seven key customer service measures

HMRC did not meet any of the service standards it set for 2022-23

Measure	Service standard for 2022-23	April to June	July to September	October to December	January to March	2022-23 outturn	2021-22 outturn[1]
Net Easy – phone, webchat and digital services[2]	70.0	63.9 A	61.7 R	59.6 R	55.7 R	59.8 R	65.5
Telephony adviser attempts handled[3]	85.0%	73.0% R	77.2% A	74.6% R	61.9% R	71.1% R	77.3%
Webchat adviser attempts handled[4,5]	–	94.9%	95.3%	95.1%	93.8%	94.7%	92.9%
Customer correspondence (post and iForms) cleared within 15 working days of receipt[6]	80.0%	63.5% R	76.5% A	76.9% A	74.3% A	72.7% A	45.5%
Customer correspondence (post and iForms) cleared within 40 working days of receipt[6]	95.0%	86.1% A	90.0% A	90.8% A	90.8% A	89.4% A	64.1%
Customer satisfaction with phone, webchat and digital[7]	80.0%	81.1% G	80.1% G	79.2% A	77.3% A	79.2% A	82.0%
Once and Done[5,8]	–	85.7%	85.0%	84.5%	83.1%	84.4%	–

G Green – performance exceeded service standard

A Amber – performance below service standard but within 10%

R Red – performance more than 10% below service standard

Notes

1 Performance in 2021-22 was assessed against quarterly performance expectations rather than annual service standards so these have not been colour-coded here.

2 A survey conducted on telephone and digital services. The survey question is: "How easy was it to deal with us today?" The figures represent the total of positive responses minus the total of negative responses. The score that can be achieved ranges from -100 to 100.

3 The proportion of callers who go through to an adviser after hearing the automated messages and choosing the option to speak to an adviser.

4 The proportion of customers taking up a webchat offer that successfully got through to a webchat adviser.

5 Although HMRC identified webchat adviser attempts handled and Once and Done as priority metrics for 2022-23, it did not set corresponding targets.

6 Targeted post and iForms cleared within 15 and 40 days divided by total targeted post and iForms received. The day of receipt is counted as day zero.

7 A measure of the percentage of HMRC customers that responded that they were either 'satisfied' or 'very satisfied' with the service.

8 The proportion of customers who responded 'yes' when asked whether they were able to achieve what they needed to today. This measure is new for 2022-23.

Source: National Audit Office analysis of HM Revenue & Customs data

Figure 10

HM Revenue & Customs' (HMRC's) customer service performance, 2018-19 to 2022-23

All customer service performance measures have declined since 2018-19, with the exception of digital services performance, which has been broadly maintained during that time

Measure	2018-19 outturn	2019-20 outturn	2020-21 outturn	2021-22 outturn	2022-23 outturn	Performance trend
Average speed of answering calls to HMRC helplines (queue time in minutes)[1]	05:14	06:39	12:04	12:22	16:24	Declining
Customers waiting more than 10 minutes to speak to an adviser[1]	19.7%	29.9%	44.7%	46.3%	62.7%	Declining
Customer correspondence responded to within 15 days[2]	76.6%	70.3%	64.4%	45.5%	72.7%	Improved in 2022-23
Customer correspondence responded to within 40 days[2]	96.4%	88.0%	85.3%	64.1%	89.4%	Improved in 2022-23
Average time to handle new tax credits and Child Benefit claims and changes of circumstances – UK customers	12.0 days	13.2 days	11.2 days	15.4 days	14.2 days	Improved in 2022-23
Average time to handle new tax credits and Child Benefit claims and changes of circumstances – international customers	61.5 days	65.7 days	64.8 days	84.1 days	134.1 days	Declining
Customer satisfaction with digital services[3]	80.4%	81.6%	85.2%	83.4%	82.7%	Broadly maintained

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. Historically, HMRC had been reporting against customer-facing telephone numbers (such as Tax Credits, Pay As You Earn and Self Assessment). From 2021-22, all HMRC helplines are included in the measure.

