HM Revenue
& Customs

Annual Report and Accounts

2023 to 2024

HM Revenue and Customs
Annual report and accounts 2023 to 2024

For the period 1 April 2023 to 31 March 2024

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HC 47

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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 2023 to 2024, including information about our purpose, vision, objectives and the way we operate. Any reference to government refers to the government in place during the reporting period.

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 the following.

- Getting things right
- Making things easy
- Being responsive
- Treating customers fairly
- Being aware of customers' personal situations
- Recognising that customers can appoint someone to represent them
- Keeping customers' data secure

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

How we are organised

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	
Change Delivery Group	Manages HMRC's change portfolio and leads delivery of the largest and most complex change programmes
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
Communications and Guidance	Provides communications advice, support and services to HMRC and manages the provision of up-to-date, accessible guidance for HMRC's customers and their agents. Incorporates HMRC's Sustainability Team

As well as the groups described above, our departmental group includes the Valuation Office Agency (VOA), an executive agency which gives the government the property valuations and advice needed to support taxation and benefits.

Our departmental group had nearly 65,000 full-time equivalent employees at the end of financial year 2023 to 2024, around 61,000 in HMRC and 3,600 in the VOA.

+ **Read more about the VOA on pages 109 to 110.**
+ **Find out about our staff numbers and costs on pages 125 to 126.**

Performance highlights: 2023 to 2024

The progress we made towards our vision of being a trusted, modern tax and customs department in 2023 to 2024.

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

£843.4bn

total tax revenues – 3.6% increase on 2022 to 2023

6.9m

families supported through Child Benefit

900,000+

Self Assessment customers supported to pay debt in manageable instalments

320,000

compliance interventions completed to help get taxpayers back on track

£41.8bn

tax protected by tackling avoidance, evasion and error – including £13.7 billion by promoting compliance and preventing non-compliance before it occurs

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

83.1%

customers satisfied or very satisfied with our online services

69%

customer interactions using 24/7 online self-service channels – almost 6 percentage points up on 2022 to 2023

570,000

claims to Child Benefit supported using our new online service

40,000

people starting a new job helped to pay the right tax from the outset through improvements to the PAYE system

35

new interactive guidance products launched

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

40

tax avoidance schemes, 39 promoters and 24 connected persons publicly named

15

stop notices issued, requiring promoters to stop promoting a tax avoidance scheme

430

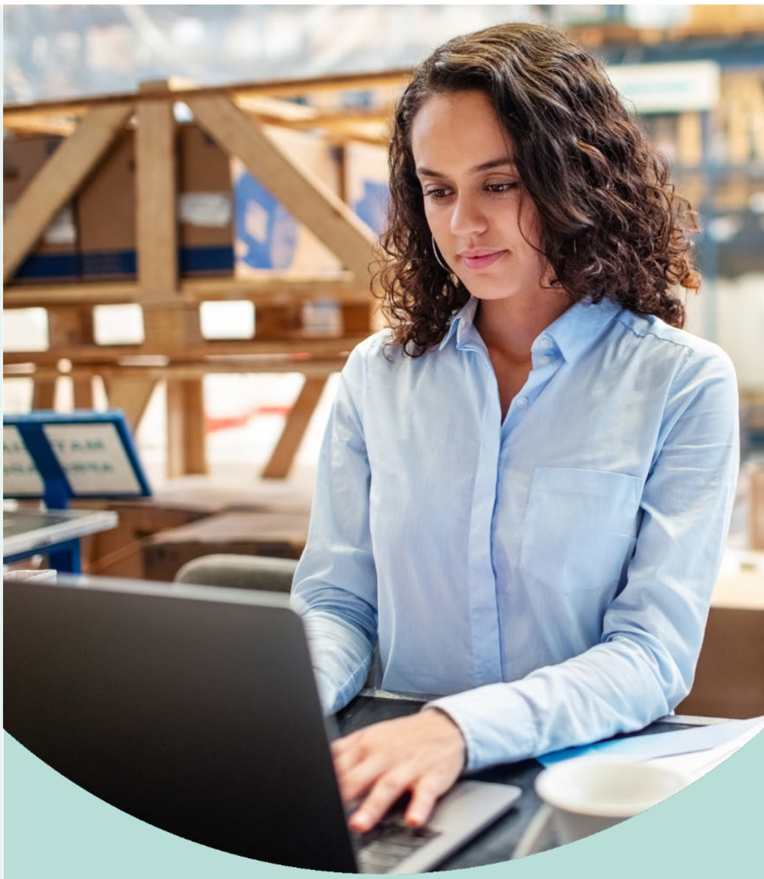
new criminal cases and more than 10,200 civil investigations into suspected fraud

3,629

anti-money laundering interventions

£7.6m

pay arrears identified and 52,000 workers protected against underpayment of National Minimum Wage



Strategic objective 4: Make HMRC a great place to work

83%

colleagues feel they are treated fairly at work

21,000+

colleagues have built skills for the future through our Digital Academy

12

modern regional centres now open, promoting innovation and collaboration

40+

other departments, agencies and public bodies using government hub space delivered by our locations programme

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

100%

import declarations made through the Customs Declaration Service

8,200

traders using UK Internal Market Scheme between Great Britain and Northern Ireland

372

HMRC services migrated to more resilient cloud hosting up to end of 2023 to 2024

1.5bn

suspicious or malicious events blocked by our cyber security team every month

£1.9bn

tax revenue protected through enhanced repayment and identity verification controls

Chief Executive's Review of 2023 to 2024

HMRC has a clear and vital purpose – to collect the money that pays for the UK's public services and give people financial support.

When I reflect on the past financial year, I'm proud that we've maintained our strong track record in delivering that vital purpose. In 2023 to 2024 we generated a record £843.4 billion in tax revenue for the Exchequer – an increase of 3.6% on last year – which is spent by the government on schools, the NHS, police and other essential services we all rely on.

We're also continuing to keep the UK's tax gap – the difference between the amount of tax due and the amount collected – at around the lowest level since records began in 2005 to 2006. Although international comparisons are complex, we compare favourably against other tax authorities, bringing in more than 95% of tax revenue due. And we do this at a cost of around half a penny for every pound collected.

At the UK border, we took further steps this year in building a world-class customs system, using technology, data and simplification. More than 70 million import declarations were submitted in 2023 to 2024 on our new Customs Declaration Service.

Our work is making a difference to the lives of people at home – we provided cost of living payments to over 900,000 eligible tax credits customers last year. It's also making a difference on a global scale through our collaboration and data sharing with international partners to tackle tax crime and offshore non-compliance.

Taking action to address challenges

We are fully committed to our Charter and the standards it sets out (see page 6). But this year we have faced serious challenges in delivering our customer services because of financial pressures and the need to manage a growing number of customers with complex tax affairs.

According to the latest figures from the Office for Budget Responsibility, 2.1 million people were brought into Income Tax as a result of frozen Income Tax thresholds in 2023 to 2024, with more taxpayers also having increasingly complex tax affairs. This is creating increased customer contact and new compliance risks, making it harder to meet our service standards and manage the tax gap.

We recognise the difficulties that have been experienced by many individual taxpayers, agents and small businesses when interacting with HMRC – in particular, when accessing our helplines. We're working hard to address these challenges. Our strategy is firmly focused on how we can help more customers get their tax and customs right first time, rather than fixing problems after they happen, and on supporting more customers to self-serve using online services whenever they can.

This isn't just good for customers, it also helps us to offer better value for money to the taxpayer. It allows us to use our customer service and compliance teams in the most efficient and productive way – and to target our resources more effectively towards those who need extra help.

As a modern tax and customs authority, we must act as stewards of the tax and customs system – enabling customers, their agents and other intermediaries to get their tax and customs right from the outset.

This is about delivering easier and more secure systems that stop error and fraud, using data in better ways to identify and manage compliance risks, and being clear with customers about what they need to do. It also means stepping in with a helping hand for those who need it, or a firm intervention to protect the Exchequer from the loss of revenue and maintain the fairness and transparency of the system.

Giving customers quicker, easier ways to manage their tax affairs

The vast majority of our customers pay their tax in full and on time, without needing us to intervene to support them or correct things. Many customers don't need to do anything – their tax is calculated and deducted by an intermediary, such as their employer. For those who do need to take action to keep their tax affairs in order, we want to enable them to self-serve online wherever possible, improve their experience and meet their needs, within the resources available to us.

That's why we're continually expanding and improving our online services, so customers can resolve simple queries and manage their tax affairs quickly and easily online via GOV.UK and in the HMRC app. In 2023 to 2024, the HMRC app received 88.5 million logins by 3.8 million unique users, a growth rate of over 64% when compared with the previous year. Satisfaction with our digital services more broadly was consistently above 80%.

This is important at a time when the volume of demand and departmental budgetary pressures mean service levels on our phones and in handling correspondence have been below our service standards. We recognise that sometimes people who need to speak to us – including the digitally excluded, the particularly vulnerable, and those with complex queries – have struggled to get the help that they need.

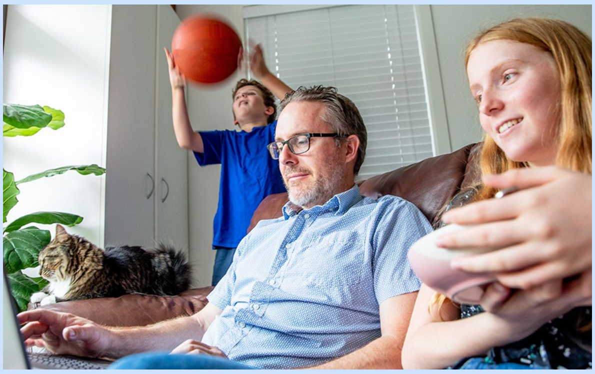
So, it's right that we encourage customers to self-serve online where they can, and with our support if needed, so our advisers are freed up to focus on helping those who need our support. We made real progress in this regard during 2023 to 2024. For example, more than 1.5 million customers have used our online services to view their National Insurance number, with over 1 million viewing or saving their confirmation letter and over 490,000 saving their

Launching our online Child Benefit claims service

In May 2023 we launched a new online claims service for Child Benefit, enabling customers to receive payments in as little as 3 days after making their claim.

By the end of March 2024, our online service was used to support nearly 570,000 claims and calls regarding new claims had reduced by 51%.

Since January 2024, we have also started making things easier for new Child Benefit customers by sending a text to confirm their claim has been received, reassuring them and reducing the need for them to phone us. Although this is not yet available to all Child Benefit customers, we plan to expand the reach of this service in the future.

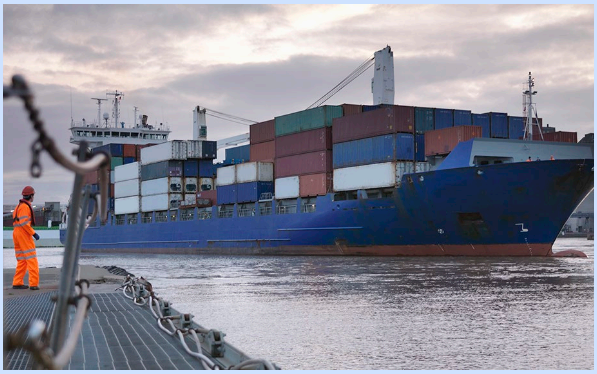


Transforming the UK border

We ensure that the UK's customs system supports the smooth flow of trade, helping to deliver economic growth.

This year we supported importers to migrate to the Customs Declaration Service and extended this to exporters from March 2024, helping businesses compete successfully on the global stage and facilitating the introduction of new technologies for trade.

We also delivered the first phase of the Windsor Framework in September 2023, giving traders access to the UK Internal Market System, freeing goods that stay in the UK from unnecessary paperwork, checks, and duties. We also extended the free-to-use Trader Support Service until December 2024.



National Insurance number to their Apple or Google wallet. This reduces the need to call or wait for letters in the post.

We're tackling a range of issues that confuse or worry our customers, and finding solutions to make things easier or simpler online and in the HMRC app. They're making life simpler for many thousands of customers and helping us make best use of our resources.

To learn more about how we could target our adviser support where it's most needed, we launched trials of an online-first approach for many customers on our Self Assessment helpline during 2023 to 2024. We saw positive results - for example, 11.5 million tax returns were filed by 31 January 2024, including 1.75 million during the 3-month closure of the Self Assessment helpline in summer 2023. This is more than in the same 3-month period in each of the previous 3 years. We also saw more customers using online services than in the previous year.

We recognise that some of our stakeholders and customers are concerned about the pace of change, however, so we didn't go ahead with the changes to helplines we had planned in March 2024. Our helplines will continue to operate as they do now, and we'll continue to listen to people's concerns and make sure that we're implementing changes at a speed and in ways that our customers are comfortable with.

Our approach has been to expand and improve our online services and promoting the benefits of these to our customers, so that our advisers can prioritise helping those customers who need us most.

Ensuring the right tax gets paid

Modernising the tax and customs system is also about ensuring customers pay the right tax at the outset – keeping the UK's tax gap low and providing a level playing field for people and businesses.

Our well-established compliance approach is based on doing 3 things: firstly, preventing non-compliance by improving policies, services and systems to make it easier for customers to get things right and harder to get them wrong. Secondly, promoting good compliance by supporting our customers and increasing their understanding of what they need to do. Thirdly, stepping in to correct non-compliance and help customers get their tax affairs in order, so the tax system operates fairly.

This approach helped us to collect or protect £41.8 billion of tax revenue this year, which would otherwise have been lost through error, fraud and other forms of non-compliance - exceeding our target of £40.5 billion. We delivered 34% of this from preventing non-compliance and helping customers get things right, rather than fixing problems after they had happened – an increase from previous years.

Changes like the introduction of Making Tax Digital (MTD) are vital to this. Using MTD-compatible software to keep up-to-date business records that connect to HMRC's system is already helping over 2.2 million VAT customers keep on top of their VAT affairs, reduce errors and pay the right amount of tax from the outset.

This year, we made strong progress in our preparations for MTD for Income Tax, which will go live from April 2026 for self-employed people and landlords with annual business or property income above £50,000. We will extend the scheme to customers with income between £30,000 and £50,000 from April 2027.

'Don't Get Caught Out' campaign

A key way we can help customers get their tax right first time, is by educating and prompting them towards better compliance.

Getting advice about tax affairs can be helpful, but not all advice is good and sometimes it can lead customers into a tax avoidance scheme.

Through our 'Don't Get Caught Out – Tax Avoidance' campaign, we're encouraging customers to take steps to make sure they recognise the signs of tax avoidance, to prevent them entering into avoidance schemes. We are expanding the campaign to include educating taxpayers on the risks of making ineligible tax refund claims – including an online tool to help people check they are eligible before they make a claim.

+ **Visit the campaign site at:** **https://dontgetcaughtout.campaign.gov.uk/tax-avoidance**

Regularly updating records will not only help these income taxpayers to pay the right amount at the right time – it will also reduce the chance of mistakes, meaning less time spent trying to put things right. It will also ensure customers have up to date, accurate information to help with business planning. We have worked with stakeholders and acted on their feedback to simplify the design of MTD for Income Tax. This includes streamlining processes by removing the End of Period Statement as a formal requirement and making quarterly updates cumulative.

We understand that behind every tax bill there is a human being, and we're committed to ensuring fairness for all in our collection of tax. We will always seek to be clear about what we expect from customers in taking responsibility for their tax affairs, and we will always help people to pay what they owe while taking account of their individual circumstances, including affordable payment plans that can stretch over any period.

You can read more about our compliance work starting on page 16 and our debt management work starting on page 19.

Delivering for the UK

There's a lot for us to do and many risks to manage – not only the issues I've already outlined, but other ongoing challenges such as protecting our data and systems from attack and ensuring we have modern, resilient IT and technology in place to deliver our services. You can read more about these on pages 77 to 82.

The tax system can be complex, so we must continue to administer policies in a way that makes things as straightforward as possible for customers and recognises when there are problems to be fixed.

Many of these issues can only be addressed by working closely with customers, agents, intermediaries and other stakeholders. I'm determined that we listen carefully to their views and concerns, so we can bring everyone with us as we make the changes the system needs and build a trusted, modern tax and customs service that works for everyone and delivers for the UK.

Sir Jim Harra KCB
Chief Executive and First Permanent Secretary
26 July 2024

Our key performance metrics

Where we have a target or service standard, this is shown in brackets.

Compliance yield

2023 to 2024 **£41.8bn** (£40.5bn)
2022 to 2023 **£34.0bn**

Customer satisfaction

2023 to 2024 **78.6%** (80%)
2022 to 2023 **79.2%**

Customer correspondence cleared within 15 working days

2023 to 2024 **76.3%** (80%)
2022 to 2023 **72.7%**

Net easy

2023 to 2024 **+59.2** (+70)
2022 to 2023 **+59.8**

Telephony adviser attempts handled

2023 to 2024 **66.4%** (85%)
2022 to 2023 **71.1%**

Performance analysis

This section provides an analysis of how we delivered against our strategic objectives and the commitments we made for financial year 2023 to 2024. It also includes analysis of our financial performance and key risks. Any reference to government refers to the government in place during the reporting period.

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

HMRC is your tax service – we collect the money that pays for the UK's public services and give financial support to people. This chapter reports on our performance, including our work to prevent and correct non-compliance.

Collecting revenue and keeping the tax gap low

We have a strong track record in collecting the tax revenues that are due, and the vast majority of our customers pay their taxes in full and on time – either automatically through PAYE or by using our online services.

Each year, we measure the difference between the amount of tax that should, in theory, be paid to HMRC and what is actually paid. We call this 'the tax gap' and it is caused by many things, including deliberate evasion, but the largest element is the result of taxpayer error or carelessness.

We have successfully maintained a long-term reduction in the tax gap, from 7.4% in 2005 to 2006 to our latest tax gap figure (for 2022 to 2023), which was estimated to be 4.8% of total theoretical tax liabilities, or £39.8 billion in absolute terms. This means we brought in 95.2% of all tax due. Where international tax gap data is published, we compare favourably.

In financial year 2023 to 2024, total tax revenues were £843.4 billion, an increase of £29.4 billion (or 3.6%) from 2022 to 2023, continuing the upward trend of recent years. A full breakdown is provided in figure 26 on page 75.

In each financial year, we collect and protect billions of pounds of revenue that would have been lost to the Exchequer without our interventions. In 2023 to 2024, we secured 'compliance yield' of £41.8 billion compared to £34 billion in the previous financial year. This exceeded our annual target of £40.5 billion, which is set to be consistent with the Office for Budget Responsibility's economic forecasts and the assumptions they make about a stable tax gap.

In focus: Managing more customers in the tax system

The number of customers in the tax system is growing. The Office for Budget Responsibility (OBR) has estimated that 3.7 million more people will pay Income Tax in 2028 to 2029, due to the freezing of some tax allowances and thresholds rather than raising them in line with inflation.

This also means the number of customers with complex tax affairs is growing. In 2028 to 2029, the OBR expect there to be an additional 2.7 million customers paying the higher rate of Income Tax, and 600,000 more paying the additional rate. We also expect that more people will be dealing with more complex tax issues, such as having to pay tax on dividends and investment income.

This means more customers actively engaging in the tax system, which increases the volume of contact we have to deal with. Our aim is to encourage all customers who can, to self-serve using our online services (read more on page 28).

We are working hard to support as many customers as possible to get their tax right at the outset, through simplification, improved guidance and online services that are quicker and easier to use.

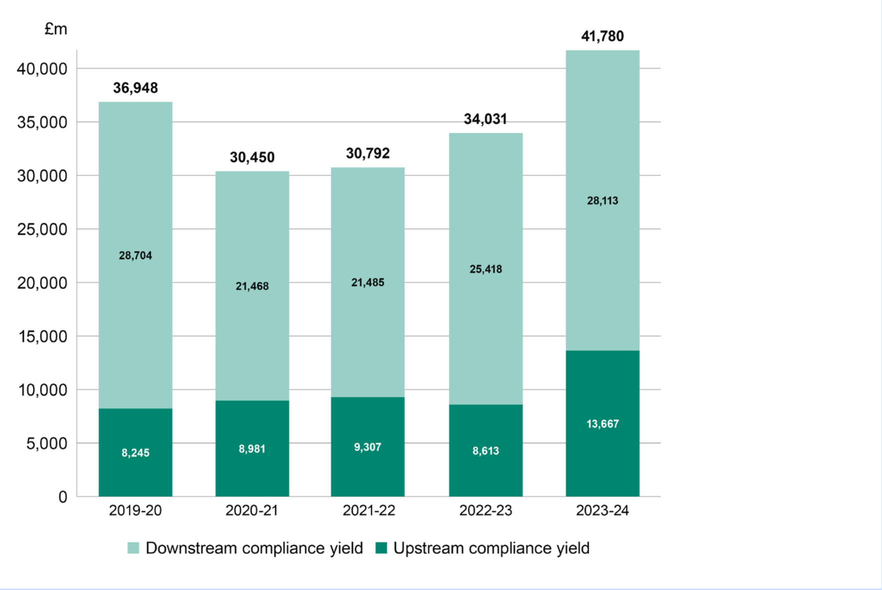
As part of our Spending Review 2021 plans, we invested in more than 4,000 new recruits in our compliance function, who have completed their initial training and are continuing their professional development and building experience. The stability this has brought to our workforce, along with our strengthened focus on helping customers to get their tax right from the outset, has enabled us to deliver this record level of compliance yield (see figure 2 on page 24). The overall value of our compliance work remains clear – it returned, on average, £22 for every £1 spent on our compliance workforce in 2023 to 2024.

- **Read our annual tax receipts publication for 2023 to 2024 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**
- **Read our latest tax gap report at www.gov.uk/government/statistics/measuring-tax-gaps**
- **Read more in our technical note on compliance yield at www.gov.uk/government/publications/hmrc-annual-report-and-accounts-2023-to-2024**

In focus: Helping customers get their tax right and reducing opportunities to get things wrong

We want to make it easy for customers to understand and comply with their obligations. Compliance yield from activities designed to promote compliance and prevent errors from occurring (known as 'upstream activities') has grown as a proportion of our overall compliance yield target from 24% in 2019 to 2020 to 34% in 2023 to 2024.

Figure 1: Compliance yield from upstream activities[1]



1 Numbers may appear not to sum due to rounding.

How we are helping customers to get their tax right

Our tax gap estimate shows that small businesses account for the largest proportion of the tax gap by customer group, at 60% in 2022 to 2023, with small amounts of tax due from a very large number of taxpayers. Error and 'failure to take reasonable care' were still the main reasons for customers not paying the right amount of tax. That is why we focus on making sure as many customers as possible get their tax right from the outset, reducing the need for us to step in and fix problems after they have filed their tax return.

The changes we are making to modernise the tax system – such as Making Tax Digital (MTD) – are vital to reducing customer error and carelessness. In total, we expect MTD for VAT to bring in revenue of £4 billion between 2019 to 2020 and 2028 to 2029. The next stage of the programme is MTD for Income Tax, which will be implemented in 2 phases from April 2026. Reducing error will enable us to focus our resources on tackling other forms of non-compliance including tax avoidance and evasion.

We also want to deliver more of what our customers need through quick and straightforward online channels, and we are continually improving our guidance. This means we can deploy our resources where they make the most difference (read more on guidance changes on page 27 and improvements to our online channels on page 28).

Campaigns and communications for particular sectors or groups of customers – along with simpler guidance, systems and processes – are part of our approach to improving the customer experience and building trust. This year, our campaigns included education and support for employers on applying the National Minimum Wage to providers of content for digital platforms and workers in the hair and beauty sector.

We use digital nudges in our own and external systems, highlighting to customers if they enter data that differs from what we're expecting and, in 2023 to 2024, we reached over 3.1 million customers.

While we aim to address risks before anything has the chance to go wrong, we also carry out compliance checks to make sure people have paid the right tax. In 2023 to 2024, we completed 320,000 compliance checks, which is an increase of 15% compared to the previous year.

Recognising that going through a compliance check can be stressful, we have improved how we identify and support those who need extra help; for example, where their health or other circumstances make managing their tax affairs difficult. In addition to staffing our own Extra

In focus: Tax Facts

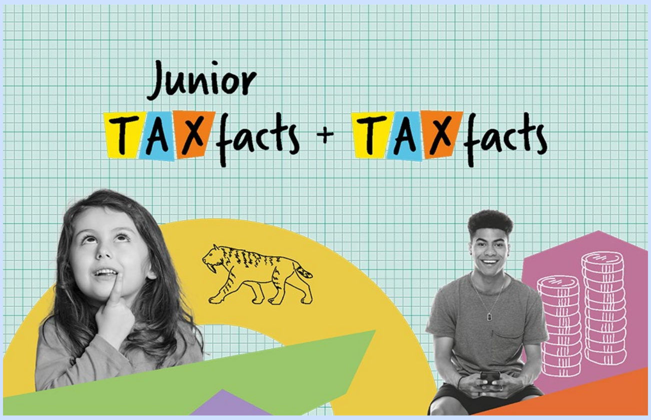
Good compliance starts with a good understanding of tax, so we actively promote tax education among children and young people through our award-winning and curriculum-linked Tax Facts programme.

Tax Facts helps children and young people learn about the UK tax system before they enter it. The programme provides lesson plans, videos and other resources. Some of our people also do school visits, as Tax Facts ambassadors.

- Junior Tax Facts (ages 8 to 13) introduces primary school pupils and younger secondary school students to the basics of tax
- Tax Facts (ages 14 to 17) is designed to help teenagers learn about how the tax system works and the practical role it plays in their lives

In 2023 to 2024, our Tax Facts materials were downloaded 6,500 times, and colleagues delivered nearly 100 sessions to an estimated 7,000 young people.

+ **Access HMRC's Tax Facts resources at www.gov.uk/government/publications/tax-facts-for-children-and-young-people/tax-facts-resources-for-teachers-and-parents**



Support teams, in 2023 to 2024, we awarded 12 voluntary and community sector organisations a share of £5.5 million in funding to help customers with their tax affairs.

+ **For information about our work against serious fraud and economic crime, see pages 39 to 41**

Collecting debt

By the end of 2023 to 2024, the total debt balance had reduced to £44.6 billion, from £45.9 billion at the end of March 2023. Tax debt as a proportion of total tax revenue fell from 5.4% in 2022 to 2023, to 5.1% in 2023 to 2024.

At Autumn Statement 2023 and at Spring Budget 2024, we secured additional funding to help us continue reducing the debt balance over the next 5 years. This will enable us to collect outstanding debt more quickly and support more customers to get out of debt.

However, it's not always possible to collect money owed to us and we expect that as the amount of debt created increases, so will the amount we're unable to collect. Tax losses in 2023 to 2024 were £5.6 billion, of which £5.0 billion is write-offs and the remainder remissions.

'Remissions' is the term we use to describe money owed to us, which we have decided not to pursue any further on the grounds that it is not value for money to do so. 'Write-offs' is the term we use for money owed that cannot be collected due to things like a company liquidation or personal bankruptcy, or where there are no practical means of pursuing the debt. Tax losses this year were £1.9 billion higher than in 2022 to 2023. This is 38% higher than the historic average (between 2017 to 2018 and 2019 to 2020) and is primarily due to an increase in insolvencies.

Our published tax debt strategy sets out what we are doing to minimise the volume and value of tax debt. At Spring Budget 2023 and Autumn Statement 2023, we received additional funding to

In focus: Helping customers to pay tax debt

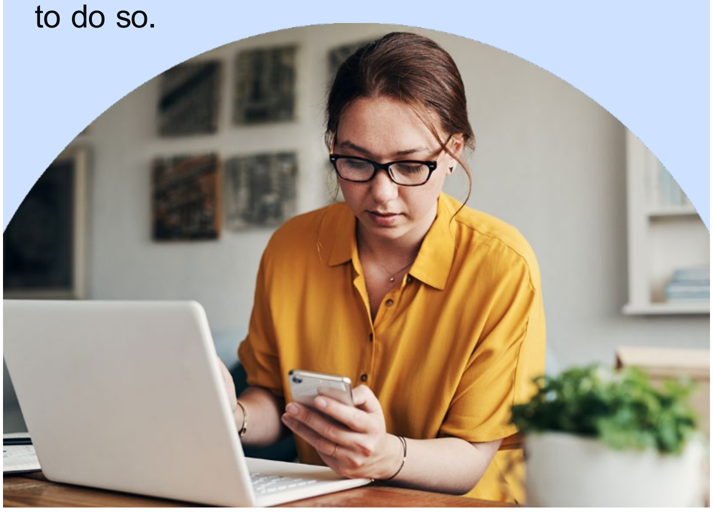
We support customers who are in financial difficulty to manage their way out of debt quickly and sustainably, using flexible Time to Pay arrangements that allow them to pay in instalments.

By the end of 2023 to 2024, we were supporting 902,054 customers in this way, a small decrease of around 10,000 customers compared with the end of 2022 to 2023. Over 90% of Time to Pay arrangements are completed successfully.

Self-Serve Time to Pay (SSTTP) gives people and businesses greater flexibility by enabling them to set up their repayment plan online, without having to call us. 130,632 plans were set up online in 2023 to 2024.

We have further enhanced the existing Self-Assessment SSTTP service, by introducing an affordability assessment. This allows a customer to input their income and expenditure information and receive a recommendation for an affordable plan.

If customers don't engage with us, refuse to pay, or if a business has little chance of recovery, we take prompt enforcement action to collect the tax due where it is cost effective to do so.



acquire new data, enabling us to apply a more tailored approach to debt collection in future. Having a better understanding of a person or company's ability to pay, means we can more accurately target customers who are most able to pay their tax debt and offer the right support to those who are least able to pay, such as highlighting Time to Pay arrangements.

+ **Read our tax debt strategy at www.gov.uk/government/publications/the-hmrc-tax-debt-strategy/hmrcs-tax-debt-strategy**

Delivering financial support

As well as making sure the right tax gets paid, we play a vital role in giving individuals and families financial support and helping to grow the UK economy by supporting businesses through targeted tax reliefs. We are focused on doing this in ways that provide the support quickly and easily, while protecting the Exchequer from error and fraud.

In 2023 to 2024, we continued to provide Cost of Living Payments to qualifying households who receive tax credits from HMRC, administering payments of up to £900 to over 0.9 million eligible tax credit customers.

The estimated level of error and fraud in 2023 to 2024 Cost of Living Payments was low, between 0.1% (£0.75 million) and 0.3% (£2 million). This is thanks to the design of the scheme, and close collaboration with the Department for Work and Pensions to prevent duplicate payments being made to the same household.

We pay Child Benefit to more than 6.9 million eligible families, supporting around 11.9 million children (as at 31 August 2023). We processed over 638,000 claims across the year. The upward trend of eligible working parents claiming Tax-Free Childcare continued - in 2023 to 2024 we were supporting 740,000 families with Tax-Free Childcare for 966,000 children, compared with 650,000 families and 836,000 children in 2022 to 2023. We provided Child Tax Credit and/or Working Tax Credits to around 0.6 million families and 1.1 million children in 2023 to 2024.

Tax credits were closed to new claimants from April 2022, who now claim Universal Credit. 2023 to 2024 saw us significantly increase the rate at which we migrated existing tax credits claimants to Universal Credit, which is administered by the Department for Work and Pensions or the Department for Communities (for Northern Ireland). In 2023 to 2024, we stopped 494,000 tax credits awards after the claimant moved to Universal Credit.

As of March 2024, 608,000 tax credits awards remained in payment. Migrating tax credits customers to Universal Credit or, where applicable, Pension Credit, is planned to continue in 2024 to 2025. As a result, tax credits are planned to end on 5 April 2025 with no further payments after this date.

Protecting tax credits and Child Benefit from error and fraud

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 and manage their awards more effectively through education and reminder campaigns. We also carry out checks to ensure tax credit awards are finalised correctly before transitioning to Universal Credit.

We have developed a new way of estimating error and fraud in tax credits, which means we no longer need to wait 14 months after the end of the tax year until all tax credits claims are finalised. The last reported estimate of error and fraud related to 2021 to 2022. Our latest estimate of error and fraud for tax credits relates to 2023 to 2024, where we estimate an overpayment rate of 4.7% (£365 million) of paid entitlement. This is unchanged from 4.7% (£415 million) for 2022 to 2023. These latest estimates show we met our commitment to keep tax credits error and fraud in line with the recent trend of around 5% in both years.

We estimate the underpayment rate to be 0.8% (£60 million) for 2023 to 2024, unchanged from 0.8% (£70 million) in 2022 to 2023. Both of these estimates are calculated using the new estimation methodology and are not directly comparable with previous years before 2022 to 2023.

Our estimate of the overall level of Child Benefit overpaid due to error and fraud in 2023 to 2024 is 1.6% (£200 million) of total Child Benefit expenditure. This estimate uses an improved measurement approach, which makes it easier to account for the duration of error and fraud by assessing eligibility within each month, rather than the full year. This methodology change means that estimates from 2023 to 2024 cannot be directly compared to previous years.