2 The customer correspondence measures cover post only for 2018-19 to 2020-21. Subsequent years cover post and iForms. iForms can be filled in and filed online.

3 Customer satisfaction for digital services is measured using an exit survey.

Source: National Audit Office analysis of HM Revenue & Customs data

HMRC's strategy for improving customer services

1.43 Key stakeholders, including the professional accountancy and tax bodies, wrote to the Chancellor of the Exchequer in March 2023 to raise concerns about the deterioration in HMRC's customer service performance and the impact this is having on taxpayers and their advisers.[9] They expressed particular concern about the severe delays, disruption and frustration when dealing with HMRC, and the impact these delays are having on cashflow and costs. In June 2023, the Adjudicator's Office reported concerns with HMRC's complaints procedures, with significant backlogs in parts of the business and increasing numbers of customers receiving little or no meaningful response from HMRC for long periods of time.[10]

1.44 HMRC wrote to the Committee of Public Accounts in May 2023 to set out its plan to improve customer service performance. HMRC said that its existing resources are insufficient to meet forecast demand for phone and post services in line with its expected levels of service. Instead, improving service levels will rely on HMRC enabling and encouraging taxpayers who can self-serve using digital services to do so in the first instance. In this way, HMRC hopes to free up its advisers to offer a better service for those taxpayers with more complex queries or that are unable to use online services.

1.45 HMRC's Making Tax Digital transformation programme, established in 2015-16, aims to modernise HMRC's separate IT systems for three business taxes, requiring business taxpayers to keep and submit digital tax records. The programme is part of the government's 10-year tax administration strategy to improve its resilience, effectiveness and support for taxpayers. However, we reported in June 2023 that HMRC's initial timeframe for the programme was unrealistic and has since faced repeated delays and rephasing, undermining its credibility and increasing its costs. We concluded that HMRC had not demonstrated the programme offers the best value for money for digitalising the tax system, with later business cases significantly underplaying the total cost to customers of making the change. We recommended that HMRC should develop a more robust business case and resolve key questions about the design of the programme.[11]

9 Association of Accounting Technicians, Association of Chartered Certified Accountants, Association of Taxation Technicians, Chartered Institute of Management Accountants, Chartered Institute of Payroll Professionals, Chartered Institute of Taxation, Institute of Chartered Accountants in England and Wales, Institute of Chartered Accountants of Scotland, Institute of Certified Bookkeepers, STEP, *Open letter on HMRC service levels ahead of the Spring Budget 2023,* 1 March 2023, available at: www.aat.org.uk/prod/s3fs-public/assets/Open-letter-HMRC-service-levels-ahead-of-Spring-Budget-2023.pdf

10 The Adjudicator's Office, *The Adjudicator's Office annual report 2023*, June 2023.

11 Comptroller and Auditor General, *Progress with Making Tax Digital*, Session 2022-23, HC 1319, National Audit Office, June 2023.

1.46 The Committee of Public Accounts has previously raised concern that HMRC's plans for digital services will not sustainably reduce demand for phone and post services.[12] HMRC acknowledges it will take some time to encourage customers to move to digital services and is planning to employ an average of 1,630 additional temporary staff each month between April and September 2023 to meet some of the demand on phone and post services during the transition. This follows a reduction of 834 (5%) in 2022-23 in the number of customer service staff not involved in debt management.

1.47 HMRC is closing down some of its customer services, either permanently or temporarily at less busy times of the year, to provide additional capacity elsewhere. In June 2023, HMRC closed its Self Assessment helpline for three months, with HMRC redirecting callers to use its digital services. HMRC says this will free up 350 advisers to respond to written correspondence and urgent calls on other helplines. In May 2023, HMRC closed its VAT registration helpline indefinitely.

12 Committee of Public Accounts, *HMRC performance in 2021–22*, Session 2022-23, HC 686, January 2023.

Part Two

Corporation Tax research and development reliefs

2.1 The Comptroller and Auditor General (C&AG) has qualified his opinion on the regularity of HM Revenue and Customs' (HMRC's) 2022-23 financial statements due to the material level of error and fraud in Corporation Tax research and development reliefs. This part of the report covers:

- an overview of HMRC's estimates for Corporation Tax research and development reliefs error and fraud; and
- developments in tackling error and fraud in the administration of these reliefs.

Corporation Tax research and development reliefs

2.2 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 carry out research or seek to make an advance in the field. There are two separate schemes: the SME scheme for small- and medium-sized enterprises (SMEs), 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 tax credit paid in cash by HMRC.

2.3 HMRC operates both schemes as part of administering the Corporation Tax system, the revenues from which HMRC reports in its Trust Statement. HMRC's Resource Accounts report expenditure on the schemes because they often result in cash payments (expenditure) unlike most other types of tax relief.

2.4 Note 5.1.4 to the Resource Accounts records Corporation Tax research and development reliefs expenditure of £10.2 billion in 2022-23 (£9.5 billion in 2021-22). Of this, £3.7 billion (£3.6 billion in 2021-22) relates to the RDEC scheme and £6.5 billion (£5.9 billion in 2021-22) to the SME scheme.

Qualification of the C&AG's audit opinion on the regularity of Corporation Tax research and development reliefs

2.5 The Corporation Tax Act 2009 specifies the eligibility criteria for research and development reliefs that companies can claim. Where error and fraud results in HMRC overpaying or underpaying Corporation Tax research and development reliefs to claimants who are either not entitled to these reliefs or are not paid the correct amount according to the legislation, the transactions do not conform with Parliament's intention and are irregular.

2.6 HMRC's latest estimate for 2022-23 indicates that the level of error and fraud present within Corporation Tax research and development reliefs was £1.1 billion or 13.3% of related expenditure in 2022-23 (excluding adjustments relating to earlier periods) (**Figure 11**). HMRC says this estimate should be viewed as illustrative only, based on a revised estimate of error and fraud in 2020-21 using the results of a mandatory random enquiry programme (MREP), further details of which are set out in paragraphs 2.10 to 2.14. Prior to this, HMRC estimated error and fraud using a different methodology that produced much lower estimates of error and fraud. Its most recent estimate prior to applying the MREP was £469 million or 4.9% in 2021-22.

2.7 Of the £1.1 billion of error and fraud that HMRC has estimated for 2022-23, £1.0 billion relates to the SME scheme (19.5% of SME expenditure) and £48 million relates to the RDEC scheme (1.7% of RDEC expenditure). HMRC's estimate for 2022-23 includes an assumption that recent compliance interventions will have reduced error and fraud by £250 million. It will not know the actual impact of these interventions until it has completed and evaluated its random enquiries on 2022-23 returns from claimants for that year.

2.8 The current estimates present a more realistic assessment of the underlying level of error and fraud that has always been present in the schemes. Now that HMRC has a better understanding of the extent to which the schemes are being abused, it will need to consider: whether the scale and focus of its current compliance arrangements are adequate; and the value-for-money case of inspecting more claims made prior to the period covered by its current estimates.

2.9 In the C&AG's view, the level of error and fraud in Corporation Tax research and development reliefs remains material by reference to the related expenditure, and he has qualified his audit opinion on that basis.

Figure 11

Estimated value and rate of error and fraud in Small- and Medium-sized Enterprise (SME) and Research and Development Expenditure Credit (RDEC) relief schemes, 2019-20 to 2022-23

The introduction of HM Revenue & Customs' (HMRC's) mandatory random enquiry programme (MREP) has revealed far higher levels of error and fraud than previously detected, mostly within the SME scheme, for which HMRC has estimated an error and fraud rate of 19.5% in 2022-23

		HMRC's previously reported estimates, calculated using its previous methodology[2]			Estimates based on the results of HMRC's MREP[3]	
		2019-20	2020-21	2021-22	2020-21	2022-23
Value of error and fraud (£mn)	SME scheme	271	303	430	1,038	1,003
	RDEC scheme	40	33	39	90	48
	Overall	**311**	**336**	**469**	**1,127**	**1,051**
Rate of error and fraud (%)	SME scheme	5.6	5.5	7.3	24.4	19.5
	RDEC scheme	1.0	0.9	1.1	3.6	1.7
	Overall	**3.6**	**3.6**	**4.9**	**16.7**	**13.3**

Notes

1 The rate of error and fraud in the schemes is the value of error and fraud as a percentage of total expenditure in the schemes.