Child Benefit has strong pre-award controls. The emphasis of our compliance strategy remains on unreported changes in circumstance, focusing on promoting compliance through improved self-reporting, exploiting new opportunities to interact with customers through the new Child Benefit digital service, and improving detection of unreported changes through further data acquisition.

+ **Read more about Child Benefit error and fraud in the Principal Accounting Officer’s report, on page 108**

Compliance in Corporation Tax Research and Development tax reliefs

We administer Corporation Tax Research and Development (R&D) tax relief schemes, and expenditure on R&D tax reliefs during 2023 to 2024 was £7.7 billion. R&D reliefs support companies that work on innovative projects in science and technology, and help drive innovation and economic growth. Therefore, it is important that the support they provide is timely and effectively targeted and that we actively balance compliance efforts with the need to pay legitimate claims quickly. We consistently met our published aim to process over 80% of claims within 40 days during 2023 to 2024.

Until April 2024, the 2 reliefs in operation were: R&D Tax Credits for small and medium enterprises (SME scheme) and Research and Development Expenditure Credit (RDEC). At Spring Budget 2023 the government announced enhanced tax relief within the SME scheme, for R&D intensive loss-making SMEs, to take effect from April 2023.

A new, single expenditure credit scheme started from April 2024 for companies of all sizes, though R&D intensive loss-making SMEs can still choose to claim the enhanced support instead. Therefore, the 2 current reliefs are the Enhanced R&D Intensive Support (ERIS) and the merged scheme for R&D Reliefs.

This is the second year that our error and fraud estimates for SMEs have been produced using a random enquiry programme. There is a lag in our estimates due to the timing of Corporation Tax returns and the time it takes to carry out a compliance enquiry. The 2021 to 2022 estimates therefore do not reflect recent policy and operational measures introduced to tackle error and fraud in the reliefs.

The overall estimate of the level of error and fraud in Corporation Tax R&D tax relief schemes in 2021 to 2022 is 17.6% (£1.34 billion) of the estimated cost of the reliefs. The level of error and fraud in 2021 to 2022 is estimated as 25.8% (£1.20 billion) for the SME scheme and 4.6%

(£0.13 billion) for the RDEC scheme. Expenditure on R&D reliefs during the year 2021 to 2022 was £7.6 billion (see note 4.1.5 on page 241 in the Resource Accounts for further detail).

We found fraud indicators in fewer than 10% of claims examined in the latest random enquiry programme and these claims accounted for around 5% of the total value claimed, which indicates that the majority of non-compliance is down to behaviours other than fraud. As with other parts of the tax system, the term 'error and fraud' includes this full range of behaviours, from mistakes and failure to take reasonable care, through to deliberate non-compliance.

In July 2023, we published our compliance approach for R&D relief, setting out the scale and shape of non-compliance in the R&D schemes, action taken by the government to date, and how we are tackling non-compliance. We continue to adapt and build on the compliance approach set out in that publication, working with external stakeholders.

At Autumn Statement 2023, the government confirmed it was closing the R&D tax relief review, which was launched in Spring 2021. As part of the review, the government announced several measures to reduce non-compliance. These are now in place and illustrative estimates of their impact is outlined below. We estimate that the policy and operational measures that have been implemented have reduced error and fraud for expenditure in 2023 to 2024 to an overall level of 7.8%, and to 14.6% for the SME scheme from an illustrative estimate in 2022 to 2023 of 13.3%, and 19.5% for the SME scheme. Read more about the calculation of the 2023 to 2024 estimate on page 107. The government also announced an additional measure at Autumn Statement 2023 to ensure R&D payments go directly to customers, rather than being channelled through nominees or assignees.

+ **Read HMRC's approach to R&D tax reliefs – July 2023 report at www.gov.uk/government/publications/compliance-approach-to-research-and-development-tax-reliefs/hmrcs-approach-to-research-and-development-tax-reliefs**

Compliance in COVID-19 financial support schemes

At Budget 2021, the government announced a 2-year investment of over £100 million in the Taxpayer Protection Taskforce to combat error and fraud in the COVID-19 financial support schemes administered by HMRC and to cover the opportunity cost of redeploying compliance officers from higher yielding tax compliance work.

As planned, the work of our Taxpayer Protection Taskforce transitioned into business-as-usual tax compliance activity at the end of September 2023, enabling us to deal more efficiently with all aspects of a customer's potential non-compliance. Since the start of the schemes and up to the end of March 2024, our compliance effort on the COVID-19 schemes had prevented or recovered over £1.7 billion worth of grants. By the end of March 2024, we had opened 53 criminal investigations into suspected fraud within the schemes and made a total of 87 arrests. There have been 2 convictions so far. Further ongoing criminal investigation activity has yet to be concluded within the criminal justice system and is subject to those timescales.

Our commitments in 2023 to 2024: strategic objective 1

In financial year 2023 to 2024, alongside all our activity to collect the right tax and pay out the right financial support, we made 8 specific commitments in this area. The table below details our progress against each commitment at the end of the financial year.

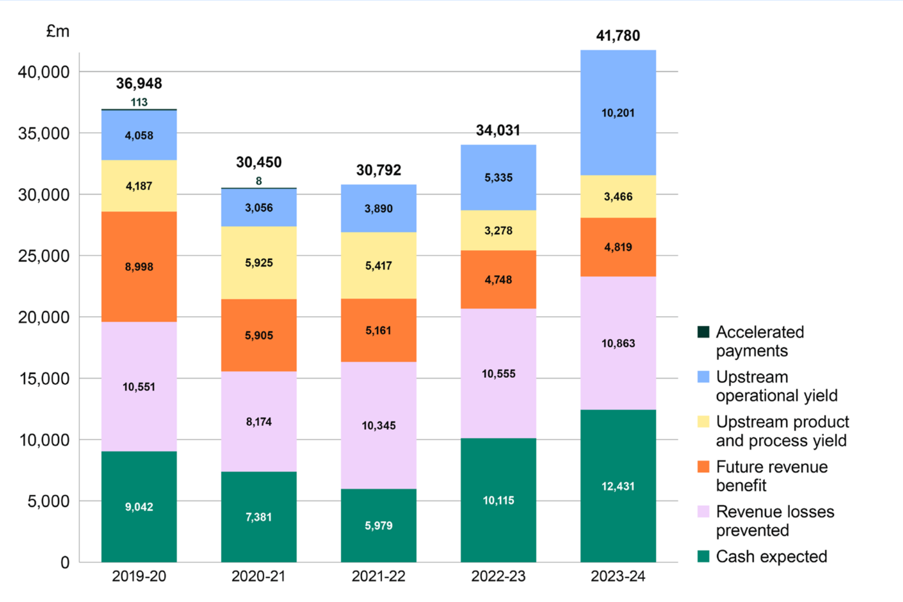
Status at the end of 2023 to 2024					
On track or complete	✓	Risk to delivery	△	Not on track	✗

Commitment	**What we delivered**	**Status**
New anti-evasion and other measures to tackle the tax gap	In 2023 to 2024, we implemented measures to tackle the sale of illicit tobacco, this included delivering new legislation and partnering with Trading Standards to enable HMRC to issue penalties and other sanctions. We also continued to deliver measures preventing profit shifting by multinational companies to avoid paying taxes, including new transfer pricing documentation rules in July 2023.	✓
Basis Period Reform	We delivered the changes required to Self Assessment returns, to implement Basis Period Reform for the 2023 to 2024 tax year. We also delivered new guidance and support to assist customers with their Self Assessment returns, including new and interactive guidance and communications products.	✓
Deliver £0.92 billion additional tax revenue between 2020 to 2021 and 2024 to 2025 by expanding campaigns and projects activity	We remain on track to deliver the amount included in the Office for Budget Responsibility's latest forecast for the period ending 2024 to 2025.	✓
Deliver £1.2 billion additional tax revenue from debt activity funded at Budget 2020	Through measures set out in Spring Budget 2020, we collected £1.8 billion, by placing more debt with Private Sector Debt Services.	✓
Implementing OECD Pillar 2 rules for a global minimum Corporate Tax rate	Alongside HM Treasury, we consulted with stakeholders and took part in international negotiations leading to the introduction of the Multinational Top-up Tax and Domestic Top-up Tax. These new taxes give effect to Pillar 2 rules for a global minimum tax for multinationals, agreed by over 145 jurisdictions. We have published draft guidance to help customers understand the new taxes and continue to work with them to ensure the rules are effective. We continue to help in the design of the internationally agreed rules, and work is progressing on IT systems for the new taxes.	✓
Deliver our Pensions Programme	We further enhanced the digital service for Pension Scheme administrators to use when interacting with HMRC. We are supporting customers following the McCloud judgement, this year delivering the Check your Public Service Pension Adjustment (McCloud) service, which we will continue to enhance in 2024 to 2025.	✓
Support the introduction of Universal Credit	We continued to support the Department for Work and Pensions with introducing Universal Credit (UC), with detailed plans in place to complete the migration of tax credits recipients to UC by the end of 2024 to 2025. Read more on page 20.	✓
Raise £749 million of additional tax revenue by the end of 2023 to 2024 with additional debt resource from Spring Statement 2022	In 2023 to 2024, we employed an additional 484 full time equivalent employees to tackle the significant increase in debt and collected £777 million.	✓

Key performance metrics: strategic objective 1

Figure 2: Compliance yield[1]

Compliance yield is revenue collected and protected that would otherwise have been lost to the Exchequer through error, carelessness, use of tax avoidance schemes or deliberate non-compliance. It consists of several 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 2 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.

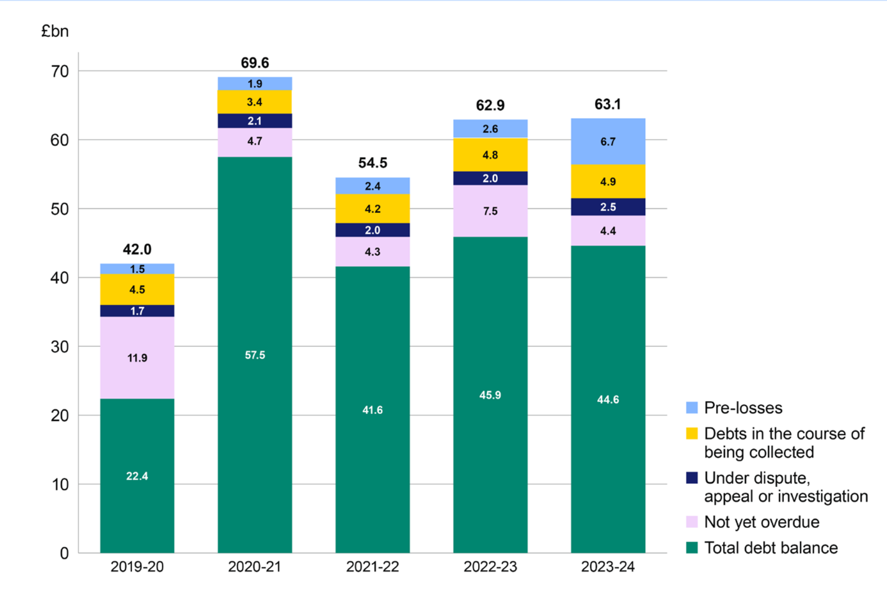
Upstream operational yield: estimated impact of operational activities undertaken to promote compliance and prevent non-compliance before it occurs. Does not include yield from legislative or process changes.

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 www.gov.uk/government/publications/hmrc-annual-report-and-accounts-2023-to-2024

Figure 3: Receivables[1]

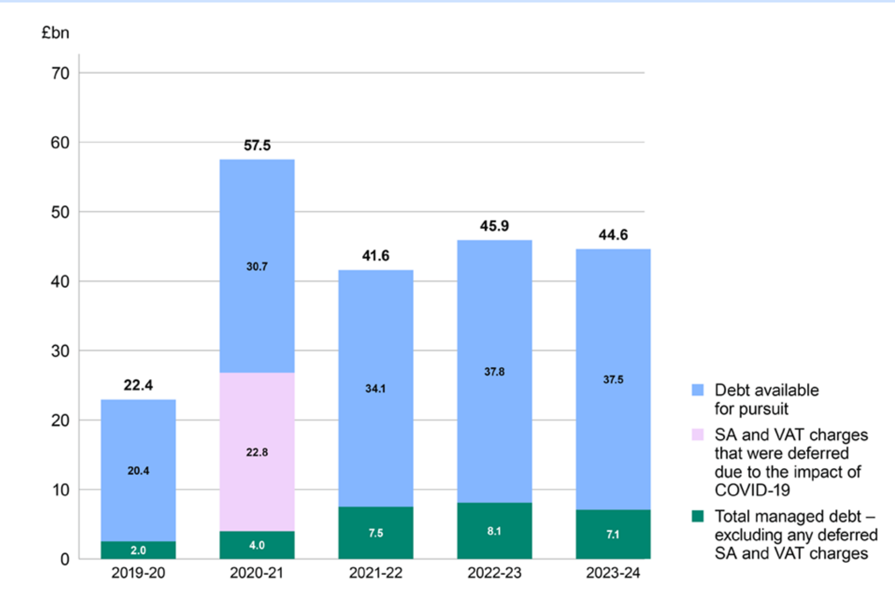
When individuals and businesses owe taxes, duties, or tax credits to us, we call these amounts 'receivables' for accounting purposes (this becomes a debt if the amount owed becomes overdue and is not under appeal). At 31 March 2024, gross receivables amounted to £63.1 billion, compared to £62.9 billion at 31 March 2023, consisting of £60.8 billion for taxes and duties owed to HMRC (see Trust Statement page 197) and £2.3 billion for tax credits owed to HMRC (see Resource Accounts page 235).



1 Numbers may appear not to sum due to rounding.

Figure 4: Total Debt Balance

Our total debt balance fell marginally this year and around 16% is in a managed position. Of the total debt balance, 96.3% is tax debt, which as a proportion of revenue has fallen to 5.1% in 2023 to 2024. This reflects the value of the tax debt balance stabilising whilst revenues have increased.



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

This chapter reports on the progress we're making in simplifying tax and customs and enhancing and expanding our online services, as well as our customer service performance.

Our digital-first customer service strategy aims to meet our customers' service needs efficiently by enabling as many customers as possible to self-serve online. It means we can focus our advisers on customers who need help to use our online services, are digitally excluded, require extra support due to health or personal circumstances, or have complex affairs.

In 2023 to 2024, we also continued working to make the tax and customs system simpler by improving our processes, policies and guidance, so it is quicker and easier for customers to manage their tax and customs affairs.

Simplifying tax and customs

Tax and customs can be complicated – so simplifying things as much as possible is vital to helping customers to get things right. This is why we are taking opportunities, working with HM Treasury, to simplify tax and customs and, where possible, make it easier for customers to deal with complexity through modern online services and good guidance.

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

We conduct regular surveys of how customers rate their experience with HMRC, including how easy they find dealing with tax issues and finding information. We also ask customers 'How easy was it to deal with us today?' after phone and digital interactions.

The ease of dealing with tax issues and finding information were broadly stable in 2023 for small businesses but showed a decrease for individuals. We maintained our 'net easy' score between 2022 to 2023 and 2023 to 2024 (this represents the total of positive responses minus the total of negative responses).

Ease of dealing with tax issues

- Individuals 52% positive in 2023 (57% in 2022)
- Small businesses 70% positive in 2023 (73% in 2022)

Ease of finding information from HMRC

- Individuals 51% positive in 2023 (57% in 2022)
- Small businesses 58% positive in 2023 (60% in 2022)

How easy taxpayers found dealing with HMRC – Net Easy (see figure 6 on page 33 for more detail)

- +59.2 in 2023 to 2024 (+59.8 in 2022 to 2023)

+ **Read HMRC's annual customer survey for individuals, small businesses and agents at www.gov.uk/government/publications/hmrc-individuals-small-businesses-and-agents-customer-survey-2023**

What are the next steps on Making Tax Digital?

Our flagship MTD programme is playing a key part in modernising tax administration and encouraging businesses and landlords to keep accurate, up to date digital records.

In 2023 to 2024, the government announced the outcome of the review of MTD for Income Tax. It looked at the best way to design the service to support the needs of smaller businesses.

The outcomes committed us to delivering changes that would simplify the design of MTD for Income Tax for users. This included exempting specific groups, making quarterly updates cumulative and removing End of Period Statements.

Following this, we expanded testing of the service in April this year, opening it up to a broader range of agents and customers.

We plan to expand testing further in April 2025, so that customers with a wider range of circumstances can take part ahead of the introduction of MTD for Income Tax. This will enable us to thoroughly test the system and make sure it works for users, as well as let customers become more familiar with the process before they have to use it.

+ **Read more about our plans for MTD at www.gov.uk/government/publications/making-tax-digital**

Simpler policies and processes

On tax policy design, we worked closely with HM Treasury in 2023 to 2024 to deliver reforms such as simplifying the experience for the self-employed who previously had to pay 2 NICs charges to access contributory benefits, and expanding the cash basis, so more sole traders and partners can calculate their profits and pay their Income Tax more easily.

Simpler systems

We are improving the systems we use to support our customers. For example, we improved the system that holds customer PAYE records so that it proactively corrects tax codes, where incorrect or missing information was provided to us. We can now spot when a customer’s tax code may be incorrect because of wrong information and automatically issue a new one if we hold the information to do so, without them needing to contact us.

We tested this improvement on around 40,000 people. As well as getting people on the right pay sooner, these changes resulted in a 30% reduction in the number of calls to the PAYE helpline from those customers. We rolled this improved system out to all PAYE customers in January 2024 and expect it to benefit around 1.4 million of them each year.

Simpler guidance

Our guidance on GOV.UK is viewed around 750 million times per year, and in 2023 to 2024, we assessed over 10,000 pages of guidance to help us prioritise where to take action to help small businesses. This allowed us to improve our guidance in areas such as reporting VAT errors, cancelling VAT registration and supporting self-employed people and landlords to register for Income Tax Self Assessment.

In total, we published 35 interactive guidance products in 2023 to 2024, including forms, decision trees and calculators. We have also published:

- interactive forms to help people claim tax refunds
- a tool that helps people check if they can appeal a Self Assessment late filing or late payment penalty
- a new calculator to help businesses work out if they're eligible for Small Producer Relief for Alcohol Duty

When customers need information or guidance, our Digital Assistant can help them find what they need or links them to an HMRC adviser through webchat if it can't. Interactions with our Digital Assistant increased from 1.9 million in 2022 to 2023 to 5.1 million in 2023 to 2024, and we continue to review customer feedback to make it easier to use. Similarly, our intelligent text message service supports customers by directing them to the quickest and easiest way to resolve their query online. We issue up to 98,000 SMS messages to customers every week, covering 80 different circumstances.

Improving and expanding our online services

We have made progress with implementing our digital-first strategy by expanding and enhancing our digital services and driving up their usage (see In focus box on page 31). Where customers need to engage with us, the majority can self-serve online through GOV.UK and the HMRC app. In 2023 to 2024, satisfaction with our digital services was consistently over 80% and our customers overall found them easy to use (see our key metrics on page 33 and 44).

In focus: HMRC app

The HMRC app grew in popularity and functionality during 2023 to 2024 gaining 1.9 million new users. It is regularly voted number 1 in financial apps and is rated 4.8 out of 5 on the Apple store and 4.7 out of 5 on the Android app store.

We are continually adding more functionality to the app, with 16 new app releases in 2023 to 2024. For example, customers can now use it to view their PAYE tax code, pay their Self Assessment liabilities or claim Child Benefit.

Customers can also download their National Insurance number to their Apple or Google wallet, access our Digital Assistant and webchat for support, and set reminders to complete their Self Assessment returns by the deadline.

Here is a selection of the positive feedback our app gets from customers:

"I highly recommend the HMRC app. It's very easy to use and helps you keep track of what you owe."

"Making payments is very simple and easy compared to the old way of logging in through the website."

"You can also check your state pension etc. I would recommend this app to anyone looking to save time and keep on top of their taxes."

\+ **Download the HMRC app from www.gov.uk/guidance/download-the-hmrc-app or use the QR code below**

Published research shows that 86% of our customers are open to engaging with us online, but also showed that the complexity of a task was a key driver for whether customers wanted to do so. That's why we're simplifying processes for customers and making them as easy as possible to do online.

Since May 2023, our Child Benefit customers have been able to make claims fully online for the first time via GOV.UK or the HMRC app, making the process much faster and easier. Customers can now receive their payments in as little as 3 working days – down from an average of 21 days. They can also go online to tell us their child is staying in full-time non-advanced education, so we can immediately extend their claim and remove the need for them to contact us, as well as change bank details online and provide proof of entitlement. By the end of 2023 to 2024 more than 3.2 million customers had used these new services.

We are introducing more prompts and guidance within our online services. This includes text message and app push notifications to customers, as well as messages delivered by intermediaries that prompt them to take action while reassuring them that their issue has been resolved successfully without needing to call us.

We are also working to provide a single and simple way for people to sign in and prove their identity when using government services and, in February 2024, we began testing a new GOV.UK One Login system.

We have encouraged more customers to discover and use these online self-service options, because they provide greater ease and convenience, and allow us to operate more efficiently.

- **Find out how Child Benefit customers can manage their claims online at www.gov.uk/child-benefit**
- **Read about how we're delivering an efficient, digital and customer focused customs system on page 54.**
- **Read about contact method preferences and digital appetite at www.gov.uk/government/publications/contact-method-preference-and-digital-appetite-of-hmrc-customers**

Supporting customers who need to contact us by phone or correspondence

Our digital-first strategy encourages the majority of our customers to interact with us online, freeing up our advisers to support those customers who will need to contact us by phone or post – for example, those who are vulnerable, those who struggle to get online or those who have complex queries.

We have made some important improvements in our customer service performance, especially in improving our processing time for customer correspondence, clearing 76.3% of this within 15 working days in 2023 to 2024, more than we have in any of the previous 4 years (see figure 9 on page 34).

In August 2023, we set an ambition to process all but the riskiest applications for VAT registration within 20 working days – a significant improvement for customers on our existing service standard of 40 working days. By the end of 2023 to 2024, we were processing over 85% of applications within that new target, compared to 56% in August 2023.

Recognising the importance to people and businesses of receiving money promptly, we have prioritised issuing tax repayments. This has allowed us to reduce the number of Self Assessment repayments waiting to be processed by 64% between April 2023 and March 2024.

This year, the proportion of callers who wanted to speak to an adviser and were able to do so was slightly lower than 2022 to 2023. We maintained the number of customers who found interacting with us easy compared to 2022 to 2023 levels (see figures 6 and 7 on page 33).

Our ability to meet service standards on telephony and correspondence has been affected by growth in the number of customers in the tax system (see page 16) and an increase in the number of customers with complex tax affairs, combined with departmental budgetary pressures.

Our financial settlement at Spending Review 2021 required us to achieve annual cost savings of £500 million by 2024 to 2025 compared with 2021 to 2022, to be able to meet our service standards. Since then, other factors, primarily the need to absorb inflationary pressures, have increased that efficiencies and savings challenge to £719 million. We are on track to exceed the original £500 million savings ask, but the £719 million is proving more challenging.

This means that our overall service levels on telephony and correspondence remained below our service standards in 2023 to 2024, and we recognise that this caused real difficulties for some customers and agents. To deliver the service standards our customers expect, our aim is to reduce the volume of contact through phone and correspondence over time and boost the number of customers self-serving online, without needing to contact us. This is not just about saving money: it means more customers solve their queries quickly and easily, and our advisers can focus on those who need their help.

In 2023 to 2024 we made changes to reduce volumes of contact via phone or correspondence - for example, enabling customers to view and download their 5-year employment history within the HMRC app. This is a simple change that led to a 57% decrease in employment history telephone calls to us in 2023 to 2024, compared to the previous year, helping to stabilise the volume of phone and correspondence contact in 2023 to 2024 compared to previous years.

During our trial of a seasonal opening for the Self Assessment helpline (between 12 June and 4 September 2023), we directed customers to our Digital Assistant, backed up by a webchat service and a helpline for those customers who are unable to use our online services, or who need help to do so.

This allowed us to redeploy advisers to high priority work, such as processing an additional 373,000 overpayment work items. We conducted and published an evaluation of the trial which found that this approach led to further increases in the use of our online services, and that customer satisfaction remained high. We are considering the findings of this trial and engaging with our customers and stakeholders on how we can support more customers to move online.

We estimate that around 66% of total telephony contact is still for tasks that can be carried out online. That's why we have grown and improved our online services, and the HMRC app, while ensuring that our digital-first strategy moves at a speed and in ways that our customers are comfortable with.

+ **Read the evaluation of these trials at: www.gov.uk/government/publications/evaluation-of-changes-to-how-hmrc-supports-self-assessment-customers**
+ **View our agent dashboard at www.gov.uk/guidance/check-hmrcs-current-performance-and-service-levels**

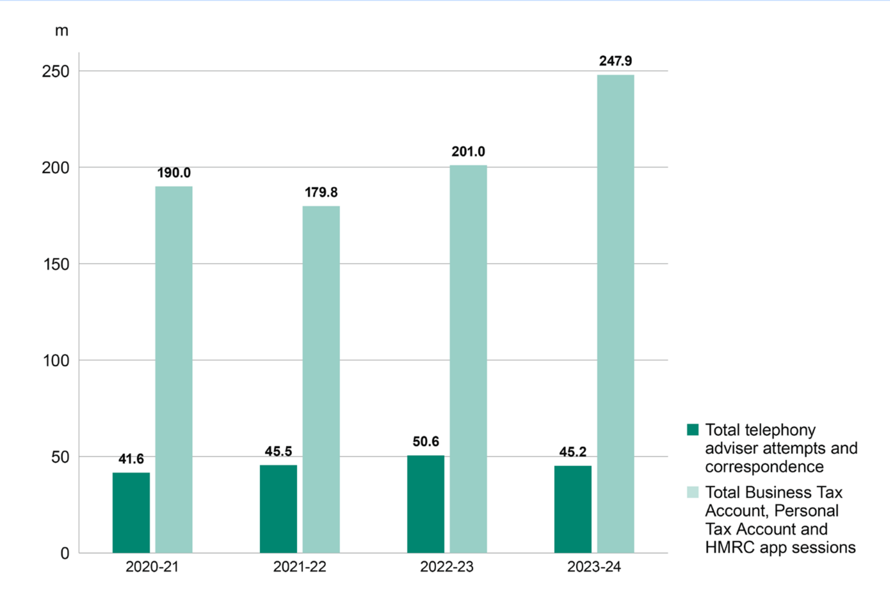
In focus: Changing trends in how our customers interact with us

While the number of customers in the tax system is growing, we were able to stabilise contact volumes via phone and correspondence in 2023 to 2024, compared to previous years. We also achieved growth in the number of customers using our online services and app, which is vital to ensuring our phone advisers can focus on helping those customers who need to speak to them.

In 2023 to 2024:

- 388 million (69%) of our interactions with customers took place through online self-serve channels, compared with 324 million (63%) in 2022 to 2023
- Our personal and business tax accounts and HMRC app were accessed 248 million times, up from 201 million in 2022 to 2023
- 90.5% of Self Assessment customers filed their tax return online by the 31 January 2024 deadline
- The volume of contact by phone, where the caller wanted to speak to an adviser, and correspondence reduced by 5.4 million, compared to 2022 to 2023

Figure 5: 4-year trend in customer interactions via digital and analogue channels[1]



1 Figures for digital interactions from past years have been revised due to improved data.

Our commitments in 2023 to 2024: strategic objective 2

In the financial year 2023 to 2024, alongside all our activity to make it easy to get tax right and hard to bend or break the rules, we made 7 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 2023 to 2024					
On track or complete	✓	Risk to delivery	△	Not on track	✗

Commitment	What we delivered	Status
Develop how people and businesses pay HMRC	We consulted extensively with industry, to assist us in developing our payments capabilities and we are working to provide a version of a Payments Application Programming Interface (API) that the industry can test and refine.	✓
Making Tax Digital	We successfully delivered functionality to support testing of the Income Tax Self Assessment service. We also continued to improve and simplify our Making Tax Digital (MTD) online services for all users, by removing End of Period Statements and improving the design of quarterly updates (read more on page 27).	✓
Manage Time to Pay	In 2023 to 2024, we enhanced and expanded our Time to Pay online services to give customers quicker and easier ways to manage their tax affairs. We also implemented iterative improvements to the Employer PAYE & VAT Self-Serve Time to Pay services. By the end of 2023 to 2024, we were supporting 902,054 customers with time to pay arrangements (read more on page 19).	✓
Research & Development (R&D) tax credits reform	The government has announced and legislated for a number of Research & Development (R&D) tax relief reforms, including the merger of the previous 2 schemes (R&D Tax Credits for Small and Medium Enterprises and R&D Expenditure Credit) and a new enhanced support for R&D intensive Small and Medium Enterprises. We continue to develop our compliance approach to reduce error and fraud, while ensuring legitimate claimants continue to benefit (read more on page 21).	✓
Single Customer Account (SCA)	In 2023 to 2024, we prioritised the delivery of new online services, to improve the customer experience and reduce the need to contact HMRC. These included new services to manage and claim Child Benefit online (read more on page 29), new features enabling customers to find and store their National Insurance number in their digital wallet and improvements to PAYE systems. We also introduced new technology enabling us to send personalised text messages and emails to keep customers updated about their tax affairs.	✓
Tax simplification	In 2023 to 2024, working with HM Treasury, we have delivered simplification packages at every fiscal event and published the government's simplification objectives. Read more about our work on tax simplification on page 26.	✓
Transition towards digital demand	In 2023 to 2024, 388 million (69%) of our interactions with customers took place through online self-serve channels. Our personal and business tax accounts, and the HMRC app, were accessed 248 million times in 2023 to 2024, up from 201 million the previous year. The amber rating reflects changes to our plans during 2023 to 2024. We continue to improve and expand our digital services, ensuring that we are changing at a speed that our customers and stakeholders are comfortable with. Read more on how we're improving our online services from page 28.	△

Key performance metrics: strategic objective 2

Figure 6: Customer experience: Net Easy for digital, webchat and telephony contact

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. Our overall score of +59.2 was below our service standard of +70, with our digital services rated as the easiest route to deal with us.

Figure 7: Customer experience: Net Easy trend over time

We started tracking Net Easy on digital interactions in 2020 to 2021, expanding the scope to include telephone interactions in 2021 to 2022. This chart shows the trend in our overall net easy score over that period.

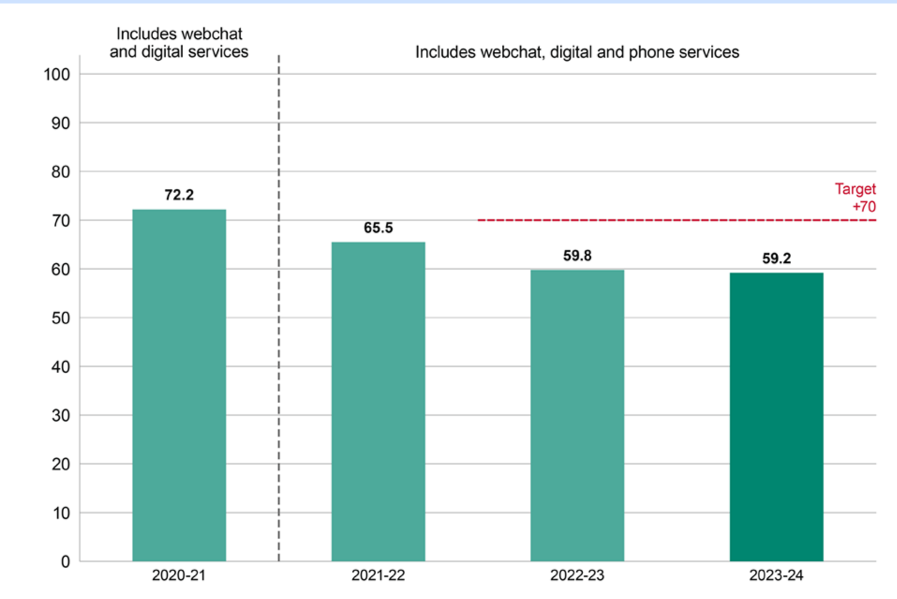


Figure 8: Telephony adviser attempts handled

Telephony Adviser Attempts Handled Percentage (AAH) measures the proportion of callers who got through to an adviser after hearing the automated messages and choosing to speak to an adviser. Our performance in 2023 to 2024 was 66.4%, below the service level for 2022 to 2023 of 71.1% - and lower than our service standard of 85%. This is due to the factors described above (see page 29).