2 HMRC has previously reported error and fraud on the schemes based on an analysis of compliance case reviews. This gave HMRC estimates up to and including 2021-22.

3 HMRC has since changed its methodology and its estimates now use the results of an MREP. Its revised estimate for 2020-21 is based on an MREP covering claims filed in 2020-21, relating to expenditure incurred by claimants in 2018-19 and 2019-20. HMRC has also produced an estimate for 2022-23 based on these same MREP results and an assumption about the impact of recent compliance interventions. It has not produced an estimate for 2021-22 based on the MREP results.

Source: National Audit Office analysis of HM Revenue & Customs data

Estimated level of error and fraud in Corporation Tax research and development reliefs

2.10 The C&AG has qualified his regularity opinion on Corporation Tax research and development reliefs every year since 2019-20, the first year HMRC produced an estimate of error and fraud in those reliefs. The factors that informed the C&AG's risk assessment and request that HMRC produces an estimate remain relevant and included:

- HMRC's own 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 expenditure under the schemes in recent years, which has continued into 2022-23; and
- an increase in public reporting of instances of abuse of these schemes, including through unregulated agents.

2.11 Between 2019-20 and 2021-22, HMRC based its estimate of error and fraud on an analysis of compliance case reviews where it had assessed the claims as being at risk of error or fraud, together with a series of assumptions, including that unreviewed cases have a lower rate of error and fraud. We have previously reported that, while these estimates were sufficient to demonstrate that the levels of error and fraud present in the schemes were material to the accounts, they were limited by the quality and availability of data on unreviewed cases that meant the actual level of error and fraud could be significantly different. This is borne out in the significantly higher levels of error and fraud reported in HMRC's current estimates.

2.12 In response to our recommendations from previous audits, HMRC's current estimates of error and fraud were calculated using the results of a Mandatory Random Enquiry Programme (MREP) for the first time. This involved inspection of a random sample of claims filed in 2020-21, relating to expenditure incurred by claimants in 2018-19 and 2019-20. These were the most recent claims available to HMRC at the time it commenced its work.

2.13 In addition to its 2022-23 estimate, HMRC has also produced a revised estimate for 2020-21, which indicates that error and fraud in Corporation Tax research and development reliefs was £1.1 billion or 16.7% of related expenditure; £1.0 billion of this relates to the SME scheme. Given the two-year lag between claimants incurring qualifying expenditure and submitting a return to HMRC and the time needed to open and close its random enquiries, it considers that applying the results from its random enquiry programme to 2020-21 expenditure produces the most statistically robust estimate of error and fraud. HMRC estimates that in 2020-21, error and fraud in Corporation Tax research and development reliefs could have been as high as £1.6 billion (23.2%) or as low as £0.9 billion (13.0%). Its central estimate for error and fraud on the SME scheme was 24.4%, which is among the highest reported across all government spending programmes, including those administered in response to the pandemic.

2.14 The implementation of an MREP represents good practice in the measurement of error and fraud and is a welcome development. The key features of HMRC's approach to its estimates included that:

- HMRC's compliance team selected 500 SME scheme claims filed in 2020-21. Of these, HMRC had closed 484 investigations at the time it produced the estimate. HMRC estimated the yield from the remaining 16 open cases and included this in its overall estimate;
- HMRC evaluated the error and fraud identified from review of the sampled claims to estimate an error and fraud rate and value for 2020-21;
- HMRC applied a 'non-detection multiplier' to the results to estimate any error or fraud that caseworkers may have missed during their reviews; and
- HMRC applied the error and fraud rates identified through its MREP to 2022-23 expenditure in calculating the value of error and fraud for 2022-23. It reduced this amount by £250 million to reflect its estimate of the impact compliance interventions it has introduced since 2020-21 will have had on error and fraud in 2022-23.

2.15 HMRC chose not to undertake an MREP in respect of large business claims under the RDEC scheme. HMRC considered this was unnecessary due to the historically lower levels of error and fraud it has identified for the scheme and the involvement of dedicated customer compliance managers who work with large businesses eligible for RDEC reliefs. HMRC's estimate of error and fraud by large companies in the RDEC scheme is, therefore, based substantially on detailed Business Risk Reviews and risk assessments of large business claims, similar to the approach in previous years. The increase in error and fraud in the RDEC scheme is driven by SMEs claiming RDEC where eligible.

2.16 The key findings from our review of HMRC's estimates and the areas we have identified that could improve HMRC's approach in future years include that:

- based on our audit work, we are satisfied that HMRC's approach to the SME scheme is reasonable and provides a more realistic assessment of the level of error and fraud present in the schemes than the approach in previous years;
- of the 484 claims that HMRC reviewed, 244 (50%) were found to include an element of non-compliance, where some or all of the claim was for expenditure that did not meet the qualifying criteria;
- more than half (32) of the 60 cases that we sampled related to claims for research and development in respect of information technology. In some instances where caseworkers considered a claim was sufficiently technically complex to evaluate against the eligibility criteria, they referred the case to internal experts within HMRC's Chief Digital Information Officer (CDIO) function for review. This appears to have been at the discretion of individual caseworkers because HMRC's guidance did not specify when they should consult. In one of the 60 cases we inspected, the caseworker recommended a referral to CDIO but this was not undertaken due to capacity issues. In another two cases, the caseworker felt they had sufficient knowledge not to refer the case to CDIO;
- in some instances, the low value of error and fraud identified in a claim means HMRC did not pursue it with the taxpayer or include within its estimate. HMRC did not set a 'de-minimis' threshold for the value of claims not to be pursued and, therefore, the judgement appears to have been at the discretion of individual caseworkers. Notwithstanding, we would expect HMRC to include all error or fraud in its estimate, irrespective of value. HMRC has applied a non-detection multiplier to account for non-compliance that it missed or did not fully investigate;
- we found two instances in our review of 60 claims where HMRC made adjustments to the claims that resulted in the companies having profits chargeable to tax. These profits were then offset by losses brought forward from previous years. As a result, there was no additional tax liability for the company. However, we consider HMRC should have included these adjustments in its overall evaluation of error and fraud;
- HMRC does not apply a non-detection adjustment to RDEC claims made by large businesses, implying it has identified all error and fraud in the cases it has inspected. The evidence base for this is unclear and could mean that HMRC has understated the level of error and fraud in the RDEC scheme. The non-detection adjustment is made to RDEC claimed by SMEs which were evaluated through the MREP; and
- in three of the 60 cases that we sampled, we found HMRC had initially used the incorrect yield figure in its estimate.

Developments in tackling error and fraud

2.17 The Committee of Public Accounts made a number of recommendations in February 2022 on HMRC's approach to tackling abuse of Corporation Tax research and development reliefs. HMRC accepted those recommendations, requiring it to set out:

- how it will improve its understanding of the reasons for growth in the cost of these reliefs and how much of that is due to abuse by claimants; and
- the reduction in the level of error and fraud it is seeking to achieve, together with how and when it expects that to happen.