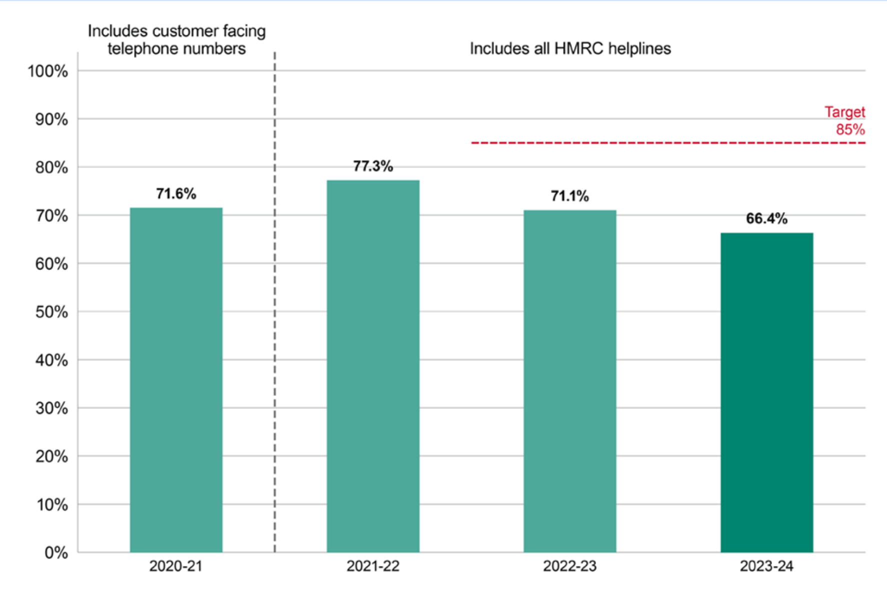
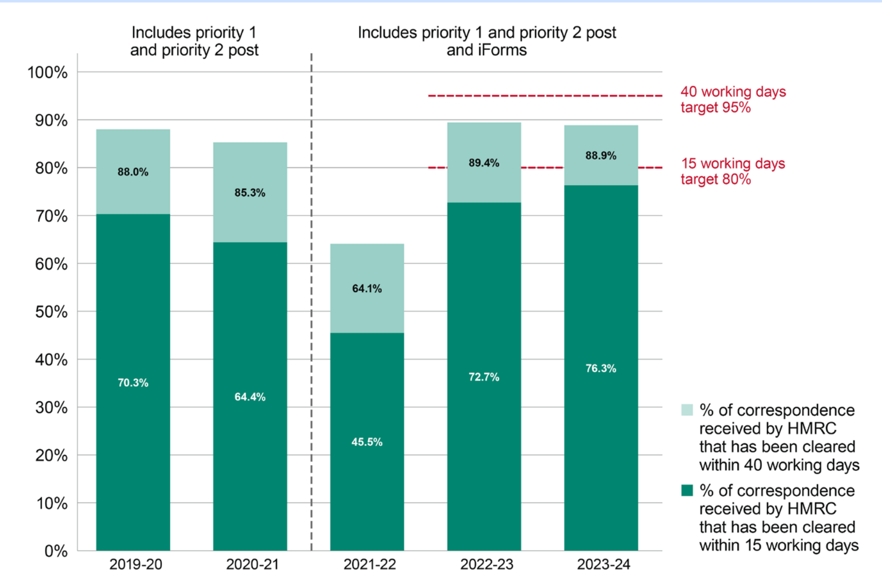


Figure 9: % of customer correspondence responded to within 15 and 40 working days of receipt

In 2023 to 2024, the proportion of customer correspondence that we responded to within 15 working days was 76.3%, above the level in 2022 to 2023, but below our 80% service standard. We responded to 88.9% of customer correspondence within 40 days, lower than our 2022 to 2023 levels, and below our service standard of 95%.



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

HMRC has a responsibility to treat customers fairly and ensure that everyone follows the same rules. This chapter explains the work we are doing to build public trust, maintain taxpayer consent and protect society from those who seek to harm or exploit the tax system.

Earning and maintaining public trust

We know that there is a human being behind every tax bill, and public trust in the tax and customs system is crucial in order for us to do our job effectively.

In our 2023 customer survey, around 65% of small businesses and 47% of individuals said that HMRC is an organisation they trust (see figure 10 on page 43).

Our Charter sets out the standards and behaviours that customers and agents can expect from us. We aspire to uphold these standards to earn and maintain public trust. The most important way we can demonstrate this is by supporting our customers and agents when they are trying to get things right, and taking into account our customers' individual circumstances, including any vulnerabilities they may have.

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

How we support customers who need extra help

If you are **struggling to pay us what you owe**, we will work with you to agree a payment plan based on your financial position - but you need to engage with us on this.

If you are **facing a compliance check**, we recognise that it's stressful. Our professional standards for compliance set out how we will act when carrying out any form of compliance check.

If you are **vulnerable** because of difficult personal circumstances or a health condition, we have a wide range of support available, including in some cases the option of face-to-face appointments and home visits.

We also signpost customers to other sources of support, including a dedicated Samaritans helpline.

+ **Read more about how we help customers with tax debt on page 19.**
+ **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**

Helping customers not to get caught out by tax avoidance

Tax avoidance involves 'bending' the tax rules to try and gain a tax advantage that was never intended by Parliament. Tax avoidance places unfair burdens on the majority who pay their fair share and denies funds for our vital public services. Most tax avoidance schemes simply do not work to save tax, and we challenge them wherever we can. Those who use them may end up having to pay more than the tax they tried to avoid, including penalties and interest.

We regularly publish information on tax avoidance schemes, those who promote them and others connected to avoidance schemes, to warn customers against getting involved in tax avoidance. Alongside our extensive 'Tax avoidance – don't get caught out' communications campaign (see page 13), we also write to those we suspect to be involved in avoidance schemes, advising them of the risks and urging them to speak to us if they want to leave the avoidance scheme.

Bearing down on the promotion of tax avoidance is a key element of our strategy for reducing the marketing and take up of tax avoidance schemes. We use a variety of legislation and tools to challenge promoters and others in the avoidance supply chain. Our work has led to more than 20 organisations that promote tax avoidance leaving the marketplace entirely. When others start up, we use our powers to quickly shut down their schemes.

In 2023 to 2024 we published the details of 40 tax avoidance schemes, 39 promoters, and 24 connected persons such as company directors and those in control of the promoting entity. Publishing this information helps customers to identify these schemes so they can steer clear of them, or exit them. We also issued 15 stop notices to promoters requiring them to stop promoting the tax avoidance scheme specified in the notice or face penalties of up to £1 million if they do not comply.

In 2024, the government further strengthened our powers, legislating to make it a criminal offence to promote a tax avoidance scheme after we issue a stop notice.

+ **Read more about the support we offer to customers who find themselves in debt on page 19.**

Raising agent standards

Around 85,000 tax and customs agent firms currently provide advice and services to 12 million taxpayers and international traders. They play a valuable role in the tax and customs system, with the majority adhering to high professional standards. However, a small minority exploit their clients or do not meet the professional standards expected of them. This harms the effective running of the wider tax and customs system and damages public trust in it. We are committed to raising standards in tax and customs advice, protecting customers and maintaining trust in the system.

We expect all professional tax agents to comply with the expectations of professional conduct that are set out in our Standard for Agents. We provide training and awareness-raising activity within HMRC to make sure we apply the Standard for Agents consistently and can support agents in meeting them.

When support isn’t likely to help, we have other actions we can take to address breaches of the Standard for Agents. These include suspending the agent’s access to our services, reporting their misconduct to their professional body or refusing to deal with them altogether.

We know that some taxpayers feel misled when using firms that specialise in claiming tax refunds from us. During 2023 to 2024, we took steps to improve transparency in the repayment agent market and protect the tax system. These include:

- shifting power away from repayment agents towards the taxpayer by removing the ability to assign the right to Income Tax repayments, which made repayments the property of the agent
- requiring repayment agents who submit claims for Income Tax repayments on behalf of their clients to register with us via the Agent Services Account and provide their Agent Reference Number when they submit some claims. If they fail to do this, we will make any repayment directly to the taxpayer rather than to the agent as their nominee

- requiring customers or agents claiming tax repayments linked to Payment Protection Insurance (PPI) payments to submit evidence in support of the claim. Any claims submitted without supporting evidence are refused
- working in partnership with the Advertising Standards Authority to report and take down misleading adverts, so people are less likely to be taken in by disingenuous claims of no-risk money
- launching a campaign to educate customers of the risks of making incorrect tax refund claims when using some repayment agents. Our campaign encourages customers to check they are eligible before making a claim, and reminds them to be careful before handing over sensitive personal information to repayment agents
- making taxpayers aware of how easy it is to claim a repayment directly from HMRC through our online services, without the need to use an agent

We recognise there is more to do to raise standards in tax advice. At Spring Budget 2024 we published a consultation 'Raising Standards in the Tax Advice Market: Strengthening the regulatory framework and improving registration'. It included a proposal to introduce a requirement for paid tax practitioners to be a member of a recognised professional body and to mandate registration with HMRC for tax practitioners who wish to interact with us on behalf of clients.

+ **Read the HMRC standard for agents at www.gov.uk/government/publications/hmrc-the-standard-for-agents**

Customer survey results: confidence, professionalism and fairness

The figures below show how small businesses, individuals and agents rated HMRC in 2023.

Positive ratings for staff professionalism were maintained for small businesses but fell for individuals and agents. Confidence scores fell this year for agents while small businesses had lower ratings on fairness.

Our quality assurance teams continue to work with advisers to monitor and improve the quality of our interactions with customers. We are focused on earning and maintaining trust, supporting customers and agents when they are trying to get things right, in line with our Charter standards (see page 6).

Confidence in the way HMRC are doing their job

Individuals: 41% (43% in 2022)
Small business: 52% (54% in 2022)
Agents: 27% (35% in 2022)

HMRC staff are professional

Individuals: 54% (61% in 2022)
Small business*: 84% (83% in 2022)
Agents: 63% (70% in 2022)

HMRC treated my business fairly

Small business: 80% (84% in 2022)

* Precise wording in the small business survey is "HMRC were professional in the last 12 months".

+ **Read our full Individuals, small business and agents survey at: www.gov.uk/government/publications/hmrc-individuals-small-businesses-and-agents-customer-survey-2023**

Handling complaints

Effective handling of complaints is essential to maintaining public trust in the tax and customs system. We aim to get things right for customers first time, but when this doesn't happen, we seek to provide a straightforward and accessible complaints process to say sorry and put things right.

Delays in HMRC services remained the main reason for complaints this year and we took on average 36 days to resolve them – longer than we would like. We are working hard to improve our handling of complaints.

The Adjudicator provides an impartial and independent service that investigates complaints that have gone through our own internal 2-tier complaints process, where the complainant remains dissatisfied. Our response to the Adjudicator's annual report sets out how we have learned from customer complaints to improve our services.

If a customer remains dissatisfied following our handling of their complaint, they can ask their MP to refer it to the Parliamentary and Health Service Ombudsman (PHSO). In 2023 to 2024, 8 complaints about HMRC were referred to the PHSO for further investigation, with 3 upheld in full or partially upheld. We complied with all 8 ombudsman recommendations.

+ **Read our response to the Adjudicator's annual report at www.gov.uk/government/news/hmrc-and-voas-response-to-the-adjudicators-office-2023-annual-report**

Being transparent about our performance

We publish monthly and quarterly performance data on GOV.UK, as well as sharing findings from our external research programme, our evaluations and a range of official and national statistics.

In 2023 to 2024, we published 37 research reports covering issues such as customers' experience of dealing with HMRC and evaluations of policy changes and the COVID-19 financial support schemes.

+ **Read quarterly performance updates at www.gov.uk/government/collections/hmrc-quarterly-performance-updates**
+ **Read our research reports at www.gov.uk/government/organisations/hm-revenue-customs/about/research#hmrc-research-reports**
+ **Read our evaluation list at www.gov.uk/government/publications/hmrc-evaluation-list**
+ **Read our annual statistics publication plan at www.gov.uk/government/statistics/schedule-of-updates-for-hmrcs-statistics/publication-plan-for-hmrc-national-statistics-and-official-statistics-april-2023-to-march-2024**

Protecting society from harm

A key part of our duty as the UK's tax and customs service is to ensure that everyone follows the rules and to demonstrate that we're protecting the system from those who seek to exploit it to gain an unfair advantage.

Tax fraud and criminal attacks on the tax system damage public trust, undermine our economy, create unfair competition for legitimate businesses and rob our public services of vital funding. They also help to enable other crimes that harm communities across the UK.

When we believe a business or individual is trying to cheat or defraud the tax system, we use a range of powers and specialist investigative capabilities to uncover even the most complex and determined frauds and hold the perpetrators to account.

Tackling serious fraud and economic crime

When tackling cases of serious fraud, we focus on ways we can have the greatest impact and maximise value for money to the taxpayer. Usually, that means using our civil powers to assess tax and civil penalties, but we don't hesitate to open criminal investigations, seek prosecutions and use confiscation to recover the proceeds of crime, when necessary.

We conduct criminal investigations to tackle cases of organised crime and serious fraud, which pose society the most harm. While these investigations are often complex, resource intensive and time consuming, they can have a big impact and are key to maintaining public trust in the system.

We collaborate with international partners 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 who share tools, data, technology and expertise to tackle global tax crime. We also work with international partners to tackle offshore tax non-compliance, enhancing our data and intelligence sharing through a wide range of international agreements.

Serious fraud and economic crime in numbers: 2023 to 2024

- 430 new criminal investigations and more than 10,200 civil investigations into suspected fraud initiated by our serious fraud investigators
- 344 prosecutions brought as a result of our criminal investigations, securing 302 convictions with an 88% success rate in court
- 399 individuals under criminal investigation as part of our work to tackle wealthy tax evaders
- Recovered £1,094 million from our criminal investigations and Code of Practice 9 civil investigations
- 50,318 requests to share information from domestic law enforcement partners, such as the Police and the National Economic Crime Centre

+ **Read more in our Fraud Investigation Service technical note at www.gov.uk/government/publications/hmrc-annual-report-and-accounts-2023-to-2024**

Taking action on money laundering

We carry out anti-money laundering supervision as part of the wider government approach to tackling economic crime and terrorist financing. We supervise more than 36,000 businesses across 9 sectors and tackle risks through education, preventative measures and inspections.

In 2023 to 2024, we:

- issued 46 alerts reaching over 850,000 recipients to make businesses aware of changes to law or guidance and emerging risks
- delivered 13 webinars attended by around 6,000 businesses and produced educational material, including 9 YouTube videos with over 33,000 combined views
- refused 601 applications to register, and suspended or cancelled the registration of 35 businesses in supervised sectors
- delivered 3,629 supervisory interventions
- issued 991 penalties totalling just under £5.4 million

Preventing phoenixism

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

We estimate that tax losses from phoenixism in 2022 to 2023 account for about 15% of the total losses from non-payment of debts reported in our 2022 to 2023 Annual Report and Accounts (latest available data).

To counter phoenixism, we use our data and information to target the people behind the abuse and prevent it from reoccurring. We use powers to make directors liable for the debt of a company in certain circumstances, and we refer directors to the Insolvency Service for disqualification where their conduct makes them unfit to be a director. We also use legislation to issue legal notices requiring a security payment from the new company. The payment is then used to protect against future

In focus: Bringing criminal groups to justice

Here are 2 examples of how our serious fraud investigations brought criminal groups to justice in 2023 to 2024:

Laundering the proceeds of alcohol fraud

Thanks to our investigators, a group that sent £26 million of laundered money to Dubai after depositing criminal cash at banks a dozen times a day for nearly a year was jailed for more than 26 years.

Acting from a base in Buckinghamshire, the 6 group members acted as directors of 7 different companies set up purely to launder money generated by alcohol duty fraud. All 6 members were sentenced in February 2024 and we have launched action to recover the money.

Construction industry fraud

We concluded our biggest ever operation in Northern Ireland to tackle a complex form of tax fraud. Plotting from a Belfast-based accountancy firm, the group created a false audit trail that enabled clients to operate in the construction industry without paying tax or VAT.

Our fraud investigators worked with partners in the Police Service of Northern Ireland, the Public Prosecution Service, the National Crime Agency and financial institutions to stop the loss of millions of pounds in taxpayers' money and bring the 27-strong group to justice.

revenue loss and can be offset against future debts. In 2022 to 2023, our use of securities legislation protected £300 million of tax.

Preventing criminal attacks and phishing on our systems

We have continued taking action to prevent criminal attacks on the tax system and our customers via phone and email. In 2023 to 2024, the number of vishing (voice phishing) scams reported, which attempt to trick victims into giving up sensitive information over the phone, totalled 65,516. In response to this threat, we collaborate with the Office of Communications (OFCOM) and report suspicious telephone numbers to telecommunication providers for removal.

We're also enhancing our anti-phishing tools so we can get even better at managing intelligence from multiple sources and further strengthen our response to criminals who pretend to be from HMRC. In 2023 to 2024, we took down 25 phishing websites, a 25% increase on 2022 to 2023.

We also identified 239 HMRC-branded infringements on social media sites, which involves the unauthorised use of HMRC's name or branding. This led to corrective actions to protect the public from being deceived into providing personal information to people masquerading as HMRC.

We received almost 152,000 reports of information relating to alleged fraud from the public via our Fraud Reporting Gateway in 2023 to 2024. We assess all reports and take relevant action. There are times when it is in the public interest for us to make payments to people for providing us with information, and this year, such payments were worth a total of £989,256.

+ **Find out how to report phishing scams to HMRC at www.gov.uk/report-suspicious-emails-websites-phishing/report-scam-HMRC-emails-texts-phone-calls-and-letters**

Enforcing the National Minimum Wage

Our work to protect society from harm extends beyond the tax and customs system. We are also responsible for enforcing the National Minimum Wage. In 2023 to 2024, we reached over 8.9 million employers and workers through webinars, letters, bulk emails, text messages and social media; and spoke directly to 1,620 employers, to help them understand their obligations. We completed 4,642 interventions, from which we identified arrears of £7.6 million for more than 52,000 workers.

+ **If you believe you are not receiving at least the minimum wage you can contact the Advisory, Conciliation and Arbitration Service (ACAS) or submit a query online at www.gov.uk/government/publications/pay-and-work-rights-complaints. We consider every complaint made.**

Combating internal fraud, bribery and corruption

Protecting society from harm includes being alive to internal as well as external threats. We set out our zero-tolerance approach in our 'Counter internal fraud, bribery and corruption' strategy, along with a policy and fraud response plan, which describes how we respond to these threats. Our Chief Digital and Information Officer is accountable for the policy, which applies to all our employees, suppliers, contractors and business partners.

Our commitments in 2023 to 2024: strategic objective 3

In financial year 2023 to 2024, alongside all our activity to maintain taxpayers' consent and protect society from harm, we made 9 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 2023 to 2024					
On track or complete	✓	Risk to delivery	△	Not on track	✗

Commitment	What we delivered	Status
Alcohol Duty Reform	On 1 August 2023, we successfully introduced a complete restructure of the taxation of alcohol, alongside 2 new reliefs: small producer relief and draught relief. We continue to progress work to simplify and digitise alcohol approvals, returns and payments.	✓
Consolidation of anti-evasion and avoidance measures and powers	In 2023 to 2024, we published a call for evidence on the reform of enquiry and assessment powers, penalties, and safeguards, as part of the Tax Administration Framework Review. We will use these responses to inform the consolidation of existing anti-evasion and avoidance measures and powers.	✓
COVID-19 Public Inquiry	We are prepared to fulfil our statutory obligations to the UK COVID-19 Public Inquiry, for example by identifying key documents and records. In 2023 to 2024, we responded to requests from the Inquiry within the statutory time limits.	✓
Longer prison terms for egregious tax fraud	The government announced at Spring Budget 2023 that it would double the maximum prison term for those convicted of the most egregious tax fraud to 14 years. Finance Act 2024 amends legislation for all crimes that involve dishonest behaviour in relation to revenue and duties administered by HMRC that carried a statutory maximum penalty of 7 years. As part of the amendments, the maximum sentence for counterfeiting also increased from 10 to 14 years.	✓
Prevent revenue loss from serious fraud	We prevented revenue loss from serious fraud in excess of £4.9 billion, exceeding our aim for 2023 to 2024 (read more about our work to tackle serious fraud and economic crime on page 39).	✓
Tackling criminality by pursuing illicit financial transactions	In 2023 to 2024, we delivered new activities to tackle the enablers of serious fraud, focusing on the illicit financial transactions that underpin tax crime and on money laundering in sectors supervised by HMRC. We delivered the amount expected from fiscal event investment into this work and raised £226 million in 2023 to 2024. We also delivered the first £5 million of additional compliance yield as part of a multi-year investment in work to tackle serious fraud.	✓
Consultation on options to strengthen oversight of the tax advice market by Spring 2024.	In 2023 to 2024, we planned to publish a summary of responses following consultation on the preferred option to strengthen the oversight of the tax advice market, however the consultation was delayed until Spring Budget 2024, and ran until 29 May 2024. Read more on raising agent standards on page 36.	△
Tougher consequences for promoters of tax avoidance	We introduced 2 new measures: a new criminal offence for promoters of tax avoidance, who fail to comply with a Stop Notice issued in respect of tax avoidance arrangements; and the disqualification of directors of companies involved in promoting tax avoidance, including those who exercise control or influence over a company.	✓
HMRC Charter	To support customers, we continued to improve external guidance, publishing new interactive guidance products, including forms, decision trees and calculators and improving existing guidance to make it easier to find and understand. Our people continue to develop their skills to deliver the HMRC Charter, either by completing our 'Living the Charter' e-learning, or by applying the Compliance Professional Standards in their compliance work.	✓

Key performance metrics: strategic objective 3

Figure 10: Trust in HMRC

The graph below shows how small, mid-sized and large 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. Individuals' rating of trust in HMRC has decreased since 2022 and it has continued to decrease amongst agents and small businesses since the question was introduced in 2021. Trust needs to be earned, and we are seeking to do so by supporting our customers and agents to get things right whilst taking into account their individual circumstances.

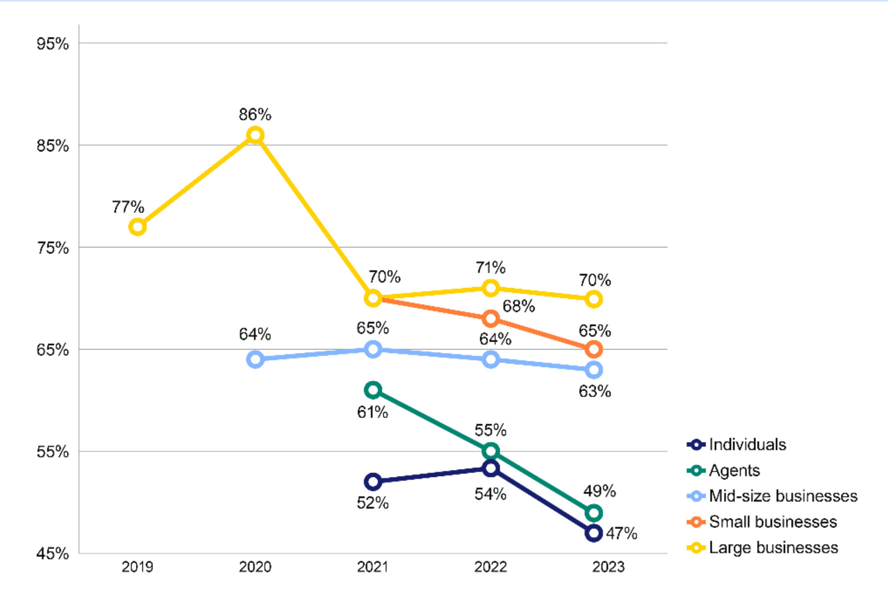


Figure 11: Customer satisfaction for digital, webchat and telephony contact

Our current key measure of how we are maintaining taxpayer consent is through overall customer satisfaction, which was 78.6% in 2023 to 2024, close to our target of 80%. 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.

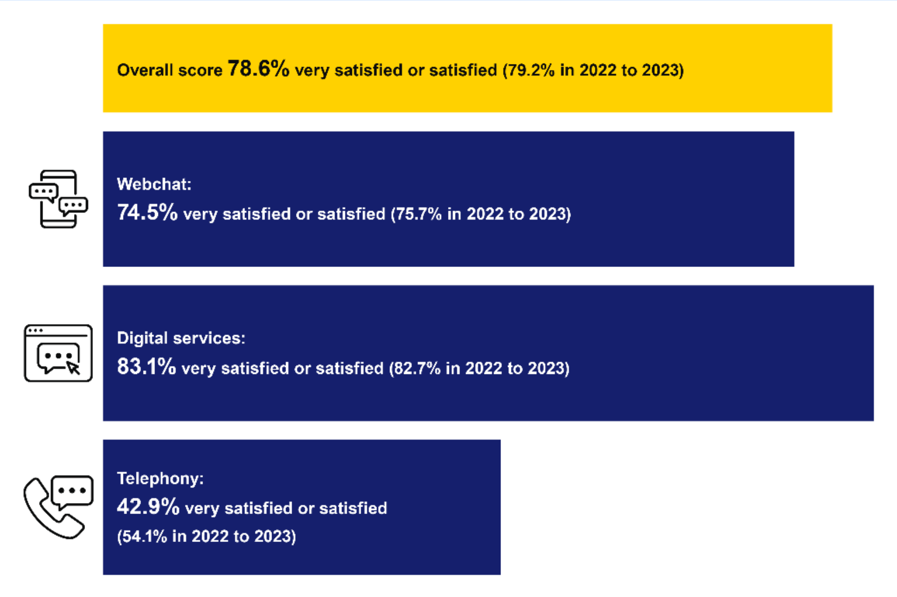
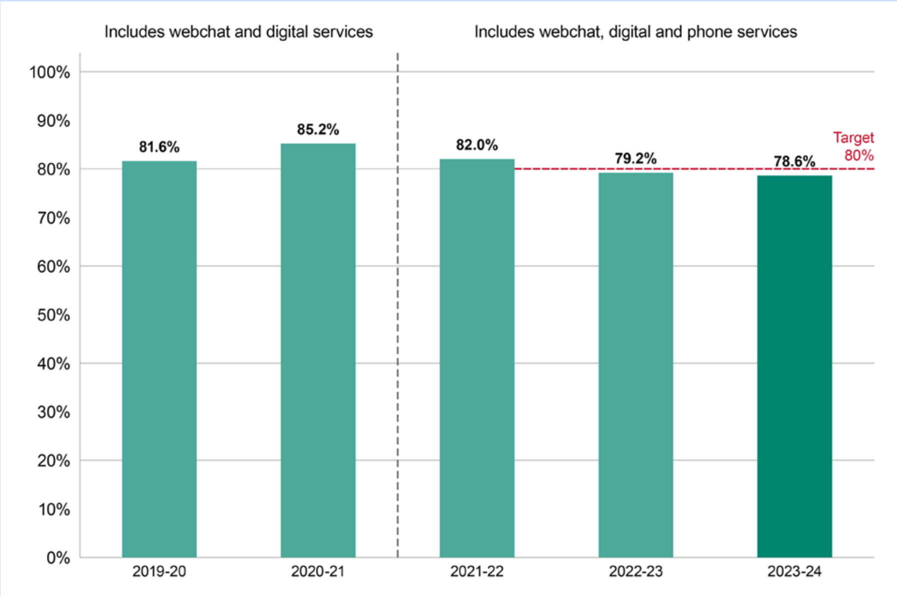


Figure 12: 5-year customer satisfaction trend for digital, webchat and telephony contact

Overall customer satisfaction fell marginally in 2023 to 2024 and remained a little below the target of 80%.



Strategic objective 4: Make HMRC a great place to work

This chapter explains the actions we are taking to create workplaces where our people feel trusted and respected, while benefiting from modern facilities, systems, tools and technology. These things help us to deliver effectively for our customers, retain and recruit the people and skills we need and ensure that everyone has a positive experience working for us.

HMRC has a workforce of more than 61,000 full-time equivalent employees, located throughout the UK. Our people have one primary purpose – to ensure customers get their tax and customs right. But we can only achieve this if we invest continually in our skills and technology and keep improving our productivity and ways of working, so we can respond to changing government priorities and deliver the services our customers need.

Our employee engagement score in 2023 saw a slight reduction after a number of years of trending upward (see page 51). We recognise there is always more that can be done to support our people and improve their working experience, and remain committed to listening and taking action to address the reasons for this reduction. It was encouraging to see, however, that we scored highly in the key measures around fairness and respect at work (see page 52).

Building the skills of our people

This year, we developed an HMRC-wide Learning Strategy, which sets out the critical skills and capabilities, learning pathways (including apprenticeships) and learning environments we need to achieve our ambitions. One of our biggest priorities is enhancing the digital skills of our workforce.

In October 2023, we launched a new Digital Academy, which brings together all our digital, data and technology learning, ensuring we can build confidence, competence, and technical expertise across our workforce as we deliver more of the tax service online.

In focus: Building our workforce across the UK

We are committed to delivering a workforce that represents the communities we serve around the UK. More than 85% of our workforce, and more than 50% of our Senior Civil Servants, are based outside London in cities across England, Wales, Scotland and Northern Ireland (HMRC excluding VOA). Most of those based in London work from our outer London regional centres in Stratford and Croydon.

We have also developed data and insight hubs to better understand local labour markets in the areas we are based in and are building stronger relationships with local universities and businesses, so we can develop the talent pipelines we need, drawn from the communities we serve.

As well as meeting HMRC's needs, our Locations Programme has delivered 12 Government Hubs across the UK, providing space to more than 40 other government departments, agencies and public bodies and helping the movement of Civil Service roles to more regions of the UK.

The Digital Academy helps our people build digital and data skills - from awareness to expert level - and broaden their understanding of cutting-edge technology including Artificial Intelligence (AI). Our Digital Academy AI Learning Hub has a number of learning journeys helping individuals to build their knowledge of AI and generative AI, including machine learning and how AI models are built, how to engineer prompts for generative AI tools, as well as understanding the safe and ethical use of AI. Since its launch, over 21,000 colleagues have accessed the Digital Academy.

In 2023 to 2024, we delivered nearly 2,000 learning events to colleagues through our Tax Academy, helping to build the skills of our people across a range of compliance, customs and customer service topics.

By developing and promoting an interactive learning package, we have also focused on increasing awareness of the HMRC Charter and how every colleague plays a part in ensuring we deliver our Charter standards.

To build management capability, our Management Development Programme is now in its fourth year and since its launch has helped to develop skills for over 3,000 of our managers. Leadership development is also a high priority for us, and we operate a bespoke work-based programme for senior leaders to develop their leadership skills, including modules on systems, strategic thinking and communicating with impact. This year, 80 participants embarked on the 12-month learning programme, building on the 70 who joined the pilot cohort in 2022 to 2023, while a further 90 leaders have been enrolled into the 2024 to 2025 programme.

Improving our technology and ways of working

By ensuring our people work with improved and upgraded systems and technology, we are able to increase our flexibility and efficiency – with more colleagues able to move easily between different priority tasks in response to changes in customer demand.

Improving our IT infrastructure is not an easy task given the size and scale of our IT estate, but 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 in the long term. This has helped us to reduce ‘down time’ within our systems this year by 33% for internal colleagues and 60% for our customers.

This year, upgrades to the technology and systems used by our colleagues included:

- replacing our VAT repayments risking system with significantly upgraded technology in our Investigation and Detection Risking Service (IDRS), which is used by more than 5,000 colleagues
- expanding the use of our Joint Insolvency Management Service (JIMS), which gives us more detailed and frequent information on insolvencies, replacing slower manual checks that rely on multiple business processes. Colleague feedback highlights how easy the system is to use and the significant benefits it brings to our insolvency and compliance teams, as well as external bodies like the Insolvency Service
- developing a new adviser interface tool, which allows colleagues to retrieve data more quickly across different internal systems when supporting customers on phone calls
- migrating microfilm images from perishable media to a secure online digital archive, automating manual processes

We are also establishing new ways of operating to improve the services we deliver to customers. This includes ‘model offices’ that apply new technology and innovative approaches to test and quality assure proposed changes for HMRC operations and customers in a live environment.

Our Child Benefit model office in Washington successfully delivered multiple improvements for Child Benefit customers, such as the ability to make claims and change bank details online, as well as provide proof of entitlement and full-time non-advanced education (see page 29).

The Income Tax model office in Manchester is gathering insight on the causes of customer errors, as well as working with external employers to improve guidance and test new digital services such as 'PAYE employment histories' and 'Find my National Insurance number'.

+ **Read more about how we are building up the resilience of our IT and technology on page 56.**

Changing where we work

Over the past few years, we have completely transformed our estate, providing modern workspaces with high-speed digital infrastructure and facilities that promote innovation and collaborative working. This has benefited the taxpayer by supporting the delivery of £32 million of efficiency savings in 2023 to 2024 (read more on page 73). So far we have opened 12 new regional centres, an achievement recognised by the British Council of Offices, who awarded HMRC's Locations Programme with its prestigious President's Award in 2023. We have also seen considerable progress in the construction of our new Newcastle regional centre, which we expect to open in 2027. These award-winning modern purpose-built workspaces put us in a strong position to create jobs and career opportunities in every part of the UK. We paused some of our smaller office solutions this year, until 2024 to 2025, allowing us to take more time to consider options and explore new opportunities, to ensure we select the best value solutions.