2.18 HMRC formally responded to these recommendations in a Treasury Minute in April 2022, outlining measures announced in the Autumn Budget 2021 and other action HMRC was taking to:

- introduce a cross-cutting team of around 50 staff focused on abuse of these reliefs, in partnership with HMRC's Fraud Investigation Service. HMRC told us it launched this team in July 2022 and has provided additional capacity to look into the most complex cases. HMRC estimates the team's compliance work between July 2022 and April 2023 recovered £16.5 million;
- require companies to make all claims digitally, with more detail and endorsed by a named senior officer. HMRC implemented a digital submission form from 6 April 2023 on a voluntary basis, which will become mandatory for all claims from 1 August 2023;
- develop a programme of customer education to improve the upstream compliance programme;
- complete further analysis by winter 2023 to understand the reasons for the growing cost of research and development reliefs, including sectoral analysis of the number and average value of claims. HMRC is working with the Office for National Statistics to gain further insight into recent trends in research and development expenditure; and
- progress its MREP, randomly checking claims to inform its estimates for 2022-23 and future years.[13]

13 HM Treasury, *Treasury Minutes: Government Response to the Committee of Public Accounts on the Thirty-Sixth to the Forty-Second reports from Session 2021-22*, CP 667, April 2022.

2.19 In the Finance Act 2023, the government introduced further reforms to the rates of research and development reliefs. It increased the tax credit rate under the RDEC scheme from 13% to 20%, reduced the SME additional deduction rate from 130% to 86% and reduced the SME payable credit rate from 14.5% to 10%. These changes, which came into force in April 2023, are designed to make the two schemes more similar in terms of the level of support they provide to claimants. The legislation was, in part, in response to the estimated level of error and fraud for the SME scheme being considerably higher than for the RDEC scheme.

2.20 In January 2023, the Committee of Public Accounts recommended that HMRC should develop its analysis of the additional research and development expenditure its relief schemes result in, to consider what impact that expenditure has on the UK economy.[14] The Committee told HMRC to report on its findings within 12 months. The government has not accepted this recommendation in full but told the Committee that it intends to carry out further analysis in future to evaluate the impact on research and development expenditure of upcoming reforms to the related tax relief policy, once the data are available.

2.21 The impact of action HMRC is taking to tackle abuse of Corporation Tax research and development reliefs will not become clear until 2023-24 and beyond when the legislative changes take effect and HMRC has implemented its proposed improvements to its compliance processes and conducted an evaluation of the impact of these improvements. Given what HMRC now knows about the extent to which companies are abusing the schemes, particularly the SME scheme, it will need to consider whether the steps it is currently taking are adequate.

14 Committee of Public Accounts, *HMRC performance in 2021-22*, Session 2022-23, HC 686, January 2023.

Part Three

Personal Tax Credits

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 Personal Tax Credits (tax credits).

3.2 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).

3.3 The C&AG has qualified his opinion on the regularity of HM Revenue & Customs' (HMRC's) 2022-23 financial statements due to the material level of error and fraud in tax credits expenditure.

3.4 The explanation for the qualified opinion for this area of expenditure is supported by:

- an overview of HMRC's estimates for tax credits; and
- the causes of, and development in tackling, error and fraud in the administration of tax credits.

Personal Tax Credits

3.5 HMRC is responsible for administering tax credits to support families with children and to help ensure that work pays more than welfare; and for making payments to claimants on time, and in full, in accordance with legislation and the related regulations.

3.6 HMRC bases tax credits awards on initial estimates, then finalises them 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 and has led to a qualified opinion every year since they were introduced. The government is gradually replacing tax credits with Universal Credit, which is administered by the Department for Work & Pensions (DWP).

3.7 In 2022-23, HMRC spent £8.8 billion on tax credits, representing 21.6% of the total expenditure of £40.7 billion recorded in HMRC's 2022-23 Resource Accounts. Tax credits supported around 1.15 million families and around 2.13 million children.

Qualification of the C&AG's audit opinion on the regularity of tax credits expenditure

3.8 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 result in HMRC overpaying or underpaying 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.[15]

3.9 In the C&AG's view, the overall value of overpayments and underpayments due to error and fraud in tax credits remains material by reference to the related expenditure, and he has qualified his audit opinion on that basis.

Estimated level of error and fraud in tax credits expenditure

3.10 HMRC's latest estimate of the level of error and fraud in tax credits relates to 2021-22. This is because, under the normal tax credits annual cycle, HMRC finalised awards for 2021-22 between April and July 2022 following the end of the tax year, or in January 2023 for claimants required to submit a Self Assessment return. HMRC cannot complete its required testing to estimate the level of error and fraud until it has finalised all claims.