As a modern, inclusive employer, we support flexible working. This flexibility enhances our employment offer and helps us to attract and retain talent. We expect most colleagues to spend a minimum of 60% of their working time in the office, where they can collaborate, learn from and connect with each other. Beyond that, they can spend up to 40% of their time working at home if they wish, provided they can do their job effectively from home and this fits with the department's needs. Analysis shows that our customer advisers are similarly productive at home and in the office. Our advisers answered 15.9 calls on average per day at home, compared to 16.3 in the office (based on data between October 2022 to December 2022).

Supporting colleague wellbeing

We recognise the value and importance of a culture that supports the wellbeing of our people so they can work at their best, and that reflects the society we serve.

This means taking an active stance against unacceptable behaviour, including all forms of discrimination and bullying. We continued to make this a priority in 2023 to 2024, delivering the remaining aspects of our Respect at Work and Race Delivery programmes with success measures in place to drive and monitor progress. We have increased representation for ethnic minority colleagues to 19% by the end of 2023 to 2024, up from 14% in 2019 to 2020, and above the national average across those of working age. A full breakdown is shown in figure 16 on page 53.

Our Accessibility Centre of Excellence provides Assistive Technology and career-long support to disabled colleagues. We also recruited 84 new colleagues through our Life Chances Exceptions programme in 2023 to 2024, which helps us to recruit disadvantaged candidates into the workplace.

To support neuro-divergent colleagues, we worked with our supplier of Occupational Health services to provide access to workplace assessments, in-depth clinical advice on workplace adjustments and professional coaching, as appropriate. Design experts for our new regional centres worked with their neurodiverse communities to develop sensory-muted design including appropriate wall and desk finishes and sensory-muted ‘pods’. The Construction Industry Council has awarded us 13 ‘Inclusive Environments Recognition’ awards in recognition of our commitment to delivering inclusive workspaces.

In focus: HMRC People Awards

We are focused on helping colleagues feel connected to our purpose (see Engagement and Culture key risk on page 81). One way we do this is by showcasing individual and team excellence through our annual People Awards. The 2023 winners included:

Individual of the year: The leader of our ’Cloud Academy’ established a pioneering learning programme for Cloud computing skills, providing career-enhancing skills and ensuring that our IT professionals have appropriate technical capabilities

Team of the year: Our Help to Save team promoted a government savings scheme that encourages low-income earners to save for the future. Their work embodied connection to purpose, as it demonstrably improved the lives of customers who needed financial support

Leader of the year: Based in HMRC’s Risk Intelligence Service, our leader of the year developed a fantastic team ethos in a virtual team spanning 6 sites, achieving one of our highest Employee Engagement scores

HMRC PEOPLE AWARDS

Health and safety

To ensure we have effective health and safety arrangements in place, we provide access to practical learning, specialist support and advice. This year, we introduced a new central database of incident reports and learning completion, giving managers, colleagues and trade union safety representatives access to real-time health and safety performance information.

Our modern workplaces are managed by in-house and third-party professional service providers, and our Building Risk Assessments reflect the robust safety measures that we have in place. We encourage colleagues to report all accidents and instances of work-related ill health. 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).

We monitor incident reports and in 2023 to 2024 we reported 31 incidents to HSE (compared to 23 in 2022 to 2023). The number of non-RIDDOR incidents reported increased to 1,594 (compared to 1,322 last year).

+ **Read Annex 4 on page 278 for a breakdown of incident reports.**

+ **Read HMRC's equality objectives at www.gov.uk/government/organisations/hm-revenue-customs/about/equality-and-diversity and gender pay gap report at www.gov.uk/government/publications/hmrc-and-valuation-office-agency-gender-pay-gap-report-and-data-2023/hmrc-gender-pay-report-2023**

Our approach to whistleblowing

Our commitment to making HMRC a great place to work includes making sure that people can speak up if they feel that things are not right. Whistleblowing case numbers have decreased in 2023 to 2024 following an increase in 2022 to 2023. These numbers are still far lower than those recorded prior to the COVID-19 pandemic, when we saw around 150 cases annually.

Table 1: Whistleblowing cases

Financial year	2023-24	2022-23
Total cases	65	92
Number categorised as whistleblowing	20[1]	21

1 As reported cases are still being processed this figure may increase.

HMRC Trophy Cabinet: 2023 to 2024

Our people won or were nominated for more than 30 external awards in 2023 to 2024, including:

- **Counter Fraud Awards:** Female Pioneer of the Year and Member of the Year
- **Tackling Economic Crime Awards:** Outstanding Team
- **Operational Delivery Profession Awards:** Development Award, Inclusion Award, Leader of the Year Award, Modern Civil Service Award
- **National Computing Security Excellence Awards 2024:** Security Project of the Year
- **UK IT Industry Awards (Public Sector):** Project of the Year
- **GO Awards for Excellence in Public Procurement:** Team of the Year
- **Institute of Workplace and Facilities Management:** Collaboration Award
- **Women in Tech Employer Awards:** Best Public Sector Employer

Our commitments in 2023 to 2024: strategic objective 4

In financial year 2023 to 2024, 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 this commitment at the end of the financial year.

Status at the end of 2023 to 2024					
On track or complete	✓	Risk to delivery	△	Not on track	✗

Commitment	What we delivered	Status
Transform our estate	We have largely completed our successful Locations Programme. We have opened 12 of our 14 award-winning, greener Government Hubs that are enabling smarter working for over 40 government departments, agencies and public bodies. Some of our smaller office solutions were paused until 2024 to 2025 to enable consideration of new opportunities that could potentially offer better value for money and ensure HMRC retains the required skills in the right locations.	△

Key performance metrics: strategic objective 4

Figure 13: Employee Engagement Index

While our Employee Engagement Index has trended upwards over the last 5 years, the score of 56% in 2023 is a reduction on our 2022 score. Scores for all of the 5 employee engagement questions on our annual People Survey decreased when compared to 2022. Of these, scores for colleagues feeling ‘proud when they tell people they are part of the organisation’ have experienced the largest decrease when compared to 2022. In 2023, scores for the majority of the 9 themes within the People Survey have decreased. Across the core themes the largest decrease has been experienced in the ‘Pay and Benefits’ theme which has dropped by 5 percentage points to 31% this year.

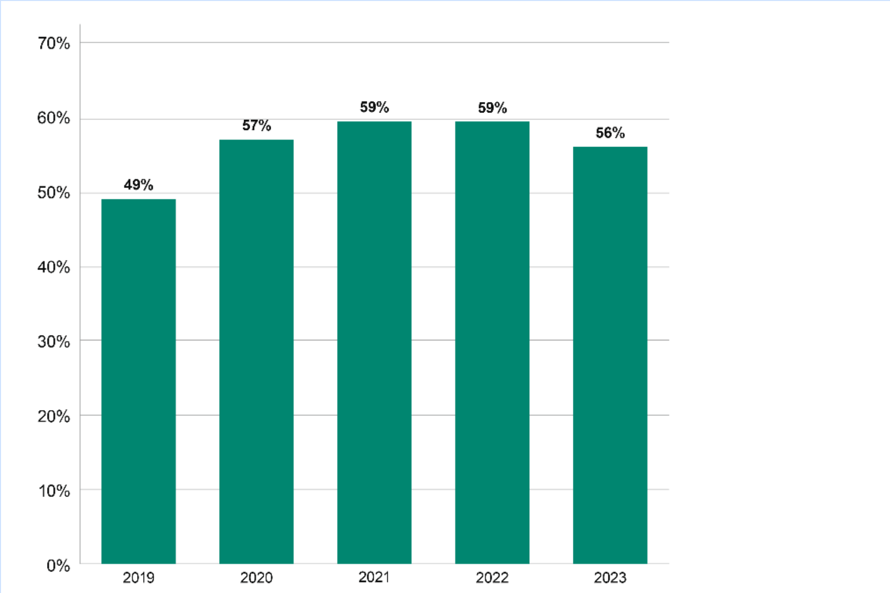


Figure 14: Annual People Survey – Fairness

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 managing sickness absence 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.

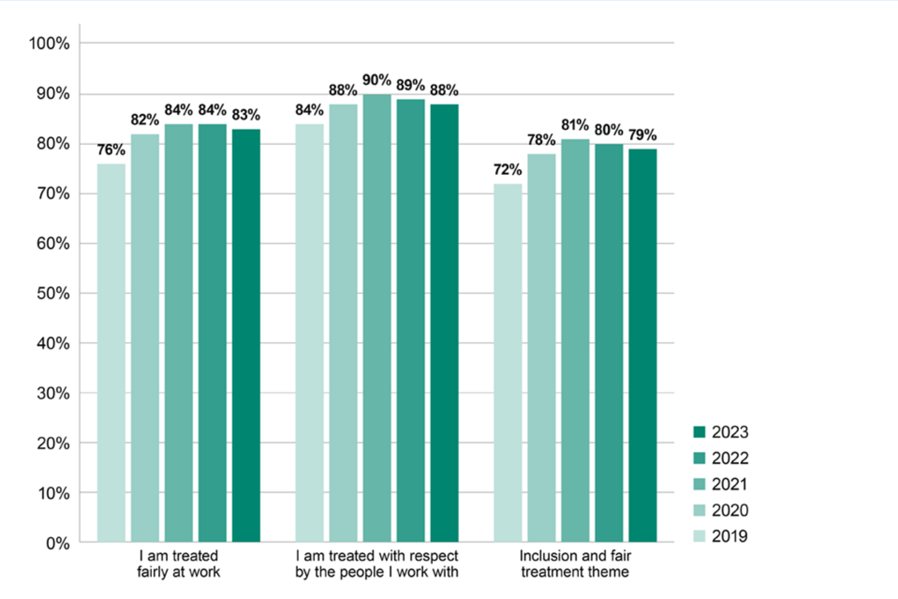


Figure 15: Sickness absence data

Sickness absence levels are measured using Average Working Days Lost (AWDL), which is the total number of days lost to sickness absence over a 12-month period divided by our current full-time equivalent (FTE) employees. Post-pandemic there has been an incremental increase in average working days lost, with the main reason being mental health and stress related absences. This is also reflected in comparable organisations.

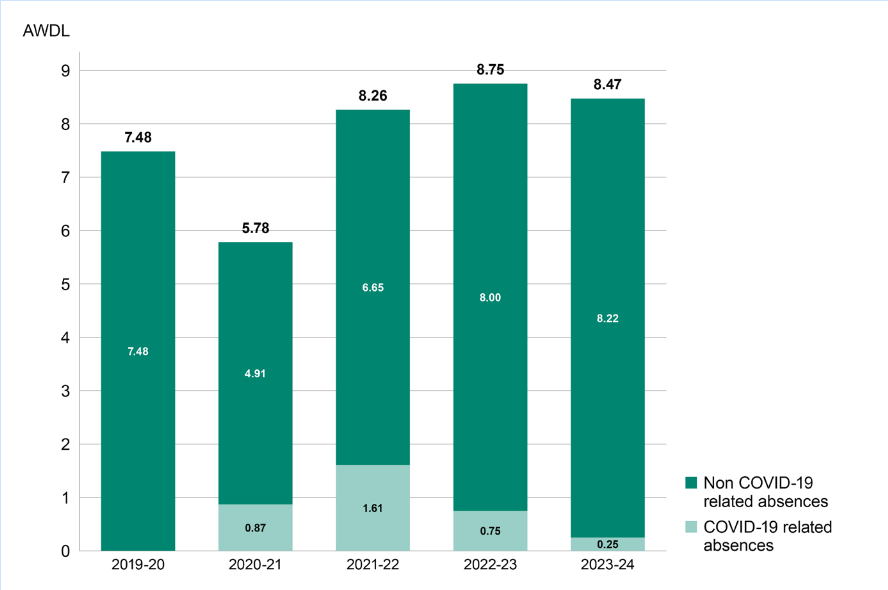


Figure 16: Workforce diversity characteristics

We publish workforce diversity data and equality information in our report on compliance with the public sector equality duties at www.gov.uk/government/publications/hmrc-compliance-with-the-public-sector-equality-duties-2023-to-2024

Characteristic	Grade	2019-20	2020-21	2021-22	2022-23	2023-24
Ethnic Minority[1]	All Staff	14%	15%	17%	18%	19%
	SCS	9%	11%	11%	10%	10%
Disability	All Staff	14%	14%	13%	14%	14%
	SCS	6%	6%	6%	7%	8%
Woman	All Staff	54%	53%	52%	52%	52%
	SCS	46%	45%	47%	47%	46%
Sexual Orientation[2]	All Staff	5%	6%	6%	7%	7%
	SCS	4%	7%	7%	8%	7%

1 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.
2 This chart shows the percentage of people who declared their sexual orientation as gay man, gay woman/lesbian, bisexual or other.

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

HMRC does much more than collect taxes. This chapter explains how we are supporting wider government aims by modernising the UK border and improving our resilience and sustainability.

Delivering a modern, effective customs system

As the UK's tax and customs authority, we have an essential role to play in ensuring the customs system supports the smooth flow of trade and helps to deliver economic growth.

We are focused on making it easier for customers to meet their customs obligations by providing simpler processes and improved technology. During financial year 2023 to 2024, we reached some important milestones.

Extending the Customs Declaration Service

After 30 years of using our Customs Handling of Import and Export Freight (CHIEF) system to make declarations, traders are now required to submit all their import declarations through the Customs Declaration Service (CDS). Over 107 million declarations have been made since its launch in 2018, with more than 70 million of them coming in 2023 to 2024.

From March 2024, traders also started moving their export declarations to CDS and by the end of March 2024 over 4 million export declarations were already being made through the system. We understood that some businesses needed more time, however, so we extended the deadline for exporters to move their last export declaration to CDS from 30 March 2024 to 4 June 2024.

Decommissioning CHIEF is estimated to deliver up to £30 million of savings per year and migrating to CDS is an important step towards having a more efficient, digital and customer-focused customs system.

In focus: How CDS makes it easier for traders to complete their obligations

The Customs Declaration Service (CDS) is now the UK's single customs platform for imports and exports. Critical to the long-term flow of trade, it has the flexibility to accommodate future improvements.

The CDS benefits traders by:

- allowing them to submit customs documents safely online
- giving them access to all their financial information in a single dashboard
- enabling real time notifications and alerts on all their customs declarations and movements
- helping them to manage their business finances, by opening a duty deferment account so they can make payments by card or bank transfer, enabling goods to clear without delay

Implementing the Windsor Framework

In September 2023, we successfully delivered the first phase of our commitments under the Windsor Framework.

As a result, the UK Trader Scheme was replaced by the UK Internal Market Scheme (UKIMS), without disrupting the flow of goods into Northern Ireland. UKIMS will ensure that goods that stay in the UK are free from unnecessary paperwork, checks and duties when the new arrangements become operational from 30 September 2024. At the end of 2023 to 2024, over 8,200 businesses were authorised under UKIMS, more than 4,400 of whom were not previously authorised or eligible for the previous scheme.

We continue to support traders already moving goods between Great Britain and Northern Ireland through the free-to-use Trader Support Service (TSS). The TSS provides guidance on how to move goods into and out of Northern Ireland and can submit data to HMRC systems on traders' behalf. Around 56,000 traders are registered with the TSS, and the service has facilitated 4.8 million goods movement declarations since 2021. The TSS has been extended until 31 December 2024.

Freeports across the UK

We are supporting the roll out of Freeports in England and Wales and Green Freeports in Scotland. These 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. They have designated tax sites recognised in law as geographical areas where businesses can benefit from tax reliefs.

In focus: Export controls and trade sanctions

We enforce UK export controls and trade sanctions that fall within our customs remit; as well as certain other trade sanctions on referral from civil enforcement bodies.

Since new international sanctions were introduced following Russia's invasion of Ukraine, we have implemented measures to prevent the export and import of restricted goods and respond to breaches. We have also improved our capacity to investigate and enforce sanctions and we are developing new capabilities to enforce sanctions on services under criminal law.

We work with the Department for Business and Trade, Border Force, Foreign Commonwealth and Development Office, HM Treasury and other agencies, to raise awareness of sanctions and strategic export controls through educational outreach activities and capability-building events with international partners.

Our options for promoting compliance with, and tackling breaches of, export controls and sanctions include educational visits, issuing written warnings, compound settlements and, in the most serious cases, referral to the UK prosecution authorities.

We have already supported 7 English Freeports to become operational with the 24th and final English tax site designated in February 2024. The eighth, and final, English Freeport at Humber is due to become operational in summer 2024.

Next steps in transforming the UK border

In August 2023, the government published its Border Target Operating Model for importing goods into Great Britain from countries inside and outside the EU. As part of this work, we have supported the Department for Environment, Food and Rural Affairs in implementing new controls to manage biosecurity risks to the UK.

Strengthening HMRC's resilience

We run a vast 24/7 operation and have one of the largest and most complex IT estates in the UK, so we are continually modernising and updating our infrastructure to keep pace with changing technology and ensure it remains fit for purpose.

To help protect our customers and colleagues, for example, we are focused on migrating our critical national infrastructure to cloud and Crown Hosting, to address potential vulnerabilities within our IT estate and increase the stability, security and overall efficiency of our IT systems, services and platforms.

Three years ago, we had more than 600 services hosted on over 7,000 servers in legacy data centres. By the end of 2023 to 2024, we had successfully migrated 372 of 545 critical services, with 49 remediated.

This included our National Insurance and Pay-As-You-Earn System, which is used by almost 40,000 colleagues and consists of more than 100 million accounts, supporting around 10 million daily transactions. Changes like this enable us to build and run more resilient services for our customers and quickly adapt to meet changes in demand.

Our vital role in the government's response to the COVID-19 pandemic showed the importance of resilient, agile and secure data management. We worked rapidly at scale and developed impressive data modelling capabilities, which were reliant on a clear understanding of what data was available, where it was held, its relevance and reliability, and many other factors.

Protecting customer data

As guardians of one of the biggest sets of customer and staff personal data in government, we are responsible for ensuring it is protected with industry standard levels of security. It's crucial that our data use is transparent, proportionate and complies with data protection laws. We have continued to review and remediate existing systems to ensure they are fully compliant with General Data Protection Regulations (GDPR). By the end of March 2024, our Data Protection Remediation Programme had remediated 76 systems, up from 59 systems at the end of March 2023. Our Securing our Technical Future Programme came to an end, having delivered the migration of critical business services to cloud and Crown Hosting platforms while decommissioning legacy services where possible.

The Information Commissioner's Office (ICO) concluded its routine monitoring against the Action Plan for remediation work to improve our compliance with GDPR, which was agreed with the ICO in 2021 to 2022. We continue to liaise regularly with the ICO on matters relating to data protection. In 2023 to 2024, we finished digitising our historical microfiche and microfilm records to make them easier to access and support GDPR requirements. This helps us to reply to customer Subject Access Requests, which have substantially increased since May 2023 due to increases in third party requests on behalf of customers.

As is the case for many large organisations, our systems face frequent cyber-attacks. Criminal groups and other malicious cyber actors seek to identify and exploit weaknesses in our systems to try and obtain customer data and make fraudulent repayment and other claims. We are continuously improving our cyber security, to stay ahead of such criminals. We analyse around 200 billion events across all of our systems every month, proactively blocking around 1.5 billion of these, which our security tools deem suspicious or malicious.

Investing in innovation

We are using increasingly advanced technology and analytics to enhance the way we predict, assess and target support for compliance and debt risks, as well as to analyse customer contact so we can improve services. For example, our VAT predictive analytics model uses machine learning techniques to predict the taxpayers most likely to be non-compliant, and this helps us to identify the riskiest cases faster.

Our logo detection algorithm uses a type of artificial neural network to help us identify misuse of HMRC's logo on various websites. We use anomaly detection and image recognition techniques to help us analyse large volumes of intelligence documents.

Looking to the future, we are actively exploring the potential of newer generative Artificial Intelligence (AI), and how we can safely exploit it in ways that improve performance and maintain public trust. Our focus is on establishing how AI could be used internally to boost productivity – for example, by enhancing search capability, data analysis and content summarisation.

We are also engaging closely with wider government work on the potential of chatbots and other customer-facing applications – and with initiatives led by the Central Digital and Data Office (CDDO), the Department for Science, Innovation and Technology and Government Digital Services, including the call for all departments to develop AI adoption plans.

Safe, ethical use of AI is paramount. We are contributing to and aligning with new guidance, such as CDDO's generative AI framework, which outlines principles for the safe use of internal generative AI. We have also established our own AI assurance process, AI ethics framework and governance to ensure the safe, effective and responsible use of AI models.

Our AI Ethics Working Group is responsible across HMRC for establishing mandatory processes, challenging projects and reporting on progress. We have sought additional assurance of our approach to AI from our Professional Standards Committee, whose members include ethics experts and non-executives.

Where we use AI in a way that could impact customer outcomes, we always ensure that the result is explainable, that there's a human in the loop, and that it complies with our data protection, security, and AI ethics standards. We will continue to build on our existing AI framework and align with and contribute to cross-government best practice and guidance.

In focus: Harnessing our data to tackle fraud

Our Data Science teams received the 2023 Civil Service Creative Solution Award for their use of cutting-edge data science techniques to better understand the level and nature of tax repayment fraud perpetrated by criminals against HMRC.

Our teams deployed network analysis and machine learning techniques to process vast amounts of data, providing new insight to protect customer accounts from fraud.

Alongside our other system and repayment controls, we have prevented £1.9 billion in revenue loss in 2023 to 2024.

Supporting devolved governments

We administer Income Tax on behalf of the UK, Scottish and Welsh governments. We also work closely with the devolved revenue authorities in Scotland and Wales to support each other in administering the taxes for which we each have responsibility.

We also work with the devolved governments to understand the tax, tax credits and National Insurance implications of a range of policies, including support and compensation schemes for people, to ensure that all liabilities are understood during the policy making process. We consider the impact on devolved nations and their policies when developing our own policies. This year our support included:

Northern Ireland

The absence of the Northern Ireland Executive until February 2024 meant we had to pause work on implementing phase 2 of Northern Ireland's Statutory Parental Bereavement Leave and Pay scheme.

During this period, Northern Ireland officials considered a range of policies in preparation for ministers returning, and we highlighted where we can provide advice on tax, tax credits and National Insurance implications.

The agreement to restore the Northern Ireland Executive referred to implementing the devolution of Corporation Tax powers, which is a process we will be closely engaged with.

Scotland

We worked with the Scottish Government and other stakeholders to ensure HMRC and commercial payroll systems would be able to implement an additional Scottish Income Tax band, along with other changes to thresholds and rates in April 2024.

We worked on the introduction of a series of Scottish benefits administered by Social Security Scotland, including building IT data sharing solutions, which allow us to deliver for our shared customers.

We worked closely with the Scottish Government and Revenue Scotland on the Bill to establish a Scottish Aggregates Tax and to plan the UK aggregates levy switch-off in Scotland, proposed for April 2026.

We also collaborated with the Scottish Government on the Trusts and Succession (Scotland) Bill, to ensure it does not inadvertently provide scope for tax avoidance.

Wales

The Welsh Government's Basic Income Pilot scheme for care leavers is subject to Income Tax. We worked with the Welsh Government to establish a process for monitoring the number of tax refund applications made by recipients.

We are liaising with Welsh Government colleagues as they develop their Agriculture (Wales) Bill and Sustainable Farming scheme, to help them understand the potential tax interactions, particularly with inheritance tax and capital gains tax.

+ **Further details regarding devolved taxes can be found at note 12 of the Trust Statement on page 210.**

Becoming more sustainable

Being sustainable helps us to fulfil our core purpose efficiently, stay agile and build the resilience we need to achieve our vision of having a trusted, modern tax administration system.

How we are performing

We are making good progress towards being a Net Zero carbon organisation by 2040, having already reduced our greenhouse gas emissions by 65% by 2023 to 2024, against our 2017 to 2018 baseline (see figure 17 on page 64).

Our new network of regional centres has helped us to reduce our carbon footprint and water-usage, increase recycling and reduce the waste we send to landfill. They all have an Energy Performance Certificate rating of B or higher and achieved a Building Research Establishment Environmental Assessment Method (BREEAM) rating of 'excellent' or 'very good'. And while delivery of our biodiversity action plan has been delayed to 2024 to 2025, there is little risk attached to this due to the limited green space across our estate. We still expect this to be completed ahead of the 2025 Greening Government Commitments target.

We make sure our contracts, including our catering services, adhere to Government Buying Standards and encourage our suppliers to go beyond the minimum requirements. We require suppliers for in-scope contracts to provide a Carbon Reduction Plan confirming their commitment to achieving Net Zero. We also assess the social value of our contracts, with all our procurements including a minimum 10% weighting allocated to social value, environment and sustainability, in line with government guidelines.

We are making good progress towards eliminating consumer single-use plastics from our estate and continue to work with suppliers to seek more environmentally friendly alternatives. For example, we have implemented bring your own cup discount schemes across our estate to reduce the use of single-use cups and coffee cup recycling schemes are also in place.

This year, we also developed an environmental benefits calculator, which we use to make sustainability an integral part of key processes, like impact assessments, programme and project gateway reviews and funding decisions.

+ **For further detail on our performance against our Greening Government Commitment targets, see figures 17 to 19 on page 64 and Annex 3 on page 275.**

Our social impact

Many of our people already support their local communities by volunteering in schools, charities and third sector organisations in public duty roles, such as being school governors or magistrates. In 2023 to 2024, nearly 1,500 of our people invested 4,100 days volunteering in their communities, and our people donated over £500,000 in total to charities through payroll giving.

In February 2024 we launched our first supported internship scheme, offering workplace opportunities in our Liverpool regional centre to young autistic people (aged 16 to 24) and young people with special educational needs. The scheme is a collaboration between HMRC and various partner organisations, including a local college, the city council and 2 charities.

How we contribute to UN Sustainable Development Goals

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 effectively to bring in revenue due and we are working to maintain a low 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 constantly expanding and improving our online services and data systems. See pages 28 and 29 for more detail on this activity.	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. We are taking forward initiatives such as our award-winning Tax Facts education programme for young people, which allows colleagues to volunteer in their local community, while gaining valuable transferable skills.	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

Climate-related financial disclosures

This year, for the first time, we are reporting on climate-related financial disclosures, consistent with HM Treasury's Task Force on Climate-related Financial Disclosures (TCFD) guidance which interprets and adapts the framework for the UK public sector. We have complied with HM Treasury's guidance for Phase 1, and Phase 2 one year early.

This section explains our governance around climate-related risks, how we integrate the identification and management of these risks into our risk management structure, and the metrics and targets we use to assess them. We intend to cover Phase 3, strategy disclosures, in future Annual Reports in line with HM Treasury's timetable.

+ **Read about the new requirements on climate related financial disclosures at www.gov.uk/government/publications/tcfd-aligned-disclosure-application-guidance/task-force-on-climate-related-financial-disclosure-tcfd-aligned-disclosure-application-guidance#governance. We have complied with this guidance by including recommended disclosures on governance (a – c), risk management (a – c) and metrics and targets (b). We are not required to include disclosure for metrics and target (a and c) as climate is not a principal risk.**

Our governance for climate-related risks

Reporting to the HMRC Strategy Committee and, when required, to the Executive Committee (ExCom), HMRC's Sustainability Board ensures that sustainability considerations are integral to our decision-making and to our ways of working. It meets every 2 months to oversee our sustainability and our Net Zero commitments and identify and prioritise enterprise sustainability risks. Our Sustainability Strategy was agreed at HMRC's Strategy Committee in July 2023.

The HMRC Board appointed one of our non-executive directors, David Cooper, to provide oversight of our climate-related activities, risks, and opportunities. David also sits on our Sustainability Board and on the cross-government Climate Non-Executive Board Member Liaison Forum. Our Audit and Risk Committee have reviewed our plans and approach to TCFD.

The Sustainability Board is chaired by our ExCom Sustainability Champion, HMRC's Director of Communications and Guidance, Andrew Pemberton. We report on our performance against sustainability metrics and targets in the ExCom monthly performance hub.

Managing climate risk

In 2023 to 2024, we identified and assessed the risks associated with the physical impact of climate change and the transition towards a low carbon economy. Key risks relating to the potential effects of extreme weather on our operations have been incorporated in our departmental risk management processes and governance.

We don't currently consider climate to be a principal risk for HMRC because environmental risks are not expected to critically impact our ability to deliver our strategic objectives. We have already taken significant steps to rationalise our property and IT estates, transforming HMRC into a more efficient and less carbon-intensive department and we are working to mitigate the potential impacts of extreme weather.

+ **Read more on our approach to risk management and assurance on pages 97 to 99.**

Metrics and targets for climate-related risks

We use a variety of metrics to assess climate-related risks and opportunities, which we have reported on publicly for several years. Our performance data on sustainability comes from a range of internal and external suppliers and we follow the Greening Government Commitments (GGC) reporting methodology. The Department for the Environment, Food and Rural Affairs verifies the data and, in 2023 to 2024, the Carbon Trust externally verified our methodology on supply chain emissions, which sit outside of the GGC requirements.

+ **To understand scope 1, 2 and 3 emissions and the Greening Government Commitments see www.gov.uk/government/collections/greening-government-commitments**
+ **Read page 64 and Annex 3 for our performance over time for each of our metrics for climate-related risks and opportunities.**

Our commitments in 2023 to 2024: strategic objective 5

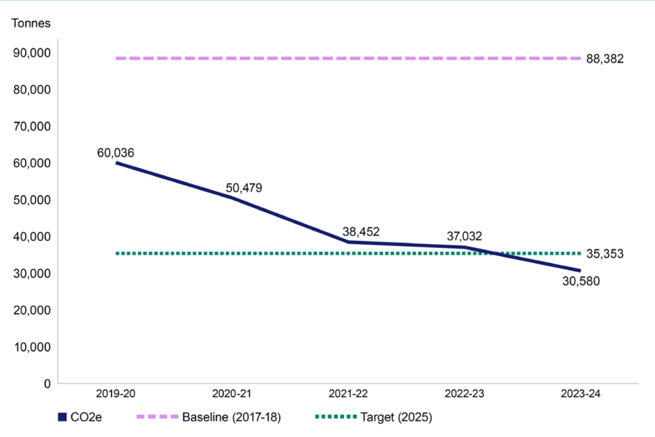
In financial year 2023 to 2024, alongside all our activity to support wider government economic aims through a resilient, agile tax administration system, we made 7 specific commitments in this area. The table below details our progress against each commitment at the end of the year.

Status at the end of 2023 to 2024					
On track or complete	✓	Risk to delivery	△	Not on track	✗

Commitment	**What we delivered**	**Status**
Borders and Trade – Northern Ireland	We continued to progress delivery of customs commitments within the Windsor Framework to legislative timelines agreed between the UK and EU.	✓
Ensure our online services are accessible	In 2023 to 2024, we made good progress in ensuring our online services are fully compliant with accessibility standards (Public Sector Bodies Accessibility Standards 2018). Due to a backlog in validation testing, we achieved 56% against our aim of 70%, with a further 43% being partially compliant. We have taken a user-centric design approach to maximise the effectiveness of our services and improve customer experience.	△
Freeports	All 24 English Freeport Tax Sites are now operational.	✓
Single Customs Platform	From March 2024, traders began moving their export declarations to the Customs Declaration System (CDS), and we extended the deadline for exporters to move their last export declaration to 4 June 2024. We continue to engage with traders and external partners to manage the migration.	△
Single Trade Window	The first elements of a live Single Trade Window (STW) service have been built. The programme remains dependent on new legislation to enable cross-government collection and sharing of STW data.	△
Becoming more sustainable	In 2023 to 2024, we achieved a 65% 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. We are meeting all Greening Government Commitments targets, with the exception of recycling, where we have improved on last year. We set a stretching internal target on domestic flights, and this year reduced the number of domestic flights taken versus last year.	✓
Shared services (Unity programme)	In 2023 to 2024, we started the procurement of the new contracts for the provision of finance and HR systems for the Department for Transport (DfT), Department for Levelling Up Housing & Communities and HMRC. We prepared to open the joint shared service for DfT and HMRC, Unity Business Services from June 2024. We need to maintain pace and secure the funding needed to deliver this programme on time.	△

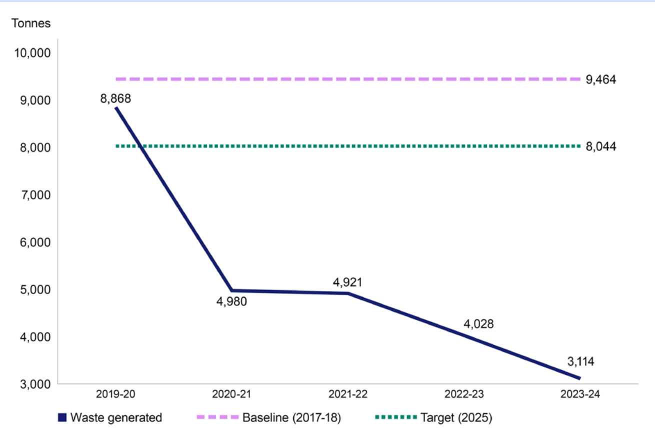
Key performance metrics: strategic objective 5

Figure 17: Greenhouse gas emissions (Greening Government Commitment)



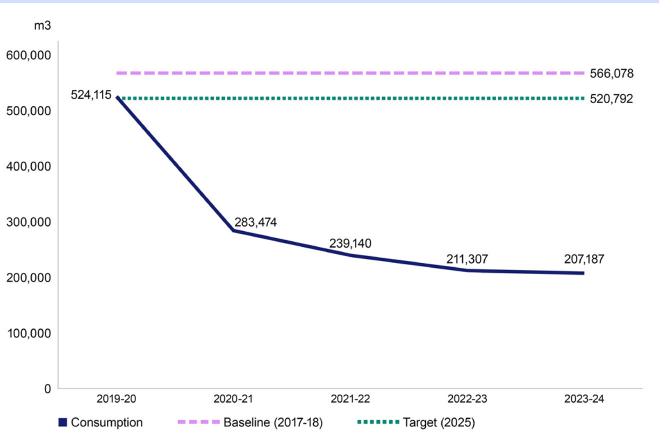
Our target for greenhouse gas emissions combines emissions from our buildings and domestic business travel. We have achieved a 65% reduction from our 2017 to 2018 baseline, due to our move from legacy offices into more energy-efficient regional centres and our continued efforts to reduce business travel.