3.11 HMRC estimates that in 2021-22, error and fraud resulted in overpayments of 4.5% of tax credits expenditure, which is lower than the overpayment rate that HMRC initially reported in the previous year (5.0%). HMRC has now revised the 2020-21 figure to 4.7% (**Figure 12** and note 5.1.3 to HMRC's Resource Accounts). Errors in tax credits resulting in underpayments amounted to 0.4% of expenditure, which is lower than the underpayment rate in the previous year (0.8%). These rates for 2021-22 equate to overpayments of £510 million from an estimated 280,000 claims (on average, £1,821 per claim), a reduction of £220 million compared with finalised 2020-21 estimates (£730 million) and underpayments of £40 million from an estimated 70,000 claims (on average, £571 per claim), a reduction of £80 million compared with finalised 2020-21 estimates (£120 million). HMRC revisits the estimates each year to take account of new information received after the original publication.

15 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 Three of this report. This is not the same as overpayments reported by HMRC during the year or that arise when tax credits awards are finalised. These overpayments arise because tax credits are calculated annually, and so relate to the natural cycle of tax credits and are not included in the error and fraud statistics discussed here.

Figure 12

Overpayments and underpayments as a percentage of total tax credits expenditure, 2011-12 to 2021-22

HM Revenue & Customs' (HMRC's) central estimate of overpayments decreased compared with the final estimate for 2020-21 and has not been more than 5% for seven of the past nine years. HMRC has now revised the 2020-21 figure to 4.7%

Note

1 Estimates for 2021-22 are provisional. Final estimates will be published next year alongside the provisional 2022-23 estimates.

Source: National Audit Office analysis of HM Revenue & Customs data

3.12 The estimated overpayment rate in 2021-22 of 4.5% is at the lower end of HMRC's forecast range of 4.2% to 5.7%. HMRC analysis suggests that the tax credits population is becoming more stable due to the continued migration from the tax credits regime of those with frequent changes of circumstance whose claims present a higher risk of error and fraud.

3.13 In forming his opinion on the regularity of tax credits expenditure, the C&AG has considered whether the error and fraud rates for 2021-22 provide appropriate evidence that tax credits error and fraud remains material in 2022-23. Based on its current forecasts, HMRC expects that the error and fraud rate will remain in the range of 4.3% to 6.0% for 2022-23, although it will not publish the actual level of error and fraud until June 2024. The C&AG has, therefore, qualified his opinion based on HMRC's 2021-22 estimate and its forecast of error and fraud for 2022-23.

Causes of error and fraud in Personal Tax Credits

3.14 HMRC has reduced the size of the random sample of tax credits cases that it tests to estimate the level of error and fraud, from 3,000 in prior years to 2,000 in 2021-22. We are content that this change in methodology remains statistically valid in producing a reliable estimate. HMRC no longer reports on the full range of causes of error and fraud in its published statistics. For 2021-22, it only reported the error and fraud caused by the misreporting of income and working hours by tax credits claimants. It estimates that £190 million of overpayments are attributable to the income risk category in 2021-22, an increase of £5 million from the revised central estimate for 2020-21 (£185 million). HMRC's analysis suggests that misreporting of income by claimants is responsible for more than one-third (37%) of overpayments, up from 25% in 2020-21. An estimated £115 million of overpayments are attributable to the risk category for the misreporting of hours worked by claimants in 2021-22, a reduction of £55 million from the revised figures for 2020-21. These two categories of error and fraud account for 60% of overpayments.

Replacement of tax credits by Universal Credit

3.15 HMRC and DWP's plan is for Universal Credit to fully replace tax credits by the end of the 2024-25 financial year. 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.

3.16 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 affects 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.

3.17 During 2022-23 the number of claimants migrating to Universal Credit was 128,228. HMRC has indicated that it remains on target to complete the transfer of all tax credits to Universal Credit by 2024-25. It expects 482,780 migrations to take place in 2023-24 and the remaining 502,865 in 2024-25.