Figure 18: Waste generated (Greening Government Commitment)



The 67% reduction in waste generated, from our 2017 to 2018 baseline, has been achieved through smarter waste management, behaviour change, reductions in paper use and IT efficiencies.

Figure 19: Water consumption (Greening Government Commitment)



The 63% reduction in water consumption, from our 2017 to 2018 baseline, has been achieved through moving to more water efficient regional centres.

Financial review

This financial review covers our financial performance in 2023 to 2024, setting out our funding, what we spent our money on, trends within tax revenues and how we continued to ensure we use public money appropriately and responsibly.

Chief Finance Officer's foreword

HMRC performs a vital role in collecting the money that funds the UK's public services and providing financial support to people. As the department's Chief Financial Officer, I'm proud of the progress we're making in doing this cost-effectively, improving compliance and keeping the UK's tax gap low.

The funding we receive through Spending Review (SR) settlements, enables us to deliver projects that are improving the quality, resilience and security of our systems, and making it quicker and easier to interact with the tax and customs system through new and expanding online services.

Our SR 2021 settlement required us to reduce spending on our core functions year-on-year, while additional and sustained higher inflation has significantly increased our efficiency and savings requirement; reaching £719 million by financial year 2024 to 2025 compared to the original target of £500 million.

Working to achieve this requirement, while supporting a growing number of customers with complex tax affairs, has adversely impacted our customer service levels. However, despite these pressures, in 2023 to 2024, our expenditure of £7,227 million enabled us to generate £843.4 billion in tax revenue, pay out £33,274 million in support payments to customers and keep the tax gap low at 4.8%. It costs just half a penny to collect each pound of tax revenue and we delivered new and sustainable efficiencies of £166 million and additional one-off cost savings of £111 million, which enables us to further reduce our operating costs.

We are making progress with our prevent-promote-respond compliance strategy and our digital-first approach to customer service and, while we recognise we have further to go to modernise the tax and customs system at a pace that our customers are comfortable with, we remain committed to delivering our customer service standards in 2024 to 2025.

Justin Holliday
Tax Assurance Commissioner and Chief Finance Officer

Budgetary framework

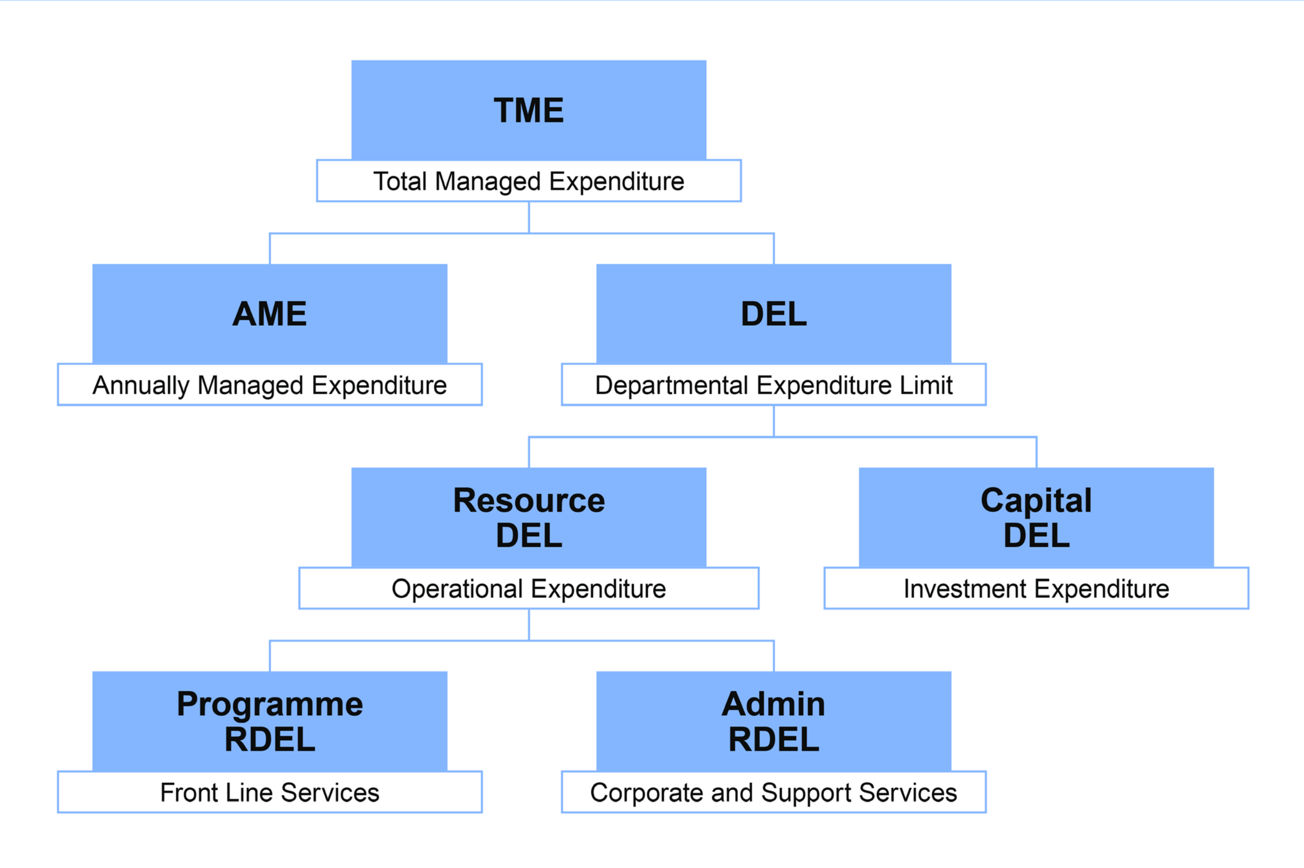
HM Treasury sets the budgetary framework for government spending. Within this, we are given our own Supply Estimate, which sets our proposed maximum spending and is voted on by Parliament at the start of the financial year.

The total amount we spend as a government department is known as Total Managed Expenditure (TME). In 2023 to 2024, our TME was £40,501 million. This funding is subject to strict HM Treasury controls and consists of budgets voted by Parliament and budgets where appropriation is covered in other legislation (including tax credits, other reliefs and allowances and the National Insurance Fund).

Figure 20 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 20: Our budgetary framework



Departmental Expenditure Limit (DEL) explained

Departmental Expenditure Limit (DEL) sets our budget for controllable expenditure, which includes day-to-day resource and administration costs (‘Resource (RDEL)’), and investment (‘Capital (CDEL)’).

Table 2: 5-year trend on our funding[1]

	2019-20 £m	2020-21 £m	2021-22 £m	2022-23 £m	2023-24 £m
Resource DEL	4,075	4,961	6,024	6,400	6,694
Capital DEL	364	564	738	661	751
Total DEL	**4,439**	**5,525**	**6,762**	**7,061**	**7,445**

1 Numbers may appear not to sum due to rounding.

Resource (RDEL) funding

Our resource funding has varied over the last 5 years due to our work in supporting wider government aims, such as exiting the European Union and delivering the COVID-19 financial support schemes. We are also managing the impact of inflation on our operating costs.

Core operations costs make up the largest component of our funding, most of which are relatively fixed in nature, with approximately 62% on staff costs and a further 19% on IT. In 2023 to 2024, funding for our core operations increased to £3,505 million, mostly to cover higher than forecast inflation in our customer service, compliance, and systems costs.

We worked on improving processes, productivity, and finding savings within our IT and estates to help us meet our stretching efficiency and savings target and mitigate the increase to our costs.

The funding we receive at government fiscal events has increased over the last 5 years. This covers specific initiatives, such as recruiting extra compliance officers to tackle evasion, avoidance and non-compliance. Policy measures funded in 2023 to 2024 included £37 million to collect outstanding debt more quickly, and support more customers to get out of debt, and to tackle the most complex tax risks, ensuring large and mid-sized businesses pay the tax they owe.

Funding to support investment in IT and data infrastructure has allowed us to enhance and expand our online services via GOV.UK and in the HMRC app (see page 28). However, inflation has also impacted our IT estate and the IT licenses and contracts we hold.

We have continued improving the integrity of the data we use and have made progress in managing the risks associated with processing customer personal data (see page 57). For example, funding was allocated to deliver our Data Protection Remediation project, which, over 3 years, will address an agreed list of systems which pose a General Data Protection Regulation risk. We have currently completed the remediation of 76 systems, with several business and IT risks mitigated. Our work to modernise our IT and data infrastructure has helped the department achieve new sustainable efficiency savings of £42 million (read more on page 73).

Capital (CDEL) funding

Our capital investment has grown over time, driven by funding for our work on exiting the European Union.

In 2023 to 2024, the main changes to our capital funding related to the Windsor Framework and customs IT systems. This helped to deliver the agreement which was published on 27 February 2023, between the UK and EU, and support the smooth flow of trade within the UK internal market. Additionally, we continued work on the Customs Declaration Service, a critical customs system which facilitates trade and will help to deliver a secure and effective border.

Within this capital investment, our funding for change and remediation projects has been around £150 million to £200 million since 2019 to 2020, enabling us to continue improving our IT systems and deliver projects like Making Tax Digital (MTD) (read more on page 27). MTD for VAT is predicted to deliver tax revenue of £4 billion up to the end of 2028 to 2029.

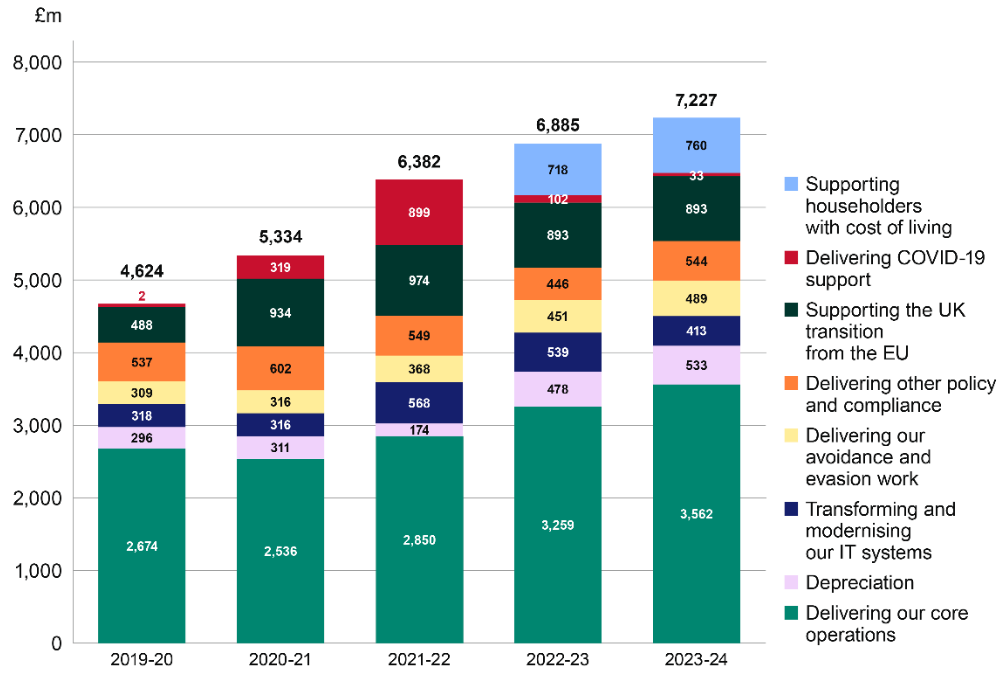
Our CDEL funding lets us deliver things like the Single Customer Account, which will enable individual taxpayers to see all their information in one place and manage more of their tax affairs online in a more joined-up way. Likewise, our investment in the Unique Customer Record will enable us to standardise and enhance data quality. This makes using our data cheaper and easier, while also simplifying account access for customers.

We also continued to invest in improving our access to information and enhancing data and IT remediation, which helps mitigate our Exploiting Information risk (read more on page 80).

What we spend our funding on

In 2023 to 2024, we spent £3,562 million total DEL (TDEL) on our core operations, delivering the resources and systems we need to collect tax and maintain a low tax gap. Figure 21 shows the trend in our total expenditure from 2019 to 2020 to 2023 to 2024, broken down by activities.

Figure 21: HMRC expenditure (TDEL) in 2023 to 2024[1]



1 Numbers may appear not to sum due to rounding.

Higher than forecast inflation increased the cost of our operations and we have had to make difficult spending choices to remain within budget. We restricted spending on areas such as travel and subsistence and external professional services, for example, while protecting core customer services and compliance expenditure where possible. Additional and sustained higher inflation also significantly increased our efficiency and savings requirement over the Spending Review period; reaching £719 million by 2024 to 2025 compared to the original target of £500 million (read more about how we deliver efficiencies on page 73).

Our expenditure on facilitating the smooth flow of trade at the border reduced in 2023 to 2024 as we moved out of transitional activity following the UK's exit from the European Union, and towards a steady-state border. This decrease is offset by new activity of £102 million relating to Windsor Framework implementation and an agreed extension to the Northern Ireland Trade Support Service (TSS), providing continuous support for traders moving goods between Great Britain and Northern Ireland.

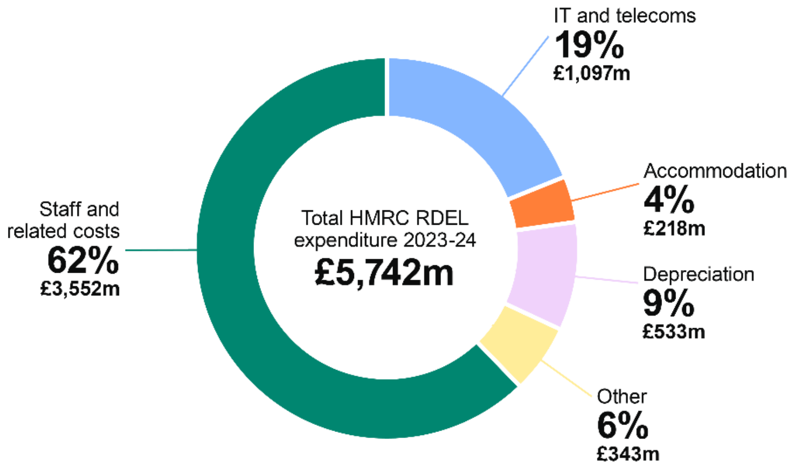
As part of the government response to cost of living pressures, we played a central role in providing financial support to people. We delivered £760 million of support to over 0.9 million eligible tax credit customers, with up to 3 Cost of Living payments, totalling £900.

Expenditure on transforming and modernising our IT systems was £413 million. This work will make them more efficient, improve the customer experience, reduce burdens on business and improve tax compliance (read more about our online service improvements on pages 28 to 29 and more about how we're ensuring the resilience of our IT systems on pages 56 to 58). This activity contributes to £42 million in new efficiency savings through modernising our legacy IT estate and replacing existing IT contracts with new, more efficient services and suppliers.

We also continued to deliver a large and complex portfolio of change projects. Our total spend on this was £668 million in 2023 to 2024, which includes ministerial commitments such as Making Tax Digital and Pensions Reform. This spending has driven £32 million in sustainable efficiencies for us in 2023 to 2024 and delivered £953 million in additional tax revenue.

Figure 22 shows our expenditure in 2023 to 2024 by type of spend. The majority of our spend was on staff-related costs and IT and telecommunications. Our cost base is largely fixed, especially in the short term, leaving limited areas for managing our spend outside of staff costs.

Figure 22: HMRC Group expenditure (RDEL) for 2023 to 2024[1-4]



1 Numbers may not sum due to rounding.
2 HMRC Group includes VOA figures.
3 'Other' includes income.
4 Total excludes the Cost of Living expenditure of £760 million.

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

	2019-20 £m	2020-21 £m	2021-22 £m	2022-23 £m	2023-24 £m
Resource DEL	4,287	4,796	5,717	6,329	6,502
Capital DEL	337	538	665	556	725
Total DEL	**4,624**	**5,334**	**6,382**	**6,885**	**7,227**

1 Numbers may appear not to sum due to rounding.

Variances between budget and expenditure

In 2023 to 2024, we underspent by £218 million, the equivalent of 2.9% of our DEL budget. When excluding our budgets under HM Treasury policy ringfences (referenced in the Budgetary Framework section), we had an underspend of 0.3%.

Table 4: Financial performance[1,2]

	Budget £m	Expenditure £m	Expenditure compared to budget £m	Expenditure compared to budget %	Underspend on ringfences £m	Position excluding ringfence underspend £m	Position excluding ringfence underspend %
Resource DEL	6,694	6,502	-192	-2.9%	174	-18	-0.3%
Capital DEL	751	725	-26	-3.5%	21	-5	-0.7%
Total Del	**7,445**	**7,227**	**-218**	**-2.9%**	**195**	**-23**	**-0.3%**

1 There are some technical differences between how our expenditure appears in the financial statements, funding and the wider government accounts. To make this difference easier to understand, we have included a reconciliation in SOPS 2 on page 147.
2 Numbers may appear not to sum due to rounding.

Against our Resource DEL budget of £6,694 million, we underspent by £192 million. When excluding underspends in HMT ringfenced budgets, the underspend was £18 million (0.3%). Factors contributing to the underspend include utilities and rent reductions in our offices, higher than expected levels of attrition in our compliance function and spend reductions in more discretionary areas such as professional services and travel and subsistence. This was partially offset by inflationary pressures and risks materialising in our IT function which could not be mitigated.

Against our Capital DEL budget of £751 million, we underspent by £26 million. This reduces to £5 million (0.7%) when underspends in HMT ringfenced budgets are excluded. Factors contributing to the underspend included our successful management of emerging risks and regular reprioritisation across our large delivery portfolio, along with some amended delivery timelines. The sale of our Warrington inland border force site late in the financial year also contributed.

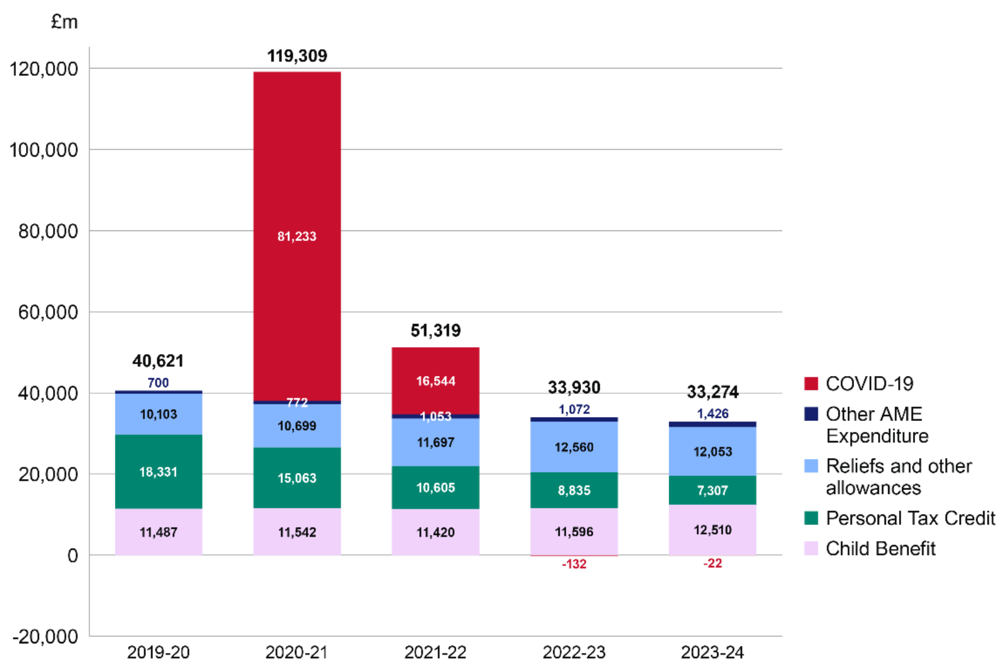
Annually Managed Expenditure (AME) explained

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 and we base our forecast on published Office for Budget Responsibility data.

Trends in Annually Managed Expenditure (AME)

In 2023 to 2024, total AME expenditure was £33,274 million across Child Benefit, tax credits and other benefits, reliefs and allowances. Figure 23 shows our AME summary trend from the last 5 financial years.

Figure 23: AME summary by type of expenditure[1]



1 Numbers may appear not to sum due to rounding.

Overall, 38% of our AME expenditure was on Child Benefit payments, totalling £12,510 million in 2023 to 2024 and supporting 11.9 million children. Total payments have increased compared to the previous year, driven by the increase in Child Benefit rates that came into effect from April 2023. We paid out £7,307 million in tax credit payments to 0.6 million families, a further decrease of £1,528 million as customers migrate to Universal Credit, administered by the Department for Work and Pensions (read more on page 20).

We spent £12,053 million on Reliefs and allowances which includes Corporation Tax reliefs, primarily for research and development relief and film tax relief. There was further expenditure on Tax-Free Childcare, Lifetime ISAs, Help to Save benefits, and payments in lieu of tax relief to certain bodies which are included within 'Other AME expenditure'.

+ **Read more on AME expenditure in our Resource Accounts and subsequent notes, starting on page 214.**

Variances between AME budget and expenditure

In 2023 to 2024, we spent £33,274 million, against a budget of £36,380 million, on annually managed expenditure. This was an underspend of £3,105 million. Any underspend is returned to HM Treasury.

Table 5: AME variances between budget and outturn (£m)[1]

	Funding	Outturn	Variance
Total annually managed expenditure	36,380	33,274	-3,105

1 Numbers may appear not to sum due to rounding.

Our AME budgets are more flexible as they provide funding for volatile or demand-led expenditure, which is more difficult to control. A key factor behind our underspend was lower spending on tax credits due to the migration of claimants onto Universal Credit. There was also a slight underspend within Child Benefit, where expenditure was lower than we had forecast when the budget was set. Other reliefs and allowances related to Corporation Tax reliefs expenditure were also less than budgeted.

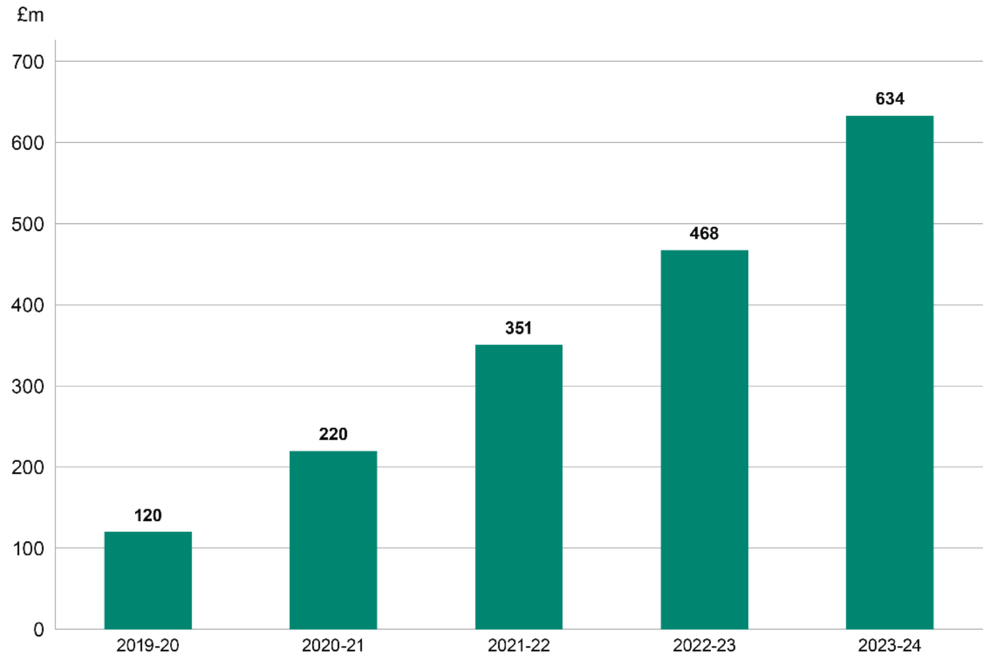
How we delivered value for money

We have a duty to use public money responsibly and we demonstrate value for money in several ways – for example, by comparing the tax revenue we collect with the cost of collecting it and by achieving efficiency savings to reduce our costs.

Our progress in delivering efficiencies

We achieve sustainable efficiencies when we improve how we carry out a process or activity to deliver a permanent cost reduction, while maintaining or improving existing performance levels. Our track record of delivering efficiencies is strong. In the 5-year period since 2019 to 2020 (which spans 3 Spending Reviews) we have delivered total sustainable efficiencies of £634 million – for example, by improving our internal processes and making savings on our IT and estates. As a result, our costs are £634 million lower than they would otherwise have been.

Figure 24: 5-year view of cumulative sustainable efficiencies

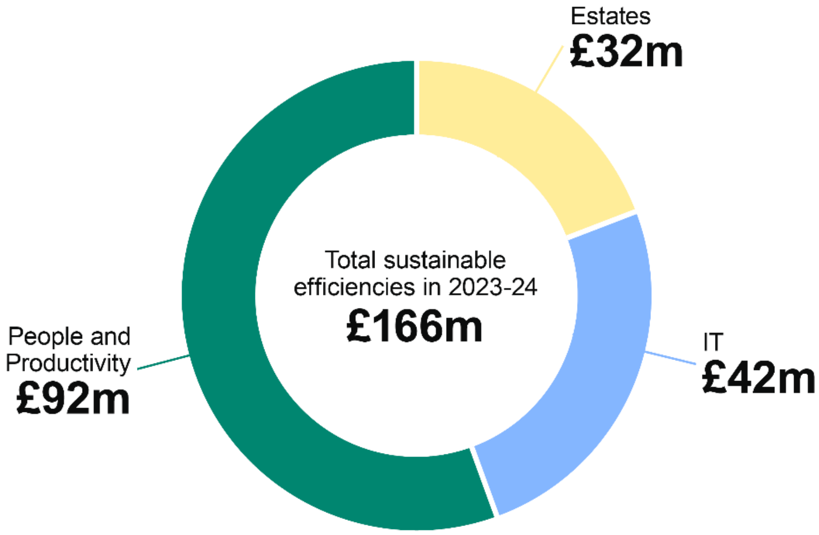


In 2023 to 2024, the second year of the current Spending Review period, we delivered new sustainable efficiencies of £166 million, achieving these broadly through: people and productivity savings (generated through improvements to internal processes, and subsequent changes in productivity and staffing levels), IT savings, and estates savings.

Modernising our IT estate and replacing existing IT contracts with new, more efficient services and suppliers delivered £42 million of efficiency savings in 2023 to 2024, while our locations programme delivered an additional £14 million, by enabling better use of our estate and bringing colleagues together in regional centres. We also saved £18 million by optimising our use of office space and sub-letting to other government departments. We delivered £92 million through people and productivity savings – for example, by tackling compliance risks more effectively and supporting customers to get their tax affairs right at the outset (read more on page 17).

The Single Customer Account (SCA) programme delivered £9 million of efficiency savings in 2023 to 2024 through improvements to customer digital interactions, making it easier for new parents to claim Child Benefit online and existing customers to view their entitlement and change bank details. For more detail on the SCA programme, see page 32.

Figure 25: Breakdown of 2023-24 efficiency savings by category



Our Spending Review 2021 (SR21) settlement required cumulative efficiency savings of £457 million per year by the end of 2023 to 2024. The impact of pressures such as inflation required us to find further savings to stay within budget, resulting in a revised target of £536 million by the end of 2023 to 2024, increasing to £719 million by 2024 to 2025.

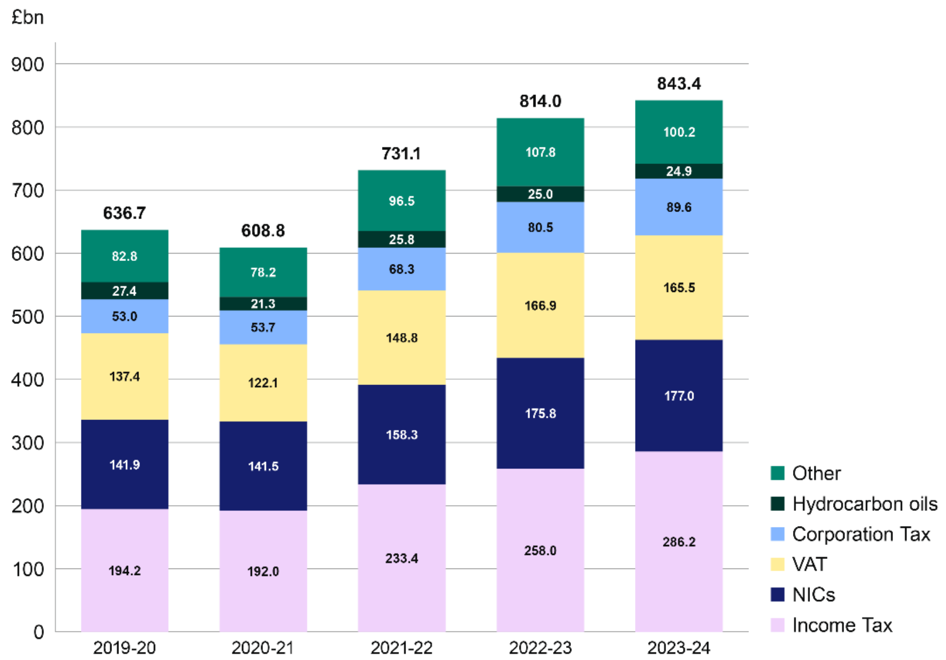
While we achieved our original SR21 target, the revised £536 million target was more challenging, due to some delays in achieving savings and having to curtail spend on some activities that generate efficiencies.

While we can make 'one-off' savings to partially make up the shortfall and minimise any impact on our performance, our target for sustained efficiencies next year remains challenging as we cannot absorb every pressure we face. The increasing number of taxpayers in the system, many of whom have more complex tax circumstances, places yet more demand on our customer service functions and compliance activities at a time when we are reducing our workforce and making efficiencies. For more detail on the risk facing this stretching efficiency challenge, see page 79.

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 various factors, for example the overall level of activity in the economy and the rates of taxation, allowances and reliefs set by Parliament. Tax revenues are based on when a tax liability accrues. This is different to tax receipts, which are based on when a payment for a tax liability is received by HMRC. Figure 26 shows total tax revenues between 2019 to 2020 and 2023 to 2024.

Figure 26: Total tax revenues



During 2023 to 2024, we generated total revenues of £843.4 billion, £29.4 billion more than the previous financial year. Overall tax revenues have continued to increase, driven by economic factors such as growth in wages, profits and inflation as well as continued growth in the number of taxpayers within the tax system.

Income Tax and National Insurance contributions rose by £29.3 billion (6.8 per cent) compared to 2022 to 2023, largely reflecting growing employment and average earnings growth. The Office for Budget Responsibility note that policy changes, including the decision to freeze some tax allowances and thresholds boosted revenues.

Corporation Tax revenues rose by £9.1 billion (11.3 per cent) compared to 2022 to 2023, largely due to the increase in the main rate from 19% to 25% from April 2023. VAT revenues reduced marginally by £1.4 billion (0.8 per cent) compared to 2022 to 2023.

Stamp duties revenues reduced by £4.0 billion (21.1 per cent), broadly in line with the drop in the number of property transactions, Capital Gains Tax revenues reduced by £2.7 billion (15.9 per cent), reflecting the volatility of asset sales, and Energy Profits Levy revenues reduced by £2.1 billion (45.7 per cent), reflecting the fall in energy prices.

+ **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 2023-24 is provisional until Summer 2024. 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 based on when the tax liability accrues.**

Cost of collection

Table 6 shows that in 2023 to 2024, the cost of collecting taxes was 0.51 pence for every pound we generated in tax revenue, maintaining the amount it costs us at around half a penny for every £1 collected. There are many factors that impact the cost of collection and the static cost this year reflects both an increase in expenditure and an increase in revenue. The main driver is an increase in expenditure in Income Tax, Corporation Tax and National Insurance with higher than forecast inflationary pressures increasing the cost of our operations. Tax revenue was also higher in 2023 to 2024 (read more in the Trust Statement on page 185).

Table 6: Cost of collection trends from 2019-20 to 2023-24[1]

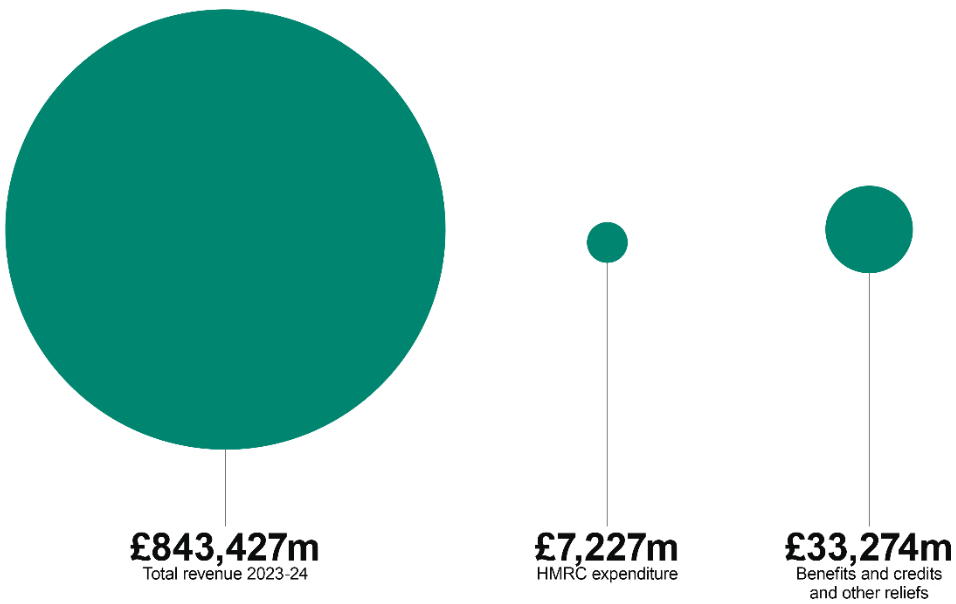
	2019-20 pence	2020-21 pence	2021-22 pence	2022-23 pence	2023-24 pence
Total cost of collection	0.51	0.51	0.50	0.51	0.51

1 A change to the methodology for the overall cost of collection has been made in 2021 to 2022 and the ratio is now shown net of Customs & International Trade.

Our spending compared to total tax revenue in 2023 to 2024

Figure 27 shows what it cost to run HMRC in 2023 to 2024. For our expenditure of £7,227 million, we generated £843.4 billion of revenue for the UK's public services and provided £33,274 million in financial support for tax credits, Child Benefit and other reliefs.

Figure 27: Total expenditure relative to total revenue



HMRC's key risks in 2023 to 2024

Our Executive Committee manages 10 key risks to the delivery of our strategic objectives. Treating customers' data securely is our highest priority, which is why we are addressing risks associated with the reliability of our technology, data protection and security. In 2023 to 2024, we made progress in managing these risks by remediating priority IT issues whilst continuing to modernise our IT infrastructure.

We continue to prioritise our customers' experience and have delivered improvements to our online services, including enhancements to the HMRC app and the introduction of a new online Child Benefit claims service.

In 2023 to 2024, to meet our stretching departmental efficiency challenge, we reprioritised our change portfolio focussing on the most critical projects and critical national infrastructure. This has enabled us to mitigate short-term risk exposure whilst continuing to deliver longer term solutions.

+ **Read more information about our risk management approach on pages 97 to 99.**

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 government economic aims with a resilient, agile tax admin system

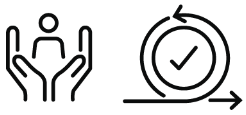
Key risk 1: Technology Resilience and Reliability		**Strategic objectives**	
A major IT failure or security breach that results from the current condition of HMRC's IT infrastructure could harm our business operations permanently or temporarily, depending on the incident's severity.			
Risk Exposure Assessment March 2024	RED	Risk Exposure Assessment March 2023	RED

Our IT infrastructure is evolving and adapting to meet increasingly complex demands, and we take opportunities to replace legacy IT infrastructure wherever possible. We have re-planned some remediation of our retained legacy IT infrastructure to support delivery of other departmental priorities, which has impacted some improvements to our systems, increasing the time it will take for our systems to reach tolerance. We continued improving our IT infrastructure within funding constraints, strengthening the defences of our critical services.

Our new technical health measurement methodology is helping us to prioritise, and a new Technical Health Programme is remediating our highest priority IT issues.

Key risk 2: Data Protection		Strategic objectives	
Failing to comply with data protection laws 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 March 2024	RED	Risk Exposure Assessment March 2023	RED

We have made progress in our compliance with data protection law by continuing to remediate our legacy IT systems and migrating some IT systems to cloud hosting. We have an information governance framework for managing personal data and have introduced data protection performance indicators to help us manage this risk and prioritise further work. Rescoping and reprioritising our change portfolio (see key risk 4) has impacted the pace at which we can reduce this risk, but we continue to prioritise activities that seek to achieve compliance with the Information Commissioner's Office accountability framework.

Key risk 3: HMRC Security		Strategic objectives	
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 March 2024	RED	Risk Exposure Assessment March 2023	RED

Although this risk is stable, there is strong pressure from a heightened threat landscape, so we need continued vigilance and effort in order to protect our IT infrastructure.

We continue to strengthen our security defences and are improving our resilience across our IT and physical estates. We are overcoming the challenges by remediating systems, strengthening security controls, maintaining good relationships with our suppliers and delivering modern, secure, and resilient technology. We are also giving our staff training on heightened threats like social-engineering and phishing.

We have a taskforce working to reduce the risk of insider threats and improve key personnel security processes. Work has been undertaken that improves how we assess security controls for protecting our physical assets such as our buildings. We continue to test our recovery plans, learning lessons to strengthen our preparedness and build future resilience.

Key risk 4: Delivering our Change Portfolio		Strategic objectives	
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 March 2024	RED	Risk Exposure Assessment March 2023	RED

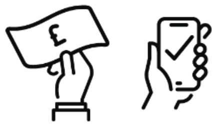
Although this risk remained red in 2023 to 2024, our actions have subsequently improved the overall level and trajectory of risk, as demonstrated by the successful delivery of most of our in-year portfolio outcomes.

To meet our funding and efficiency challenges (referenced in risk 5), we reprioritised our change portfolio, revised delivery timelines, and commissioned suppliers to find efficiency savings. We are implementing several mitigations to manage this risk, such as improving how we secure technical resource earlier, enhancing how we design and manage change, and changing recruitment processes so we have the right people working on priority projects.

Key risk 5: Efficiency Delivery		Strategic objectives	
Failure to deliver our efficiencies in full will require one off savings to avoid a breach of delegated budgets, adversely impacting departmental performance and slow delivery of our vision.			
Risk Exposure Assessment March 2024	RED	Risk Exposure Assessment March 2023	RED

We are well on track to achieve our cumulative efficiency target of £500 million, set at Spending Review 2021, by the end of 2024 to 2025 - but the impact of sustained above-plan inflation means our savings and efficiency target has now increased to £719 million. We have a strong track record of efficiency delivery, but the pace and scale of the additional savings required means our plan contains risk.

We have delivered efficiencies by improving processes and productivity within our compliance teams, and through major transformation projects such as remediating old IT systems and re-letting our big IT contracts. We also identified savings across our estate and sub-let accommodation to optimise use of office space (see page 45). We continue to identify ways to permanently reduce costs so we can maintain or improve existing performance levels in future.

Key risk 6: Exploiting Information		Strategic objectives	
Failure to 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 March 2024	RED	Risk Exposure Assessment March 2023	RED

We need to exploit data at scale to deliver our services to customers and ensure we collect the right amount of tax. However, we face significant issues with our data exploitation capability to improve it in line with external threats and innovations.

We have successfully migrated some of our major IT services to stable platforms, giving us more innovation, increased resilience, and improved security. We are building a Unique Customer Record to bring what we know about our customers together in one place. We have also begun building a better integrated view of the information we hold across multiple databases and platforms, making it cheaper and easier to utilise. Work to scan and index our priority information is underway. We are building the case for further investment to improve our access to information, enhance data quality, modernise analytical platforms, maintain core IT systems and catalogue our data.

Key risk 7: Customer Experience		Strategic objectives	
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 March 2024	RED	Risk Exposure Assessment March 2023	RED

Generally, feedback about our online services is very good, with average customer satisfaction scores of 83.1%. However, customer dissatisfaction and trust in key areas, particularly our phone service, means that our assessment of the risk remains red.

We continued to deliver improvements to our online services, including our new online Child Benefit claims service (see page 29). The HMRC app also has new functionality and was used 88.5 million times throughout 2023 to 2024 (see page 28). We recognise that we have more to do to improve customer experience and build public trust in the tax system, and we have received additional funding to improve the experience our customers have when dealing with us.

We are listening and responding to customer feedback and focusing on ways to make the tax system easier to use through better guidance, simpler processes and encouraging more people to use online services for simple tasks – while ensuring options are available for customers who need extra help (read more on pages 29 and 30).

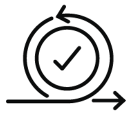
Key risk 8: Capacity and Capability		Strategic objectives	
HMRC may not deliver its business objectives or respond to unplanned events if it does not have, or cannot attract, the skilled and/or available workforce it needs in the future.			
Risk Exposure Assessment March 2024	AMBER	Risk Exposure Assessment March 2023	AMBER

We continue to develop our skills and capability, including focusing on enhancing digital skills and building change leadership. We have identified the high-level capabilities we need for the future in the areas of tax, compliance and digital skills and we have further developed the content of our learning academies, along with a strategy for refining senior leadership skills. We also continued to roll out our managers' development programme. We are building our strategic workforce planning capability and we are gaining insights into local labour markets surrounding our regional centres. This strengthens our ability to attract and retain talent by focusing our recruitment efforts on the right locations.

Key risk 9: Engagement and Culture		Strategic objectives	
HMRC may experience sub-optimal performance and/or high levels of attrition if the workforce are not actively led, motivated or engaged.			
Risk Exposure Assessment March 2024	AMBER	Risk Exposure Assessment March 2023	AMBER

To respond to reductions in our engagement scores we are aiming to create an environment where employee feedback is not only encouraged, but also systematically gathered and acted upon. This is being delivered through the employee listening programme, which will continue to be rolled out to staff across the next year. Our People Plan is identifying levers to improve our employee experience, so we can retain our skilled workforce and reduce attrition rates.

We have continued to use internal communication to enhance the engagement of our workforce, while introducing new tools to support collaboration, attendance management and digital literacy. We also provided support for managers on leading remotely located teams, performance management, engagement, and mental health.

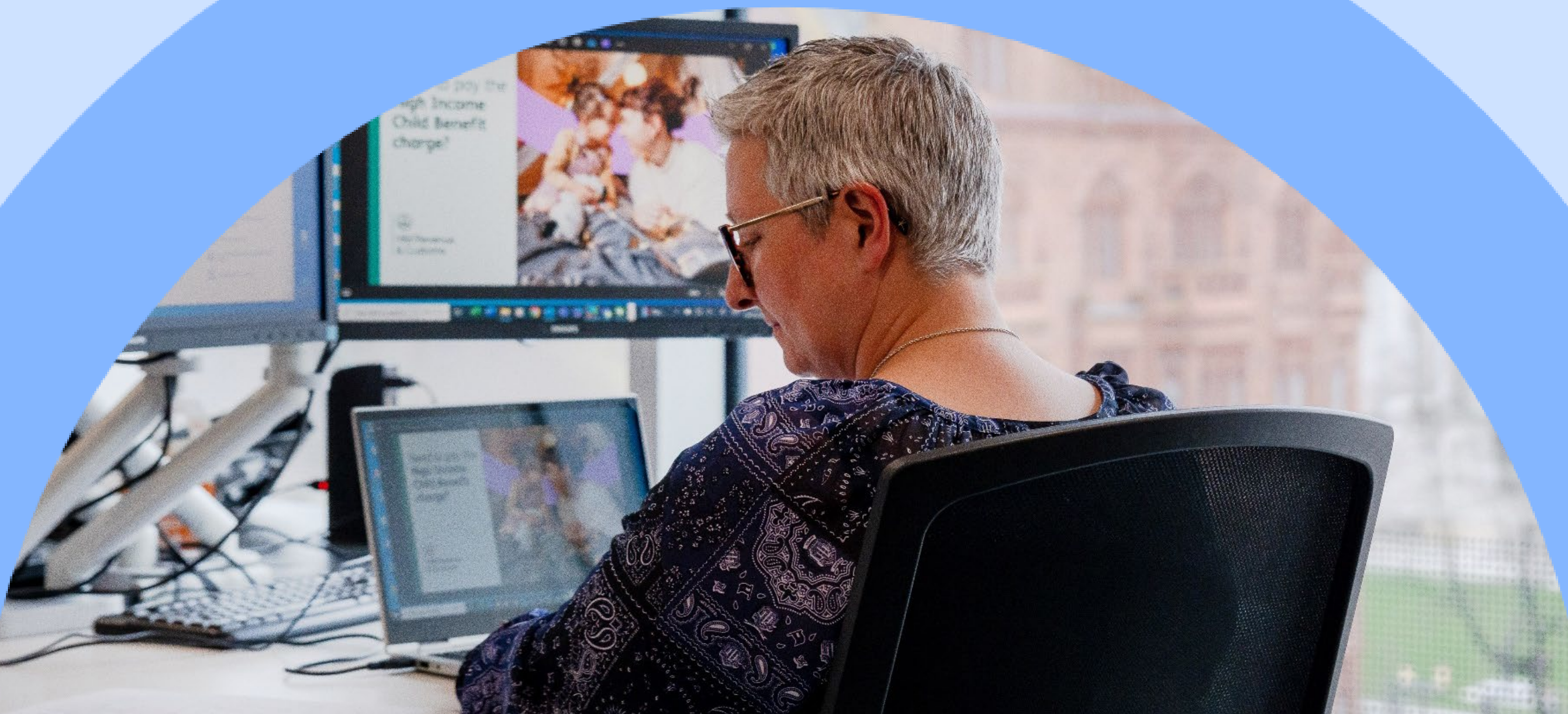
Key risk 10: Windsor Framework		**Strategic objectives**
There is a risk that HMRC will not be able to fully deliver and implement government commitments on the Windsor Framework at the pace required to meet the deadline of September 2024, and that by prioritising delivery of the Windsor Framework we impact on our wider priorities.		
Risk Exposure Assessment March 2024	AMBER	No Risk Exposure Assessment in March 2023

We are continuing to deliver the requirements of the framework as planned. So far this has included replacing the previous UK Trader Scheme with the new UK Internal Market Scheme, allowing more UK businesses to avoid costly tariffs. Read more about this work on page 55. We resolved long-standing issues relating to the Tariff rates for steel, and we have also worked to ensure that Northern Ireland benefits from the same VAT reliefs and alcohol duties as the rest of the UK.

Sir Jim Harra KCB
Chief Executive and First Permanent Secretary
26 July 2024

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 delivered its core purpose against an increasingly challenging backdrop of financial pressures and rising customer demand. While in this context the department has not been able to give the customer service levels we want to achieve, we have nevertheless generated a record £843.4 billion in tax revenue (a 3.6% increase), including an increase in the amount of revenue collected and protected that would have otherwise been lost to the Exchequer through error, carelessness or deliberate non-compliance.

HMRC deals with over 36 million individual taxpayers and over 5 million businesses – and the majority interact with the system successfully to pay the right tax at the right time. But maintaining good customer experience is vital to the successful functioning of the tax and customs system overall.

Together, the Board and Executive want to achieve high levels of satisfaction for all our customers. Getting this right requires us to balance the development of modern, convenient online services – which is what most customers want and expect – with constant training and development of customer service agents, so we can still be there to support customers who need help from speaking to an adviser. This year, it has been vital to take a step back to see how all of this adds up in terms of public trust in HMRC - and what the Executive can do to protect this trust and deliver the best possible service to our customers.

As Chair of the HMRC Board I know how seriously this challenge is being taken by the Executive team and I am satisfied that HMRC is focused on the right issues and priorities. I am also pleased with the way the Board has continued to provide advice, challenge, scrutiny and assurance to an open, honest and engaged Executive throughout the year.

During 2023 to 2024, the Board's main areas of focus have been:

- providing assurance to HMRC's business planning and testing its strategies
- scrutinising HMRC's resilience and security arrangements
- challenging how HMRC is managing public trust and confidence in both the department and wider tax system

In May, the Board established a new Transformation Committee to oversee the department's wide-ranging and complex transformation agenda. This has provided us with direct line of sight on specific high-risk change programmes and enabled us to test how change is being delivered against HMRC's strategy. The Committee has become a valuable space to bring together the Board and Executive team, recognising our collective responsibility in delivering effective, long-term change.

In accordance with the Code of Good Practice, the Board undertook its annual effectiveness review. We continue to find that as a Board we have good coverage of the breadth of activity across HMRC and its transformation agenda, not only through the Board itself but also through our sub-committees.

My non-executive colleagues on the Board have taken a constructive approach to working with the Executive throughout the year. We welcomed Susie Warran-Smith to our non-executive team, who has brought a fresh perspective to the Board on how the tax system interacts with small businesses.

We also said farewell to Juliette Scott after 6 years of service on the Board. I am grateful to Juliette for her diligent chairing of our Customer Experience Committee, which has provided valuable advice and guidance on the way HMRC engages with customers as it grows and enhances its range of digital and online services. Jen Tippin has kindly taken over as chair of this Committee and it remains crucial to ensuring oversight of customer-related issues.

Elsewhere, the Board has drawn assurance on the organisational health of HMRC through its sub-committees. This has included the Nominations Committee which has supported the Executive on robust succession planning, and the Audit and Risk Committee's continued focus on strengthening HMRC's risk and control environment.

I look forward to continuing to work with the department as it carries on delivering and developing its strategy in 2024 to 2025.

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

HMRC's non-executive directors board members (end of March 2024)

Dame Jayne-Anne Gadhia

Lead Non-Executive

David Cooper

Committees: Performance, Transformation

Patricia Gallan

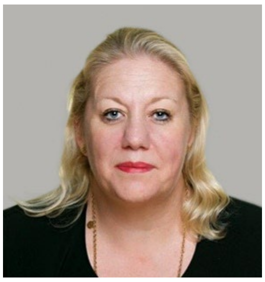
Committees: People, Performance, Professional Standards, Nominations, Transformation

Michael Hearty

Committees: Audit and Risk, Performance, Transformation, Customer Experience

Paul Morton

Committees: Audit and Risk, Performance, Professional Standards, Transformation



Jennifer Tippin

Committees: Performance, People, Transformation, Customer Experience

Susie Warran-Smith

Committees: Customer Experience, Transformation, Performance

Non-executive and sub-committee members (end of March 2024)

Elizabeth Fullerton-Rome

Committees: Audit and Risk

Tom Taylor

Committees: Audit and Risk

HMRC’s Executive Committee members (end of March 2024)

Sir Jim Harra KCB

Commissioner for Revenue and Customs, Chief Executive and First Permanent Secretary, Principal Accounting Officer, and member of the Board

Angela MacDonald

Commissioner for Revenue and Customs, Deputy Chief Executive and Second Permanent Secretary and member of the Board

Jonathan Athow

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

Carol Bristow

Commissioner for Revenue & Customs, Director General Borders and Trade

Penny Ciniewicz

Commissioner for Revenue and Customs, Director General Customer Compliance

Alan Evans

General Counsel and Director General, Solicitor’s Office and Legal Services

Justin Holliday

Commissioner for Revenue and Customs, Chief Finance Officer, Tax Assurance Commissioner and member of the Board

Myrtle Lloyd

Commissioner for Revenue and Customs, Director General Customer Services

Suzanne Newton

Director General for Transformation

Andrew Pemberton

Director of Communications and Guidance

Lucy Pink

Director of HMRC Strategies

Daljit Rehal

Chief Digital Information Officer

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 2023 to 31 March 2024 and up to the date of approval of the Annual Report and Accounts, in accordance with HM Treasury guidance.

Ministerial arrangements

HMRC is a department established by the Commissioners for Revenue and Customs Act 2005. This gives legal powers and responsibilities for managing the tax and customs system to the Commissioners for Revenue and Customs, appointed by the King. Our status is intended to ensure that administration of the tax system is fair, impartial and does not bring political decision-making into individual taxpayer affairs. In 2023 to 2024 the Chancellor delegated responsibility for overseeing HMRC to the Financial Secretary to the Treasury (1 April 2023 to 13 November) Victoria Atkins MP and (13 November 2023 to 4 July 2024) Nigel Huddleston MP. From 9 July 2024 to the present day, James Murray MP, the Exchequer Secretary to the Treasury has responsibility for overseeing HMRC.

The commissioners run the tax and customs system under the general direction of ministers, who set the department's budgets, targets and priorities, agree its operational strategies and oversee its performance.

The Exchequer Secretary to the Treasury is now the sponsoring departmental minister responsible for HMRC.

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 taxes and duties, National Insurance, tax credits and Child Benefit, for which HMRC has administrative responsibility.

Commissioners for 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 2023 to 2024, we had 7 commissioners – Sir Jim Harra, Angela MacDonald, Justin Holliday, Penny Ciniewicz, Myrtle Lloyd, Jonathan Athow, Carol Bristow (from 8 January 2024) and Joanna Rowland (until 7 January 2024).

First and Second Permanent Secretaries

Our First Permanent Secretary and Chief Executive, Sir 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 100 to 101. 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 considered by a panel of 3 commissioners, usually chaired by the TAC, who reports publicly each year in the annual Tax Assurance Commissioner's report (see pages 112 to 124).

Non-executive directors

Non-executive directors bring external experience and expertise to HMRC, providing advice, challenge and scrutiny. They 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 Permanent Secretary. 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 (ExCom). This framework enables our ExCom and sub-committees to make decisions effectively and transparently, with appropriate support, challenge and assurance from our non-executives. The Board and its sub-committees provide an advisory role.

Figure 28: HMRC Committee structure during 2023 to 2024

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

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.

Making Tax Digital Executive Oversight Group
Provides oversight of progress against agreed individual and collective accountabilities. It provides an escalation route beyond the programme board where appropriate.

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.

Strategy Committee
Advises ExCom on matters of strategy, provides stewardship of HMRC's strategy and how it is implemented across HMRC, and ensures that HMRC strategies are aligned.

HMRC Board

Provides challenge and advice on HMRC strategy, performance 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

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.

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

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

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.

Transformation Committee
Works in conjunction with other committees to test, advise and challenge progress towards HMRC's strategic ambitions. Also provides oversight and assurance of high risk change programmes. Ensures robust and transparent governance around non-executive scrutiny of organisational performance.

HMRC Board and sub-committees

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

The Board focused on improving customer service performance and enhancing public perception and trust in HMRC, as well as cyber security and technical remediation, assuring departmental business planning, and testing HMRC's strategies. The Board is chaired by Jayne-Anne Gadhia and met 11 times in 2023 to 2024.

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. This year most agreed the Board was operating more effectively than 12 months ago, and Board members highlighted the establishment of the Transformation Committee (May 2023) as a positive step. It was felt that over the past year the Executive Committee have listened to the Board and reacted accordingly, and the Transformation Committee was highlighted to have helped improve the delivery ability of HMRC. However, to improve its effectiveness the Board agreed that the agendas of committees and Board could be better aligned, and more could be done to ensure timely and clear information sharing across them.

HMRC Board sub-committees

Audit and Risk Committee

The Audit and Risk Committee oversaw production and assured the integrity of HMRC's 2023 to 2024 Annual Report and Accounts, as well as the 2022 to 2023 accounts for the National Insurance Fund for Great Britain, the National Insurance Fund for Northern Ireland, and the Account of Duties Collected in the Isle of Man. The committee provided advice and assurance on the annual assessments of risk, controls and governance made by ExCom and received assurance from the Valuation Office Agency's Audit Risk and Assurance Committee. It monitored the integrity of the financial statements and assured the adequacy of governance, risk management and control frameworks. It is chaired by Michael Hearty and met 7 times in 2023 to 2024.

Customer Experience Committee

Chaired by Jennifer Tippin (since November 2023), and prior to this Juliette Scott, the Customer Experience Committee met formally 6 times and continues to monitor and assess HMRC's performance against its Charter standards. Discussions focused on guiding and constructively challenging HMRC to become an increasingly 'digital first' organisation as well as providing valuable insight to inform HMRC's approach to developing regime ownership, handling complaints and managing supply and demand against the speed of change.

Nominations Committee

The Nominations Committee scrutinised succession planning and the management of senior-level talent, performance, and reward. The Committee is chaired by Jayne-Anne Gadhia, and it met twice in 2023 to 2024.

People Committee

The People Committee discussed progress being made against HMRC's great place to work strategic objective, people strategy, learning transformation and strategic workforce planning, to consider how HMRC's workforce responds to changing customer demand and ensuring the right tax gets paid. It is chaired by Patricia Gallan, and they met 4 times in 2023 to 2024.

Performance Committee

The Performance Committee 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 8 times in 2023 to 2024.

Transformation Committee

The Transformation Committee was set up in May 2023 to provide support and assurance to the board and the executive team by scrutinising departmental change delivery against key transformation delivery priorities and HMRC's strategy. It discussed major programmes including Making Tax Digital, Single Trade Window and Protect Connect, and it considered the overall transformation narrative and progress. The Committee is chaired by Jayne-Anne Gadhia and met 9 times in 2023 to 2024.

Executive Committee and sub-committees

ExCom

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 2023 to 2024, ExCom scrutinised and agreed HMRC's business planning process and agreed the department's approach to pay and reward. It also reviewed HMRC's communications and guidance plans, compliance plans, the approach to intermediaries and people priorities.

ExCom sub-committees

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 was chaired by Justin Holliday and Jonathan Athow and met 11 times in 2023 to 2024.

Making Tax Digital Executive Oversight Group

The Making Tax Digital Executive Oversight Group provided collective oversight of Making Tax Digital's progress against agreed individual and collective ExCom accountabilities for MTD in accordance with the programme's integrated plan. It also provided an escalation route beyond the Programme Board to address blockers where appropriate. It is chaired by Angela MacDonald and met 4 times in 2023 to 2024.

Professional Standards Committee

The Professional Standards Committee discussed a range of topics, considering how they could impact public perceptions of trust, fairness and transparency. The Committee welcomed external voices to present the themes of perceptions of fairness from the view of low-income taxpayers, digital transformation and responsible taxation. They also explored how use of Artificial Intelligence could impact trust in HMRC alongside discussions on how HMRC builds internal trust among colleagues and protects the tax system by preventing harm where possible. It is chaired by Jonathan Athow and met 4 times in 2023 to 2024.

+ **Summaries of this year's meetings can be found at www.gov.uk/government/organisations/hm-revenue-customs/about/our-governance#professional-standards-committee**

Strategy Committee

The Strategy Committee provides stewardship of HMRC's strategy and how it is implemented across the department. In 2023 to 2024, the committee steered developments of core strands of the Tax Administration Strategy and wider priority business planning, as well as HMRC's approach to Intermediaries. It also approved a new security strategy and strengthened the sustainability strategy. The committee is chaired by Jonathan Athow and met 11 times during 2023 to 2024.

+ **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 (11)	ARC (7)	Perf. Ctte (8)	People Ctte (4)	NC (2)	TC (9)	CEC (6)	ExCom (26)
NEDs Board Members									
Dame Jayne-Anne Gadhia		10		8		2	9		
Patricia Gallan		11		8	4	2	8		
Michael Hearty		8	5	4			6	3	
Susie Warran-Smith	1 October 2023 (joined)	5		5			4	1	
Paul Morton		10	7	8			8		
Juliette Scott	22 November 2023 (left)	8		5			6	5	
David Cooper		11		8			9		
Jennifer Tippin		10		6	3		8	2	
NEDs Committee Members									
Elizabeth Fullerton-Rome			7						
Tom Taylor			6						
Executives									
Sir Jim Harra KCB		11	2	7		2	9		23
Angela MacDonald		10		5			8	5	20
Jonathan Athow							7	5	16
Carol Bristow							9		21
Penny Ciniewicz					3		8		22
Alan Evans							7		21
Justin Holliday		9	7	8			8		25
Myrtle Lloyd					4		8	5	21
Suzanne Newton					4		9	1	26
Andrew Pemberton							8	3	25
Lucy Pink							8		24
Daljit Rehal							8		20
Joanna Rowland	7 January 2024 (left)						6	4	15
Jonathan Russell		1					2		16
Esther Wallington					4	2	9		17

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.

Senior Civil Service (SCS) colleagues are 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 in HMRC were asked to complete their annual declaration of interest in December 2023 and HMRC is fully compliant with the Civil Service HR guidance. The form covers the whole period from 1 April 2023 until 31 March 2024. Therefore, if there are any changes after the form is completed, a new entry must be submitted, which can be completed at any time during the year.

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.

+ **A comprehensive list of Board members' interests (both executive and non-executive) are reported at www.gov.uk/government/publications/hmrc-annual-report-and-accounts-2023-to-2024**

+ **SCS outside remuneration as at 31 March 2024, agreed through the process of declaration and management of outside interests, is reported at www.gov.uk/government/publications/hmrc-senior-officials-outside-employment-april-2023-to-march-2024 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.**

Business Appointment Rules

In compliance with Business Appointment Rules (BAR), we are transparent in the advice given to individual applications for senior staff and publish details on a quarterly basis on GOV.UK. The BAR Governance Group provides central oversight of full Senior Civil Service (SCS) BAR applications and considers data on SCS leavers where no BAR application is required.

In April 2022, HMRC introduced a new BAR assurance tool and governance panel, to help the SCS community to identify whether a full BAR application is needed when leaving HMRC. It also provides data to support the Audit and Risk Committee in their oversight role monitoring HMRC's application of the rules, who receive a quarterly paper on business appointment rules.

Statistics cover the period 1 April 2023 to 31 March 2024:

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)	25	3,190
Number of exits where Business Appointment Rules (BAR) applications were required	14	101
Number of exits where BAR conditions were set	14	18
Any enforcement actions the department has taken relating to breaches of the rules in the preceding year	1	[No detail available]

In 2023 a supplementary tool was launched for delegated grades, which helps colleagues identify where a BAR application must be made and makes it easier for BAR applications to be associated with their central employee record.

+ **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, aligned with HM Treasury's guidance – "The Orange Book". The Performance Analysis section, page 77, highlights some specific identified risks and explains how we are managing them. Page 62 details the progress made in managing risks relating to climate change. This section outlines our approach to managing risks across HMRC over the reporting period.

We manage 2 main types of risk:

1. **Process risks**: these are risks to the efficient operation of our processes. We continue to develop our control framework to better manage risks associated with our operational processes. To make sure these process controls are effective, they are regularly reviewed and assured during the reporting period.

2. **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.

Our 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. This includes identifying and delivering work to bring and keep HMRC's risk and control framework in line with the May 2023 Orange Book updates.