Transfer of tax credits debt to DWP

3.18 Between 2016 and March 2023 HMRC transferred £3.6 billion of tax credit debt to DWP. HMRC's latest forecast suggests that a further £1.0 billion of debt is still to transfer. In 2022-23, HMRC transferred £0.3 billion of tax credit debt (2021-22: £0.8 billion).

Appendix One

Our evidence base

1 This report presents our factual commentary on HM Revenue & Customs' (HMRC's) performance during 2022-23. We prepared our commentary using evidence collected between April and July 2023.

2 The report covers:

- HMRC's performance against its 2022-23 objective of collecting revenues and managing compliance; looks at the main components of the £814.0 billion raised in 2022-23; and considers HMRC's customer service and debt management performance (Part One);
- 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 Corporation Tax research and development reliefs (Part Two); 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 Personal Tax Credits (Part Three).

Part One

Document review and data analysis

3 As part of our financial audit work, we reviewed the supporting information for HMRC's Trust Statement and Resource Accounts. 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 Service Group including its debt management function, and the Knowledge, Analysis and Intelligence directorate. This included a review of:

- board meeting minutes;
- internally commissioned research papers;
- risk assessments; and
- performance monitoring dashboards.

4 Our review focused on information in those documents relevant to the period between 1 April 2022 and 31 March 2023.

5 During our analytical review, we examined the numbers in HMRC's financial statements, plus supporting information provided during the financial audit, and performance statistics published regularly by HMRC, such as its quarterly performance updates.

6 We reviewed *Measuring Tax Gaps 2023,* published by HMRC in June 2023, as well as *Economic and fiscal outlook,* published by the Office for Budget Responsibility in March 2023.

7 We also relied on evidence from our value for money reports relevant to the work of HMRC, and associated reports from the Committee of Public Accounts. Our reports of particular relevance were:

- *Progress with Making Tax Digital* (June 2023);
- *Managing tax compliance following the pandemic* (December 2022); and
- *Managing tax debt through the pandemic* (November 2021).

Departmental interviews

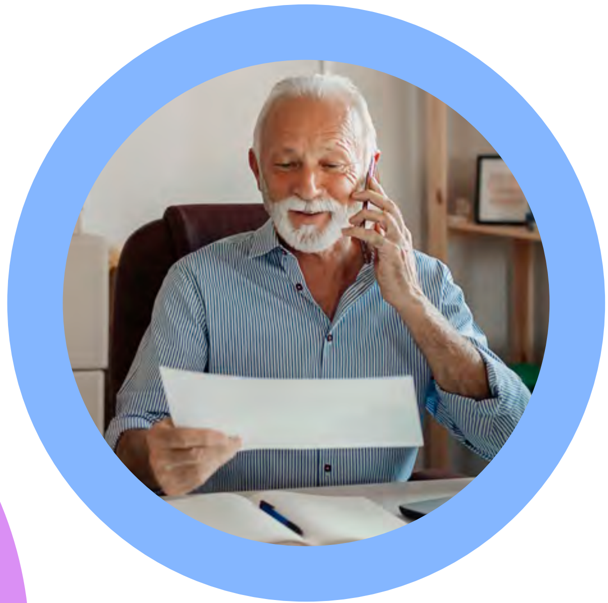
8 We conducted three virtual interviews with representatives from HMRC's business groups responsible for compliance, customer services and debt management.

9 We undertook these interviews to corroborate the evidence collected from our document review and quantitative analysis, and to understand better:

- HMRC's objectives for 2022-23 and its performance in the year;
- challenges it faced in achieving its objectives in 2022-23, and risks to performance in future years;
- HMRC's plans for maintaining and improving performance in 2023-24; and
- HMRC's views on current issues.

Parts Two and Three

10 Parts Two and Three rely principally on evidence collected as part of our financial audit work on Corporation Tax research and development reliefs and Personal 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 an update on HMRC's strategy for tax credits.



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