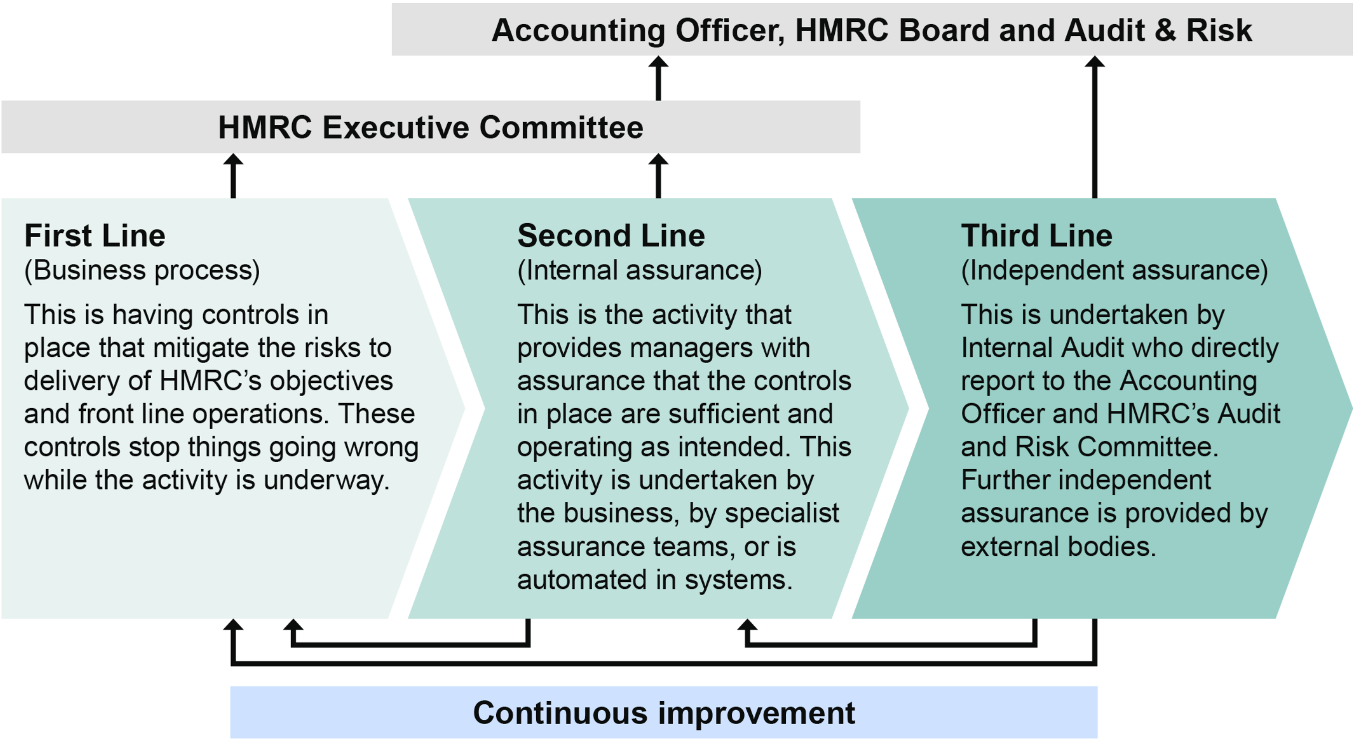
Our Chief Risk, Control and Financial Accountant has oversight for management assurance activity including the disciplines of governance, risk, and control. Alignment of these activities across HMRC is helping us to create a unified view of our risks and controls and to streamline activity. The Chief Risk, Control and Financial Accountant, 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 107 to 108.**

Figure 29: 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
- **process management:** taking the necessary action to ensure our processes are effective, efficient, well-controlled and easy for our customers and staff to use
- **risk management:** identifying, assessing, managing and reporting the risks to the delivery of our objectives
- **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 Executive Committee will establish an Executive Risk and Control Committee chaired by the Second Permanent Secretary in the beginning of 2024 to 2025. The committee will focus on risks and control issues that are enterprise wide, have wide ranging impacts and have no single natural owner. This cross-cutting approach will give these types of risks and control issues the right level of oversight and management. In support of this committee the Chief Risk, Control and Financial Accountant chairs the HMRC Process, Risk and Control Board. The Board focuses on improving risk management capability and the underpinning processes of all apects within the risk and control framework.

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. The governance arrangements in place throughout 2023 to 2024 have been sufficient to continue managing risks effectively.

Compliance with the code of good practice

HMRC's compliance with the 'Corporate governance in the central government departments code of good practice 2017' has been assessed. 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, we comply with the spirit and principles of the code and by incorporating this and other strategies, good governance is achieved in HMRC.

+ **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**

Human rights

We have procedures in place to ensure that all our policies and legislation are compliant with the Human Rights Act. Our approach is underpinned by understanding our customers and their needs, treating everyone with respect, recognising that we have privileged access to information (and need to protect that information), and behaving professionally with integrity.

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 2023 to 2024 financial year, we received PAC recommendations from the following inquiries that our Accounting Officer provided evidence to.

Table 9: Committee of Public Accounts inquiries, reports and responses

Inquiry and hearing date	Government response
Digital Services Tax Hearing: 8 December 2022 - Report published: 5 April 2023	Published – 22 June 2023
Managing tax compliance following the pandemic Hearing: 26 January 2023 - Report published: 3 May 2023	Published – 17 July 2023
Child Trust Funds Hearing: 18 May 2023 - Report published: 26 July 2023	Published – 14 September 2023
Progress with making tax digital Hearing: 19 June 2023 - Report published: 24 November 2023	Published – 15 February 2024
HMRC Standard Report 2022-23 Hearing: 14 December 2023 - Report published: 28 February 2024	Published – 25 April 2024

We accepted or partially accepted 12 recommendations from NAO value for money reports published after April 2023, and accepted 14 recommendations from the NAO management letter 2022 to 2023, subdivided into 22 sub-components, of which 4 were implemented by 1 April 2024. We also implemented 126 recommendations from the Infrastructure and Projects Authority.

+ **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**

Statement of Accounting Officer's Responsibilities

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 receivable and payable 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 accrue fully and reliably 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 allocation of taxes and duties, the revenue 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, corporation tax reliefs, personal tax credits and other payments to customers reportable to Parliament via HMRC's Supply Estimate. The Valuation Office Agency (VOA) is 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 and VOA, 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

- 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 2023 to 2024, I, Sir 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 144 and SOPS 1.2 at page 146) 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-R: Sir 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, I am accountable for the use, including the regularity and propriety, of the grants received and the other income and expenditure of the sponsored bodies.

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.

Principal Accounting Officer's Report

HMRC's Chief Executive, Sir Jim Harra, has been appointed by HM Treasury as Principal Accounting Officer for HMRC. In this report, he reviews the effectiveness of the governance, risk management and internal controls in place for our accounts. This report also contains the elements required for HMRC's Accounting Officer System Statement.

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 Risk and 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 112 to 124.

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 account of duties attributable to the Isle of Man
- Patrick Whittome (until 31 August 2023) and Alison Bexfield (from 1 September 2023) have responsibility for the administration of R.N. Limited

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

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

We have developed a departmental framework and central guidance to underpin quality assurance of business-critical analytical models (BCMs). BCMs are our most important analytical models. They affect HMRC or government decisions of significant financial scale, play a key role in fulfilling HMRC's business plan, or underpin high profile publications. We maintain a register of these models, consistent with recommendations from the 2013 MacPherson review. We have approximately 100 BCMs on the register. This number changes because the register is regularly updated.

Management and quality assurance of the analytical models are monitored in our annual review of BCMs, which is assessed by the Audit and Risk Committee (ARC). The quality assurance framework is promoted through regular training. We also have a team which independently reviews a sample of BCMs, to provide assurance and share best practice.

We continue to develop our assurance of BCMs by further improving model and quality assurance documentation and increasing the number of independent reviews of BCMs. These developments align with actions from ARC and recommendations set out by the NAO in their Financial Modelling in Government report (published January 2022).

+ **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 2023 to 2024, both operationally and in change delivery.

Risk Management: Our opinions for risk management are generally comparable to last year with 80% of audits providing a positive opinion. Risks are largely understood, and the risk management arrangements generally adequate at business group level to support HMRC in dealing with these challenges. Developments to corporate risk management arrangements included strategy development, improved risk reporting and better tooling. These improvements are however at a relatively early stage, and it is difficult to gain a consolidated view of the HMRC's risk landscape and overall exposure. Embedding improved tooling will improve this and aid consistency in future years. At business group level, although there are differences between arrangements, I am satisfied that processes are in place for the effective identification, assessment and monitoring of delivery risks, albeit in 20% of our audits we identified the need for better system design to help mitigate risk. Risk exposure is unlikely to reduce in the short-to-medium-term. Significant risks to funding, efficiency, modernisation of IT and security systems, and delivering change require highly effective risk management arrangements. Funding and capacity pressures will increasingly be a limiting factor and there is a need for HMRC to further exploit efficiency opportunities. Whilst significant levels of efficiencies have been realised they remain behind target, with substantial current and future risks to their achievement.

Governance: Governance of the organisation was broadly effective with 84% of our audits providing a positive opinion for governance, a 4 percentage point improvement on 2022 to 2023. At assignment level, individual audit results improved in relation to accountability and ownership, reliability and integrity of management information and monitoring and assurance. HMRC has multiple layers of governance that are generally well supported by adequate management information. However, enterprise understanding and reporting of the second line of defence remains largely linear, with opportunities for better alignment, efficiency and coverage yet to be realised. Additionally, despite some improvement, we have again identified the need for HMRC to better clarify senior accountabilities, particularly for areas of the control framework where controls, policies and procedures are set by one part of the organisation but applied elsewhere. HMRC should ensure that accountability for operation and assurance of controls is overtly clear for all key components of its control framework, particularly given the governance changes planned for 2024 to 2025.

Internal Control: At departmental level, audit results for control effectiveness saw a 6 percentage point improvement on last year, which continues the positive trend of recent years. This trajectory reflects the leadership commitment to understand and improve the underlying control framework and generally good performance in implementing audit actions. Positively, application and compliance of control saw a 10 percentage point uplift although I note a divergence between the more positive results for operational controls comparative to corporate controls. In 23% of audits, we found weaknesses in relation to the achievement of objectives and the percentage of negative audit opinions overall was comparable to last year at 26%. For around 40% of limited audits reports we followed-up in-year we were unable to lift the audit opinion. There remain significant control weaknesses that limit my overall opinion, some of which require longer-term fixes or system changes. Delivery of improved control against many of these 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 are adversely impacted by long-standing issues, with a commensurate impact on control design, efficiency and effectiveness. In-year reprioritisation against a number of these issues has pushed remediation further to the right.

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 10.

Table 10: Summary of protected personal data-related incidents reported to the Information Commissioner's Office

Nature of incident	Number of breaches 2023-24	Number of breaches 2022-23
Personal information used to make changes to customer records on HMRC systems without authorisation	6	2
Loss of inadequately protected electronic equipment, devices or paper documents from secured government premises	3	2
Loss of inadequately protected electronic equipment, devices or paper documents from outside secured government premises	2	1
Insecure disposal of inadequately protected electronic equipment, devices or paper documents	-	-
Unauthorised disclosure	14	11
Other	4	2

We have notified the ICO of 29 instances of unauthorised disclosure during 2023 to 2024 (2022 to 2023: 18). The number of customers potentially affected by these ICO notifiable incidents is 35,645 (2022 to 2023: 10,209). 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 increased in 2023 to 2024 due to continued enhanced General Data Protection Regulation (GDPR) awareness across the department. We take all these incidents seriously and are acting to address them (for more information on these actions see page 57).

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 continually monitor our processes 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.

The number of centrally-managed security incidents impacting on protected personal data in HMRC reduced from 3 (2022 to 2023) to 1 in 2023 to 2024. The number of customers potentially affected by these incidents was 10 (2022 to 2023: 27). 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 56 to 57.**

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, over the reporting period 2022 to 2023, all HMRC functional leads completed a self-assessment of how well they are meeting the requirements of their functional standard. Recognising the benefits, HMRC's Executive Committee commissioned further self-assessments over the reporting period 2023 to 2024. Following both sets of self-assessments, areas for improvement were identified and have been built into business plans. Internal Audit reviews of each function are underway which will further strengthen our alignment with the relevant standards.

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. HRP was later replaced by National Insurance credits from 2010.

A review of State Pensions by the Department for Work and Pensions (DWP) identified historical issues with the recording of HRP on people's NI records.

In the last year we have continued to work with the DWP and the Department for Communities in Northern Ireland to determine the approach, volumes and resources required to correct NI records and State Pension entitlement. Work to correct records is overseen by a Cross Department Oversight Group for National Insurance across HMRC and DWP. HMRC began writing to potentially affected people in Autumn 2023 encouraging them to make a claim for HRP if relevant. As of 31 March 2024, we have written to 137,405 people identified as potentially affected, above State Pension age.

HMRC started a proactive external communications campaign from Spring 2024 following the publication of a Written Ministerial Statement. HMRC and DWP are working with a range of key organisations and other government departments to reach and support people, to establish their eligibility and if appropriate, make a claim for HRP. HMRC's strategy includes a GOV.UK-housed toolkit to support organisations with key messaging and social media assets that organisations can feature, to ensure consistent, supportive messaging. To amplify messages HMRC and DWP are working closely with press and media. The effectiveness of the campaign will be evaluated on a monthly basis and adapted where appropriate.

+ **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

Control challenges in financial year 2023 to 2024

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 be 4.7% (£365 million) for 2023 to 2024. This is unchanged from the estimate of 4.7% (£415 million) for 2022 to 2023. These estimates are derived using a new projection methodology following the decision to cease the random enquiry programme as tax credits caseloads reduce. Our last sample-based estimate for 2021 to 2022 is 4.5% (£480 million), down from the initially published £510 million following correction of a minor weighting error.

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.

Corporation Tax research and development tax relief error and fraud

The Comptroller and Auditor General has qualified his opinion on HMRC's Resource Account to include error and fraud in Corporation Tax research and development (R&D) tax reliefs. This is the second year the small and medium enterprise (SME) scheme estimate has been prepared using the results of a random enquiry programme. The first modelled estimate for 2021 to 2022 has been revised as results from the random enquiry programme now includes claims received in 2021 to 2022. See page 21 for more details.

The overall estimate of the level of error and fraud in 2021 to 2022 is 17.6% (£1.34 billion) of the estimated cost of the reliefs. The level of error and fraud in 2021 to 2022 is 25.8% (£1.20 billion) for the SME scheme and 4.6% (£0.13 billion) for the RDEC (Research and Development expenditure credit) scheme. The overall rate of error and fraud in total R&D expenditure across the SME and RDEC schemes for 2021 to 2022 is not statistically different from 2020 to 2021. The rate is higher than previous reported modelled estimates for 2021 to 2022 and reflects significant methodological improvements to the SME estimate introduced for the 2022 to 2023 Annual Report and Accounts.

The previous modelled estimates for 2021 to 2022 were based on assumptions using limited information from claims selected for risk-based compliance enquiries and were made before results from a random enquiry programme were available. The previous illustrative estimate 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 implemented a number of measures to tackle error and fraud. For illustrative purposes we have considered the possible error and fraud position for 2023 to 2024 expenditure to take account of legislative changes and operational measures. The legislative changes include rate changes, extending relief to data and cloud computing costs and the mandation of digital claims requiring additional information (including pre-notification of some claims). We estimate that the policy and operational measures that have been implemented have reduced error and fraud for expenditure in 2023 to 2024 to an overall level of 7.8%.

Child Benefit 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 Child Benefit. This is the first year that HMRC's Resource Account has been qualified due to levels of error and fraud in Child Benefit.

From 2023 to 2024 HMRC have improved the way they calculate error and fraud in Child Benefit payments in response to recommendations made by the NAO. As part of the methodology changes, HMRC have moved from an annual to a monthly sampling approach, making it easier to assess the duration of any error and fraud. Estimates under the new methodology are therefore not directly comparable to previous years. The methodology improvements have seen higher values of error and fraud associated with non-compliant cases, whereas the numbers of awards in error and fraud have not increased.

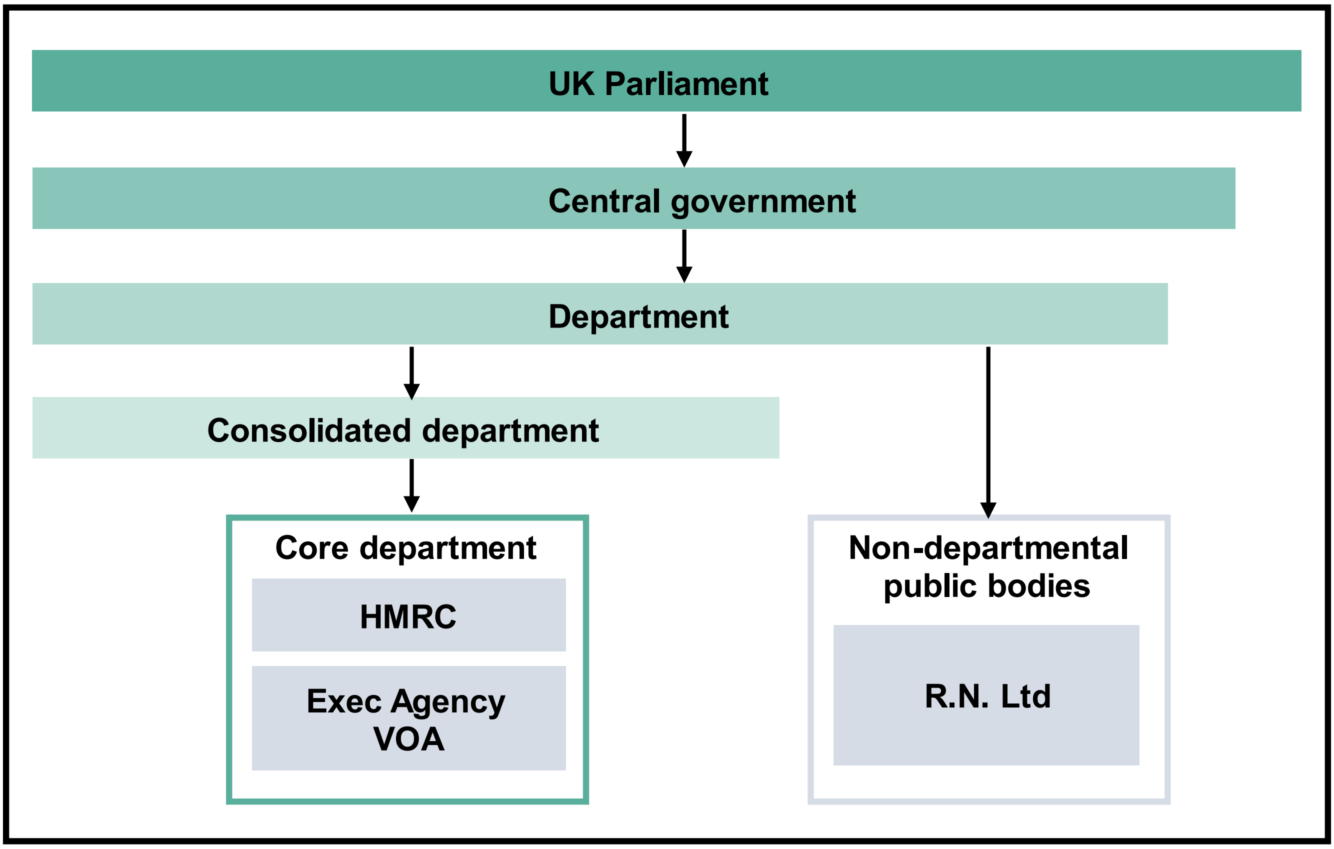
The central estimate of the error and fraud overpayment rate is 1.6% (£200 million) for 2023 to 2024.

HMRC has strong controls for restricting error and fraud for new claims. Our compliance strategy is primarily focused on addressing subsequent changes in circumstance that go unreported, with additional data sources being acquired from other government departments to improve detection rates. For example, to identify changes related to a young person's further education status or when customers are no longer resident in the UK. In addition, HMRC are exploiting the new Child Benefit digital service to ensure timely interaction with customers and increased customer self-reporting.

Accountability relationships with arm's length bodies

HMRC has 2 arm's length bodies: Valuation Office Agency (VOA), an executive agency of HMRC, 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 30: 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 and benefits 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 and other specific meetings upon request.

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.

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 2024. The Accounting Officer is Alison Bexfield, HMRC Chief Risk, Control and Financial Accountant, 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 Accounting Assurance and Reporting Team within HMRC's Risk, Control and Financial Accounting 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 Accounting Assurance and Reporting 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 £11 million (Voluntary Legal Charges £7.2 million and Funding Bonds/ Shares £3.8 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 Accounting Assurance and Reporting team also keeps a register for R.N. Ltd where all controls are listed and monitored.

Revenue and Customs Digital Technology Services Limited (RCDTS Ltd)

Prior to 2023 to 2024 RCDTS Ltd was 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 was a separate legal entity with an arm's length relationship with HMRC, and its Board had 7 directors, all employed by HMRC. On 1 April 2023 the company transferred its remaining assets and liabilities to HMRC; it was dissolved in January 2024.

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 2023 to 2024, 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 several major contracts that are significant in ensuring that it can deliver its core services. Our IT services are supported through contracts with Capgemini, Fujitsu and Equal Experts valued approximately at £766 million in total, each year.

IT contracts

HMRC continues to deliver better value from using well-established performance measures and competing work on a regular basis using a variety of different routes to market. A new framework has been introduced to improve cost, capability and capacity. Our digital transformation continues which allows a move to lower cost and highly resilient cloud data storage services.

The expenditure values for the IT contracts for HMRC's 2023 to 2024 Resource Accounts are as follows:

- IT Public Private Partnership contract (PPP) payments: £60.8 million
- IT services and consumables: £1,011.7 million
- Total: £1,072.5 million

Facilities Management and Security contracts

HMRC's current Facilities Management contracts will expire on 30 April 2025 and we are currently in the process of tendering our ongoing requirements. The current 6 regional based contracts will be replaced by 2 Facilities Management contracts on a national geographic basis (East and West) which will provide all of our facilities management requirements. These contracts will be awarded on a 5-year term at a combined contract value of £208 million.

A new National Security Services contract has been re-procured, awarded for 5 years at a value of £14 million per annum which commenced in June 2024.

These contracts support and underpin our operational delivery at our Regional Centres and Specialist Sites (including Valuation Office Agency sites) and give the department contractual resilience across the UK.

Conclusion

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 2023 to 2024.

JHarra

Sir Jim Harra KCB
Accounting Officer
26 July 2024

Tax Assurance Commissioner’s report

Foreword

As HMRC's Tax Assurance Commissioner (TAC), I’m proud that HMRC remained focused on resolving tax disputes fairly and consistently this year. Alongside a panel of Commissioners, I see first-hand the largest and most sensitive tax cases, and a sample of smaller cases. Together, we provide a key challenge role on settlement decisions. I’m pleased with the assurance we have provided and the opportunities we have identified to improve how HMRC manages and resolves tax disputes. This year, we faced increased scrutiny of our approach to litigation, long-running enquiries and our support for vulnerable customers. We are focused on getting things right for customers and my report sets out some of the checks and balances in place to help us do this.

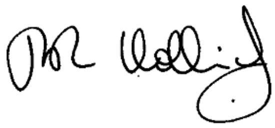
This year the Code of Governance for Resolving Tax Disputes was updated and published on GOV.UK to improve transparency around our dispute resolution processes. We also published the remits for the Tax Dispute Resolution Board and the Customer Compliance Group Dispute Resolution Board, demonstrating how we carry out effective governance on HMRC’s most significant tax disputes.

We have made progress in improving customer experience and understanding of dispute resolution, embedding our Compliance Professional Standards by publishing them on GOV.UK, delivering awareness sessions for customers and their advisors, as well as internal training for our compliance teams. We also delivered external awareness sessions on consistent application of our Litigation and Settlement Strategy (LSS), building on our recent programme of internal training to improve understanding of how to apply the LSS.

I’m encouraged by the results from this year’s Tax Settlement Assurance Programme (TSAP) which show a gradual improvement in our compliance performance against our policy, legal and customer service standards and increase trust and transparency. However, I recognise there is room for improvement and feedback has been provided to managers on areas of weakness. An area of particular focus is tackling delays in concluding cases. In 2024 to 2025 we will explore strengthening the TSAP by using our Compliance Professional Standards more fully as our benchmark for measuring performance.

I am confident that HMRC colleagues will continue working to improve standards over the coming year, contributing to building trust in HMRC’s administration of the tax system.

+ **Read our code of governance for resolving tax disputes at www.gov.uk/government/publications/resolving-tax-disputes/code-of-governance-for-resolving-tax-disputes**
+ **Read our professional standards for compliance at www.gov.uk/government/publications/professional-standards-for-hmrcs-compliance-work/hmrc-professional-standards-for-compliance**



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 standards and take steps to implement further improvements where necessary. We try to support our customers to fufil their tax obligations without the need for a dispute.

We do this in several ways, including designing a framework of policy and guidance to help customers navigate the tax system and resolve issues at first contact whether using digital or traditional channels. It's everyone's responsibility to get their tax right and for the vast majority who do this, our approach is to provide support through educational material and responsive customer service.

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'. The majority of disputes are resolved by agreement. 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. Where HMRC and a customer are unable to reach a resolution, a customer can request a statutory review and/or ask an independent tax tribunal to determine the dispute.

HMRC's policy for dealing with most tax disputes 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.

Our 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 to secure the best practicable return for the Exchequer.

We resolve disputes according to the facts and circumstances of each case, and always in line with current law. We consider a number of factors when deciding whether to pursue a tax dispute through to litigation but generally HMRC only pursues a dispute where we believe that we will secure the best return for the Exchequer and that we 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.

The TAC has no involvement in the management of the tax affairs of specific customers 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 our Tax Settlement Assurance Programme to assure 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 Litigation and Settlement Strategy at www.gov.uk/government/publications/litigation-and-settlement-strategy-lss**

All decisions to resolve disputes are overseen and agreed by line managers. Where tax at risk on a dispute exceeds £5 million (non-Large Business customers) or £15 million (Large Business customers), referral to a dispute resolution board is required, as set out in HMRC's code of governance for resolving tax disputes.

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

Figure 31: Summary of TAC oversight dispute resolution governance

In this year's report, the tables showing referrals to the dispute resolution governance boards have been updated to separately identify outcomes where customers maintained their original filing position and those where they moved away from their original filing position following HMRC intervention. This more clearly illustrates HMRC's compliance approach. The previous year's data has been restated in the same format for comparison purposes.

In addition, the tables have also been updated to show the number of disputes referred to those boards, rather than the number of referrals. As a referral to a dispute governance board may be made up of a number of disputes involving the same customer, this change more clearly illustrates how dispute resolution governance is carried out in HMRC. The previous year's data has been restated using the new methodology for comparison purposes.

The data from this year shows that total referrals to the commissioners decreased from 66 (2022 to 2023) to 48 (2023 to 2024). There was also a reduction in the number of taxpayer's revised proposals accepted from 28 (2022 to 2023) to 15 (2023 to 2024). Most disputes referred to the commissioners are complex and can be made up of a number of issues. The variance in the data shown in the table below is due to fluctuations in the complexity, timing, and flow of cases to the dispute resolution governance boards year on year. Only a small number of disputes are referred to the commissioners, most disputes are settled following line manager approval and by agreement with customers.

Table 11: HMRC Commissioners: outcome of referrals

	2023-24	2022-23[1]
Total number of meetings held (including via correspondence)	17	22
Total referrals to the Commissioners	48	66
Reason for referrals		
£100m plus tax or £500m adjustment	31	40
Decisions on sensitive case or risk	4	9
Decisions on sample cases	11	11
Penalty only referrals	2	2
Director referral	-	2
Director re-referral following remittance for further work	-	2
Outcome of referral		
Taxpayer's filed position accepted	3	15
Taxpayer's revised proposal accepted	15	28
Taxpayer's position rejected	28	19
Remitted for further work	-	2

1 Last year's figures using new methodology.

Table 12: Tax Dispute Resolution Board: outcome of referrals

		2023-24	2022-23[1]
Referred to Commissioners	**Total referrals to TDRB**	**46**	**58**
	Taxpayer's filed position accepted	2	11
	Taxpayer's revised proposal accepted	13	26
	Taxpayer's position rejected	22	17
	Penalty only referral	3	2
	Total referred to Commissioners	**40**	**56**
Not referred	Remitted for further work	3	1
	Guidance provided	-	-
	Decision taken by TDRB under its remit	3	1
	Total not referred to Commissioners	**6**	**2**

1 Last year's figures using new methodology.

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

	2023-24	2022-23[1]
Total referrals to CCG DRB	**92**	**102**
Taxpayer's filed position accepted	13	21
Taxpayer's revised proposal accepted	24	33
Taxpayer's position rejected	38	42
Penalty only referral	13	2
Board remitted for further work before re-referral	4	4
Total	**92**	**102**
Of which: Sample cases referred to commissioners	12	11

1 Last year's figures using new methodology.

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 and compliance teams refer issues to the Anti-Avoidance Board (AAB) for avoidance issues and to the Contentious Issues Panel (CIP) for other issues. Both these bodies include senior operational, legal and policy experts.

During 2023 to 2024:

- the CIP met on 6 occasions and considered 8 issues (6 occasions and 7 issues in 2022 to 2023) involving Personal tax, Business tax and VAT
- the AAB met on 7 occasions and considered 10 issues (5 occasions and 8 issues in 2022 to 2023)

No issues were referred to the commissioners from the CIP (one issue was referred to the commissioners in 2022 to 2023). No issues were referred to the commissioners from the AAB (no issues referred to the commissioners in 2022 to 2023).

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 opinion on whether tax arrangements are unreasonable.

We are legally required to consider the opinions issued by the advisory 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 2023 to 2024 the panel provided an opinion in 1 case (6 in financial year 2022 to 2023). The opinion of the panel was that entering into and carrying out the arrangements was not a reasonable course of action. During 2023 to 2024 we reviewed our reporting processes and identified a small number of opinion notices had been duplicated within the data. This issue has now been rectified and the cumulative number of notices issued has been adjusted.

Since 2018, we have issued over 5,500 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 inaccuracy and failure to notify chargeability

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 a new liability to tax or other duties, and do not have a reasonable excuse for not doing so.

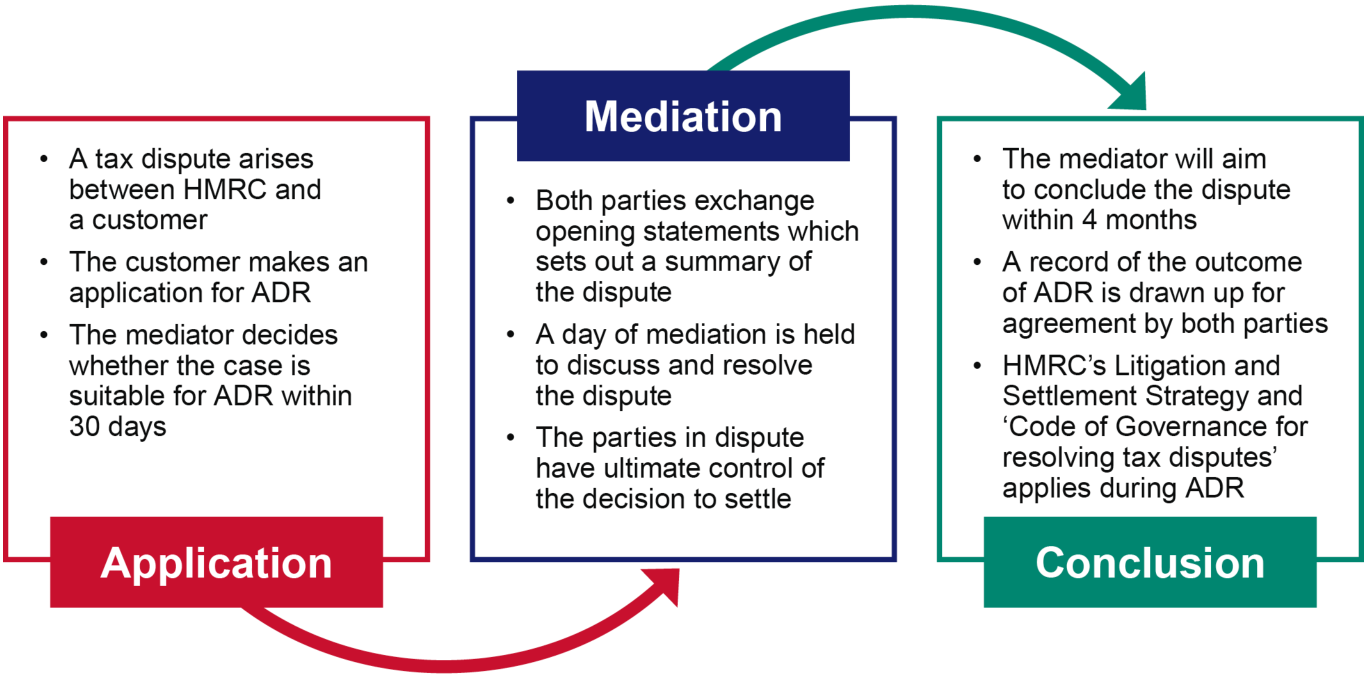
We work hard to ensure consistency in our decisions to charge these penalties. We do this by maintaining effective controls to make sure decisions are considered and authorised at the appropriate level, taking into account both the size and complexity of the tax at stake and the corresponding penalty.

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 (ADR)

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. In some cases, ADR can be used to progress a case by assisting the parties during the course of an enquiry to overcome an area of disagreement which is inhibiting progress.

Figure 32: ADR Process in HMRC



Most ADR applications are submitted once we have made a decision on the amount of tax due and the customer has appealed – but it is possible to consider ADR at any point during a compliance check. Customers can apply for ADR via telephone or online through GOV.UK. We have set up an internal route for HMRC caseworkers to apply directly for ADR which will only be accepted with the customer's agreement. The mediator will decide within 30 days of receiving the application whether the case is suitable for ADR.

The types of case 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 there is no apparent scope for HMRC 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.

+ Read HMRC's ADR Guidance https://www.gov.uk/hmrc-internal-manuals/alternative-dispute-resolution-guidance

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 or partially resolving the dispute, or by clarifying both sides' positions and 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.

Table 14: Alternative dispute referrals

	2023-24	2022-23
Total applications for ADR (either side can propose ADR)	**1,309**	**1,013**
Cases accepted into ADR	512	411
Cases rejected by governance panels	334	279
Cases rejected as being Out of Scope	326	268
Cases withdrawn by applicant	66	38
Cases awaiting triage decision	71	17
Total	**1,309**	**1,013**
Cases closed	367[1]	376
Of which: Cases resolved	307[1]	326
Percentage of cases resolved	83.7%	86.7%
Live cases	225	149

1 This figure includes applications from a previous tax year.

Reviews and appeals

If a customer disputes an appealable tax decision, they can request a statutory review of the decision and/or appeal to the independent tax tribunal. Reviews usually settle disputes and are quicker and more cost-effective than appeals. It can therefore be 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.

Reviews

All HMRC reviews are principally overseen by tax, legal or accountancy professionals working in our Solicitor's Office and Legal Services (SOLS) group. To ensure an objective and impartial review service, HMRC ensures that these officers were not involved in the original decision.

The statutory review process provides an additional opportunity to resolve disputes without the need for tribunal proceedings. The statutory review process checks 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 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

Table 15: Overview of outcomes of reviews

Statutory reviews of automated penalties and default surcharge[1]	2023-24	2022-23
Dealt with in the year	50,881	36,423
HMRC original decision upheld	13,245	11,234
HMRC decision varied	1,760	4,118
HMRC decision cancelled	35,876	21,071
Percentage where original HMRC decision was upheld	26%	31%
All other reviews		
Dealt with in the year	5,226	4,252
HMRC original decision upheld	3,729	3,208
HMRC decision varied	930	671
HMRC decision cancelled	567	373
Percentage where original HMRC decision was upheld	71%	75%
All Statutory Reviews		
Dealt with in the year	56,107	40,675
HMRC original decision upheld	16,974	14,442
HMRC decision varied	2,690	4,789
HMRC decision cancelled	36,443	21,444
Percentage where original HMRC decision was upheld	30%	36%
Percentage dealt with where the taxpayer was not represented by an agent	85%	93%

1 In 2023 to 2024, HMRC issued 7,197,643 automated penalties and default surcharges (2022 to 2023: 7,749,547)

Appeals

Where a customer chooses to appeal a tax decision it will normally be to the First-tier Tribunal (FTT). Where a customer disputes the lawfulness of a decision then they may also request a Judicial Review (JR). A request for JR will normally be made to the High Court. Most appeals are settled between the customer and HMRC without requiring the tribunal or court to hear the appeal but where agreement cannot be reached the tribunal or court will schedule a hearing to listen to both sides of the argument before issuing their judgment. If either the customer or HMRC are dissatisfied with the judgement, then they can seek to appeal against it to a higher jurisdiction. The tribunals and courts are independent of both HMRC and the customer.

Table 16: Overview of tax appeals

	2023-24	2022-23
New appeals made to the FTT	12,668	12,332
Appeals in progress	47,250	39,500
Of which have been stood over	41,750	34,000
Settled appeals (by formal hearing or by agreement before the hearing)	7,885	7,081
Tax protected	£3.3 bn	£14.3 bn
Decided appeals	1,590	2,104
Success rate for decided appeals	87.4%	91.8%

There were 41,750 appeals stood over (2022 to 2023: 34,000). This was generally, where HMRC and the customer have agreed to put the appeal on hold while waiting for a decision in a related lead case that is being litigated.

Tax protected is an estimate of the tax at risk in litigation where HMRC has successfully defended its decisions. This will vary from year to year depending on the timing and nature of the litigation. 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.

The success rate recorded in table 17 below is calculated as the percentage of hearings where the decision is in our favour or substantive elements of our case succeeded.

Table 17: Data relating to decided appeals

	2023-24					2022-23				
	First-tier Tribunal	Upper Tribunal	High Court	Court of Appeal	Supreme Court	First-tier Tribunal	Upper Tribunal	High Court	Court of Appeal	Supreme Court
Total	**1,500**	**57**	**12**	**16**	**5**	**2,021**	**51**	**1**	**25**	**6**
Decision for HMRC	1,219	42	10	12	3	1,811	36	1	23	6
Decision where substantive elements of HMRC's case succeeded	99	4	-	-	-	54	1	-	-	-
Decision for customer	182	11	2	4	2	156	14	-	2	-
HMRC success rate	88%	81%	83%	75%	60%	92%	73%	100%	92%	100%

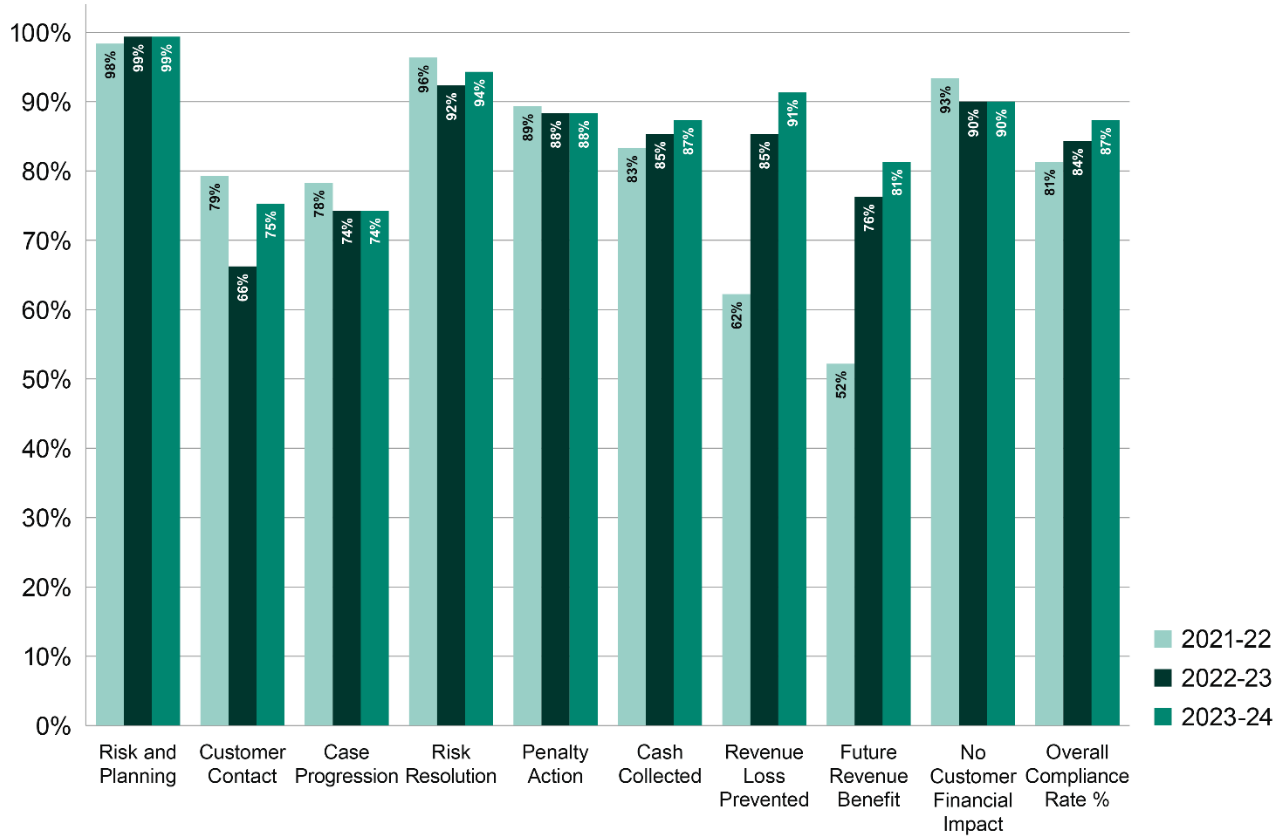
Tax Settlement Assurance Programme

Since 2013, under the Tax Settlement Assurance Programme (TSAP), a specialist team which is independent of operational casework has reviewed a 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 the standards we have committed to under our Charter and to our core internal processes. We do this as part of our overall assurance programme to help drive continuous improvement in our management of tax disputes.

In 2023 to 2024, the TSAP reviewed 400 settled cases. The same number of cases were reviewed in the last 2 years using the same methodology, which affords for a good comparison over the last 3 years. 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.

We test 9 standards in our case sample, and the chart below shows themed result averages with a comparison to the last 2 years. The themes represent the life cycle of a case, including financial impact for the customer and HMRC to fulfil its enquiry obligations. We are then able to take an average across all themes to provide a composite indicator. The comparison to 2022 to 2023 shows improvements in 5 themes, a consistent result in 3 themes and a decline in one theme. Overall, there is a 3% improvement in performance. There has been a continued uplift in performance across the 3-year period, with a 6% improvement since current testing parameters commenced in 2021 to 2022.

Figure 33: Three-year summary of theme scoring for 2021-22 to 2023-24



Building on results reported last year, HMRC has demonstrated continued improvement in recording accurately the financial outcomes of compliance casework, broken down as Cash Collected, Revenue Loss Prevented and Future Revenue Benefit. However, there remains room for improvement in some areas that have a direct impact on customer experience.

For example, addressing delay is a priority area for improvement. HMRC has established a work programme, focused on addressing the causes of delay and implementing measures to reduce the time it takes to bring cases to resolution. We are also working with representative bodies, to understand better the impact of delay on our customers and are using that insight to develop and deliver enhanced awareness session across our compliance teams.

We are also addressing a number of identified shortcomings in the application of our email policy with caseworkers not always obtaining explicit consent before communicating with customers by email. We have strengthened our guidance and reinforced to caseworkers the importance of correctly applying our email policy.

The following summary shows the results at individual case level. These do not equate to the overall percentage compliance rate shown above due to the averaging both within and across the 9 themes:

- Overall, 24% (94/400) of the cases reviewed met or exceeded all our required governance and quality standards
- 66% (265/400) fell short of our governance and quality standards, however with no financial impact on the customer
- 10% (41/400) fell short of our governance and quality standards with a customer financial impact. Of the 41 cases, 22 were identified where the customer had paid too much tax. Corrective activity has since started, and we check to ensure appropriate actions are completed

In July 2020, we launched a single set of Compliance Professional Standards (CPS), aligned to the HMRC Charter. This aims to improve the quality of our performance overall by enhancing the professionalism of our compliance casework, including strengthening our controls and assurance activities. The CPS provide the focus for our training and for building capability, and we use them to measure and evaluate the quality of our performance, including how responsive we are to our customers. Since 2021 to 2022, we have been assurance testing our casework against the CPS alongside TSAP.

In July 2023 we published the CPS on GOV.UK, giving our customers greater visibility of the standards they should expect from us. In 2024 to 2025, we are looking to implement a new scoring framework that will initially run alongside our current TSAP scoring methodology with a view to publishing the results from the new framework in 2025 to 2026. This new approach will measure the effectiveness of our compliance quality by reference to the numbers of cases meeting the required quality standard, as well as the 9 themes currently used.

+ **Read HMRC's Compliance Professional Standards at: www.gov.uk/government/publications/professional-standards-for-hmrcs-compliance-work/hmrc-professional-standards-for-compliance**

Finally, 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. Where cases do not require a referral to a formal case governance board, the TSAP confirms whether the settlement was authorised at the appropriate level. For 2023 to 2024 our checks have revealed that 100% (8/8 cases) were referred to the relevant board at the appropriate time.

Table 18: Three-year annual comparison of governance and authorisation

Year	2021-22	2022-23	2023-24
Settlement authorised at appropriate level	97% (222 out of 229 cases)	91% (116 out of 128 cases)	94% (88 out of 94 cases)
Correct governance followed, where required	100% (9 out of 9 cases)	80% (4 out of 5 cases)	100% (8 out of 8 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 almost 65,000 full-time equivalent (FTE) employees 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.

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 64,875 full-time equivalent (FTE) employees at the end of financial year 2023 to 2024. This included 61,186 in HMRC and 3,689 in VOA. These figures exclude contingent labour which was 1,785 for HMRC and 124 for VOA as of 31 March 2024.

Recruitment

This year we recruited 3,882 full-time equivalent roles to ensure we have the skills we need in our key strategic locations. This included 3,564 in HMRC, and 318 in VOA. We recruited 535 FTE from other government departments.

Leavers and exits

In 2023 to 2024, 5,578 full-time equivalent employees either left HMRC's departmental group, including transfers to other government departments, or retired. This included 5,154 (8.3% turnover) in HMRC, and 424 (10.8% turnover) in VOA.

Average number of full-time equivalent persons employed

The table below gives the average number of FTE for 2023 to 2024.

Table 19: Average number of full-time equivalent persons employed[1]

	Permanently employed staff – Operational	Permanently employed staff – Capital[2]	Others – Operational	Others – Capital[2]	2023-24 Total	2022-23 Total
Core department	61,326	397	451	-	62,174	63,233
Valuation Office Agency	3,426	-	253	-	3,679	3,740
Revenue and Customs Digital Technology Services Limited	-	-	-	-	-	648
Departmental group total	**64,752**	**397**	**704**	**-**	**65,853**	**67,621**

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 20: The costs of people employed during the year and reconciliation from total net costs to 'Staff and Related' costs in the SoCNE (£m)

	Permanently employed staff	Others	2023-24 £m	2022-23 £m
Wages and salaries	2,588.7	22.5	2,611.2	2,449.4
Social security costs[2]	281.0	1.4	282.4	268.0
Other pension costs	650.3	4.3	654.6	631.2
Sub Total	**3,520.0**	**28.2**	**3,548.2**	**3,348.6**
Less recoveries in respect of outward secondments	(4.6)	-	(4.6)	(4.8)
Total net costs	**3,515.4**	**28.2**	**3,543.6**	**3,343.8**
Recoveries in respect of outward secondments			4.6	4.8
Less net costs charged to capital budgets			(69.5)	(62.2)
Travel, subsistence and hospitality			40.4	42.0
Recruitment and training			28.7	31.4
Early severance schemes			3.8	(3.4)
Staff and related costs in Consolidated Statement of Comprehensive Net Expenditure			**3,551.6**	**3,356.4**

1 This section has been subject to external audit.
2 Social security costs include the Apprenticeship Levy which is £13 million for 2023 to 2024 (2022 to 2023: £12.2 million).

Civil Service Pensions

Alongside their salary, a 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 2020. More details are in the resource accounts of the Cabinet Office.

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

For 2023 to 2024, employers' contributions of £649.2 million were payable to the PCSPS (2022 to 2023: £625.2 million) at one of 4 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 2023 to 2024, 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 £5 million (£4.4 million in 2022 to 2023) were paid to one or more of the 3 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 (2022 to 2023: £0.2 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 2023 to 2024, 47 individuals (2022 to 2023: 43 individuals) retired early on ill-health grounds; the total additional accrued pension liabilities in the year amounted to £0.3 million (2022 to 2023: £0.3 million).

Valuation Office Agency

A number of Valuation Office Agency's (VOA) employees are members of the Local Government Pension Scheme. Contributions into this scheme for 2023 to 2024 were £0.3 million (2022 to 2023: £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**

+ **Read details of the salary and pension benefits for HMRC's Executive Committee starting on page 132.**

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 21: Exit packages 2023-24[2]

Exit package cost band	Number of compulsory redundancies 2023-24	Number of compulsory redundancies 2022-23	Number of other departures agreed 2023-24	Number of other departures agreed 2022-23	Total number of exit packages by cost band 2023-24	Total number of exit packages by cost band 2022-23
<£10,000	-	-	8	6	8	6
£10,000 - £25,000	-	1	5	22	5	23
£25,000 - £50,000	-	-	9	58	9	58
£50,000 - £100,000	-	-	4	47	4	47
£100,000+	-	-	1	22	1	22
Total number of exit packages by type	**-**	**1**	**27**	**155**	**27**	**156**
Of which:						
Core department and agency	-	1	27	155	27	156
Total resource cost (£000s)	**-**	**14**	**816**	**8,745**	**816**	**8,759**

1 These disclosures have been subject to external audit.
2 The prior year figures in the 2022 to 2023 have been adjusted above to account for instances where individuals' final costs changed from the original estimate after the date of submission of the accounts.

People off-payroll

HMRC has reviewed all relevant off-payroll engagements during the financial year 2023 to 2024. Where engagements have been within the scope of the off-payroll (IR35) legislation, both worker and the paying agency have been advised of this determination meaning appropriate deductions are made at source from payments made in respect of the engagement. We confirm that 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 2023 to 2024, including those from the Valuation Office Agency (VOA).

Table 22: Temporary off-payroll worker engagements as of 31 March 2024, earning £245 a day or greater[1]

	HMRC	VOA
Number of existing engagements as of 31 March 2024	410	3
Of which:		
Number that have existed for less than one year at time of reporting	150	3
Number that have existed for between one and 2 years at time of reporting	138	-
Number that have existed for between 2 and 3 years at time of reporting	42	-
Number that have existed for between 3 and 4 years at time of reporting	24	-
Number that have existed for 4 or more years at time of reporting	56	-

Table 23: All temporary off-payroll workers engaged at any point during the year ended 31 March 2024, earning £245 per day or greater[1]

	HMRC	VOA
Number of off-payroll workers engaged during the year ended 31 March 2024	766	7
Of which:		
Not subject to off-payroll legislation	727	7
Subject to off-payroll legislation and determined as in-scope of IR35	39	-
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	748	-
Of which: Number of engagements that saw a change to IR35 status following review	-	-

1 Including engagements through umbrella companies.

Table 24: Board members and/or senior officials with significant financial responsibility, between 1 April 2023 and 31 March 2024

	HMRC	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	82	6

Consultancy and temporary employees

We engage agency workers to support demand peaks of operational work and contingent labour to resolve other temporary specialist capacity gaps (together these are temporary employees). We only use professional service providers to help with specialist work, including consultancy. 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 2023 to 2024, external consultancy has supported programmes for service excellence and tax transformation.

We robustly control expenditure on consultancy via commercial governance procedures, but this has increased from £2.6 million (excluding VOA) in financial year 2022 to 2023 to £7.5 million (excluding VOA) in financial year 2023 to 2024, equating to 0.3% (VOA 2.7%) of our annual expenditure. We also continue to follow Cabinet Office guidelines to reduce the use of consultancy across central government.

Table 25: Consultancy and contingent labour expenditure in accordance with HM Treasury definitions (£m)[1]

	Consultancy 2023-24	Contingent labour 2023-24	Consultancy 2022-23	Contingent labour 2022-23
HMRC	7.5	152.3	2.6	184.4
VOA	6.5	1.3	2.3	2.4
RCDTS	-	-	-	8.2

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

Trade Union Facility Time Allocation

Trade Union 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. Representatives are entitled to paid time off to carry out TU duties. They are not entitled to paid time off for TU activities - but an employer can choose to pay for time off for those activities.

HMRC recognises 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 26: Total number of employees who were relevant union officials during 2023-24

	Core department and agencies total
Relevant union officials	
Number of Trade Union representatives employed	823
Percentage of time spent on facility time	
Working hours each representative spent on facility time	
0% of working hours	165
1-50% of working hours	657
51-99% of working hours[1]	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 (£)	£2,040,621
Total paybill (£)	£3,529,928,012
Facility time as a % of paybill	0.06%

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

We have nothing to disclose or 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 2024 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.

SCS employee numbers and approved posts

As of the 31 March 2024, we have 546 SCS employees made up of 523 HMRC and 23 VOA SCS employees. The total number of SCS approved posts was 550, made up of 528 HMRC and 22 VOA SCS posts. This figure includes both filled, vacant and job shared posts.

Table 27: HMRC Senior Civil Service (SCS) employee numbers comparison

	Number at 31 March 2024	Number at 31 March 2023	Percentage change
Permanent Secretary	2	2	0%
SCS3	9	10	-10%
SCS2	70	68	3%
SCS1	429	423	1%
On loan/ secondment	13	10	30%
Total	**523**	**513**	**2%**

SCS structure and recruitment

There are 3 levels of SCS 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 73 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

For 2023 to 2024 departments were permitted to make awards of 5.5% and a further 1% for anomalies. This meant that for 1 April 2023, we implemented the following elements, as set out in the Cabinet Office guidance:

- Increase to the minimum salary for all SCS pay ranges: £75,000 (SCS1); £97,000 (SCS2); and £127,000 (SCS3)
- An across-the-board increase for all SCS of 5.5%
- An 'HMRC anomaly minimum', targeting people who are paid at the bottom of the pay ranges, increasing pay to: £83,500 (SCS1); £106,500 (SCS2); and £139,500 (SCS3)
- In-year non-consolidated performance bonuses for exceptional performance during 2023 to 2024 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 £7,000/£5,000 (SCS1 Exceeding/High Performing), £9,000/£7,000 (SCS2 Exceeding/High Performing), and £12,000/£10,000 (SCS3 Exceeding/High Performing) were paid to 194 'Exceeding/High Performing' colleagues on 1 April 2023, for the 2022 to 2023 performance year
- In-year awards ranging from £250 to £3,000 have been paid to 302 SCS members based on performance from April 2023 to the end of March 2024
- 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 2023 to 2024.

1 This section has been subject to external audit.

+ Read Civil Service Commission recruitment principles at
www.civilservicecommission.independent.gov.uk/recruitment/recruitment-principles/

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 86 to 94.

Table 28: 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	2023-24	2022-23	2023-24	2022-23	2023-24	2022-23	2023-24	2022-23	2023-24[6]	2022-23
Sir Jim Harra KCB	195-200	185–190	5-10	–	300	200	***[4]	–	205-210	185–190
Angela MacDonald	165-170	150–155	–	–	–	–	***[4]	59	165-170	210–215
Penny Ciniewicz	150-155	140–145	0-5	–	300	100	–[5]	–	150-155	140–145
Alan Evans	150-155	140-145	5-10	10-15	–	–	***[4]	-3	160-165	150-155
Justin Holliday	175-180	165-170	–	–	200	100	***[4]	-10	175-180	155–160
Myrtle Lloyd	135-140	130–135	–	–	–	–	***[4]	22	135-140	150–155
Joanna Rowland[2]	130-135 (155-160)	145–150	–	–	–	–	***[4]	14	130-135	155–160
Daljit Rehal	210-215	200–205	50-55	40-45	–	–	***[4]	78	265-270	320–325
Jonathan Russell	135-140	130–135	0-5	0-5	–	–	***[4]	–	140-145	130–135
Carol Bristow	135-140	105–110 (120-125)	0-5	10–15	300	200	***[4]	49	140-145	170–175
Esther Wallington[3]	110-115	110–115	–	–	100	–	***[4]	45	110-115	155–160
Jonathan Athow	135-140	130–135	5-10	0–5	200	200	***[4]	–	145-150	130–135
Suzanne Newton	135-140	10–15 (120-125)	10-15	–	300	–	***[4]	2	150-155	15–20
Andrew Pemberton	135-140	–	5-10	–	–	–	***[4]	–	145-150	–
Lucy Pink	105-110	–	5-10	–	100	–	***[4]	–	110-115	–

1 This section has been subject to external audit.
2 Left ExCom on 7 January 2024.
3 The full-time equivalent salary is £145,000-£150,000 (2022 to 2023: £140,000-£145,000). Esther worked part-time hours 0.7 FTE until August 2023. Since September 2023 she worked 0.8 FTE.
4 ***Pension information for 2023 to 2024 has been delayed. For more information see page 135.
5 Opted out of pension scheme.
6 Total for 2023 to 2024 does not include delayed pension benefit information.

Accrued pension benefits for directors are not included in this table for 2023 to 2024 due to an exceptional delay by the civil service pensions administrator in the calculation of these figures following the application of the public service pension Remedy.

+ **Read more on this at:** www.gov.uk/government/collections/how-the-public-service-pension-remedy-affects-your-pension

Explanatory notes for tables 28 and 29

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 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.

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 86 to 94.

Table 29: Non-executive directors’ single total figure of remuneration[1]

	Fees (full year equivalent) (£000)		Benefits in kind (to the nearest £100)		Total (£000)	
	2023-24	2022-23	2023-24	2022-23	2023-24	2022-23
Dame Jayne-Anne Gadhia	25-30	25-30	–	–	25-30	25-30
David Cooper	20-25	20-25	–	–	20-25	20-25
Patricia Gallan	20-25	20-25	–	–	20-25	20-25
Michael Hearty	25-30	25-30	–	–	25-30	25-30
Susie Warran-Smith[2]	10-15 (20-25)	–	–	–	10-15	–
Paul Morton	15-20	15-20	–	–	15-20	15-20
Juliette Scott[3]	10-15 (20-25)	20-25	–	–	10-15	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	20-25	0-5 (15-20)	-	–	20-25	0-5

1 This section has been subject to external audit.
2 Joined the department on 2 October 2023.
3 Left the department on 22 November 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 2023 to 2024 was £265,000 - £270,000 (2022 to 2023, £240,000 - £245,000) (table 28 on page 134). This was 7.31 times (2022 to 2023, 7.44) the median remuneration of the workforce, which was £36,612 (2022 to 2023, £32,603).

In 2022 to 2023 and 2023 to 2024 no employees received remuneration in excess of the highest paid director. Remuneration ranged from £24,247 to £270,000 (2022 to 2023 £22,524 to £245,000).

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.

Total remuneration also includes the one-off non-consolidated and non-pensionable payment of £1,500 made to eligible employees in 2023, as set out in the Addendum to the Pay Remit Guidance for delegated grades.

Table 30a: Pay ratio

	2023-24	2022-23[2]
25th percentile pay ratio	10.32	10.46
Median pay ratio	7.31	7.44
75th percentile pay ratio	5.90	5.75

Table 30b: Total pay and benefits and salary component for the employees at the 25th percentile, median and 75th percentile

	2023-24	2022-23[2]
25th percentile pay – Total pay and benefits	**£25,910**	**£23,189**
25th percentile pay – Salary components	£24,330	£22,524
Median pay – Total pay and benefits	**£36,612**	**£32,603**
Median pay – Salary component	£35,092	£32,583
75th percentile pay – Total pay and benefits	**£45,349**	**£42,144**
75th percentile pay – Salary component	£42,898	£42,144

In 2023 to 2024 the total value of the pay award was 5% in accordance with the Civil Service Pay guidance 2023. The Civil Service pay guidance for 2023 included a discretionary additional award of 0.5% (of the paybill) for staff considered to be in lower pay grades. HMRC has used the discretion available to target the entire 0.5% to Administrative Assistant, Assistant Officer and Officer grades. In 2023 to 2024 the highest paid directors' total remuneration increased by 10.3%. These factors have resulted in the ratio between the 75th percentile and the highest paid director increasing slightly during 2023 to 2024.

1 This section has been subject to external audit.
2 Prior year figures have been restated.

Table 30c: Annual percentage change in remuneration of directors and employees from prior year[1]

2022-23 to 2023-24	Salary and allowances	Performance pay and bonus payable	Total remuneration
Highest paid director	4.9%	23.5%	10.3%
Employees	9.5%	29.2%	9.6%

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 2022 to 2023 and 2023 to 2024.

Sir Jim Harra KCB
Accounting Officer
26 July 2024

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 66, 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 31: Summary of Resource and Capital outturn

										2023-24 £000	2022-23 £000
		Estimate			Outturn			Outturn vs. Estimate, saving			
Type of spend	SOPS note	Voted	Non-voted	Total	Voted	Non-voted	Total	Voted	Total		Total Outturn
Departmental Expenditure Limit											
– Resource	1.1	6,460,934	233,000	6,693,934	6,224,514	277,222	6,501,736	236,420	192,198		6,328,621
– Capital	1.2	751,178	-	751,178	725,117	-	725,117	26,061	26,061		556,400
Total		**7,212,112**	**233,000**	**7,445,112**	**6,949,631**	**277,222**	**7,226,853**	**262,481**	**218,259**		**6,885,021**
Annually Managed Expenditure											
– Resource	1.1	14,327,021	22,032,528	36,359,549	13,913,965	19,360,496	33,274,461	413,056	3,085,088		33,930,249
– Capital	1.2	20,109	-	20,109	2	-	2	20,107	20,107		1
Total		**14,347,130**	**22,032,528**	**36,379,658**	**13,913,967**	**19,360,496**	**33,274,463**	**433,163**	**3,105,195**		**33,930,250**
Total		**21,559,242**	**22,265,528**	**43,824,770**	**20,863,598**	**19,637,718**	**40,501,316**	**695,644**	**3,323,454**		**40,815,271**
Of which:											
Total Resource	1.1	20,787,955	22,265,528	43,053,483	20,138,479	19,637,718	39,776,197	649,476	3,277,286		40,258,870
Total Capital	1.2	771,287	-	771,287	725,119	-	725,119	46,168	46,168		556,401
Total budget expenditure		**21,559,242**	**22,265,528**	**43,824,770**	**20,863,598**	**19,637,718**	**40,501,316**	**695,644**	**3,323,454**		**40,815,271**
Non-budget expenditure		**200,000**	**-**	**200,000**	**-**	**-**	**-**	**200,000**	**200,000**		**-**
Total budget and non-budget		**21,759,242**	**22,265,528**	**44,024,770**	**20,863,598**	**19,637,718**	**40,501,316**	**895,644**	**3,523,454**		**40,815,271**

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.

	SOPS note	Estimate	Outturn	2023-24 £000 Outturn vs. Estimate, saving	2022-23 £000 Total Outturn
Net cash requirement	3	21,432,638	20,628,323	804,315	18,816,467

		Estimate	Outturn	2023-24 £000 Outturn vs. Estimate, saving	2022-23 £000 Total Outturn
Administration costs	1.1	1,100,918	982,812	118,106	1,003,125

Although not a separate voted limit, any breach of the administration budget will also result in an excess vote.

The department has Prior Period Adjustments (PPAs) arising from a refinement in the application of HMRC's IFRS16 subleasing policy which results in an increase in the number of operating subleases and a corresponding reduction in finance subleases. It is proper for the department to seek parliamentary authority for the provision that should have been sought previously. In 2023 to 2024, the following such PPAs have been made, which have been included within voted Supply in the Estimate.

PPA description - IFRS 16 sub-leasing policy

Resource/ Capital	DEL/AME	Amount/ £000
Resource	DEL	(5,857)
Capital	DEL	40,794

The above PPA outturn values are what would have been 2022 to 2023 budgetary consequences under our current application of IFRS 16 subleasing policy. These values are encompassed in what has been presented as 2023 to 2024 opening balance adjustments evident in Consolidated Statement of Changes in Taxpayers' Equity, note 5 and note 7.1.

These figures exclude permitted, non-budget transactions which form part of the leased asset calculations on adoption of the standard from 1 April 2023.

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.

HMRC also makes payments for which the funding is not subject to the vote system. This non-voted expenditure mainly relates to certain corporation tax reliefs, other reliefs including personal tax credits 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 32) provides analysis of resource expenditure and SOPS 1.2 (table 33) 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 32: Analysis of resource outturn by Estimate line

	2023-24 £000									2022-23 £000
	Estimate	Outturn								
		Administration			Programme			Outturn	Outturn vs Estimate	Outturn
Type of spend (Resource)	Net Total	Gross	Income	Net	Gross	Income	Net	Net Total	Saving/ (excess)	Total
Spending in Departmental Expenditure Limit										
Voted:										
A HMRC administration	5,480,327	1,007,966	(89,116)	918,850	4,574,880	(222,529)	4,352,351	5,271,201	209,126	5,199,284
B VOA administration	185,607	-	-	-	241,674	(58,365)	183,309	183,309	2,298	132,548
C Utilised provisions	35,000	-	-	-	10,004	-	10,004	10,004	24,996	19,614
D Cost of Living	760,000	-	-	-	760,000	-	760,000	760,000	-	717,872
COVID-19[1]	-	-	-	-	-	-	-	-	-	(110)
Total voted	6,460,934	1,007,966	(89,116)	918,850	5,586,558	(280,894)	5,305,664	6,224,514	236,420	6,069,208
Non-voted:										
E National Insurance Fund	233,000	63,962	-	63,962	213,260	-	213,260	277,222	(44,222)	259,413
Total non-voted	233,000	63,962	-	63,962	213,260	-	213,260	277,222	(44,222)	259,413
Total spending in Departmental Expenditure Limit	**6,693,934**	**1,071,928**	**(89,116)**	**982,812**	**5,799,818**	**(280,894)**	**5,518,924**	**6,501,736**	**192,198**	**6,328,621**
Spending in Annually Managed Expenditure										
Voted:										
F Child Benefit	12,896,922	-	-	-	12,510,146	-	12,510,146	12,510,146	386,776	11,595,575
G Tax-Free Childcare	631,640	-	-	-	635,340	-	635,340	635,340	(3,700)	494,401
H Providing payments in lieu of tax relief to certain bodies	156,329	-	-	-	173,626	-	173,626	173,626	(17,297)	7,973
I Lifetime ISA	500,595	-	-	-	499,125	-	499,125	499,125	1,470	436,809
J Help to Save	46,387	-	-	-	51,654	-	51,654	51,654	(5,267)	53,202
K HMRC administration	20,000	-	-	-	(3,987)	-	(3,987)	(3,987)	23,987	33,808
L VOA payments of Local Authority rates	87,818	-	-	-	88,938	(5,200)	83,738	83,738	4,080	64,199
M VOA administration	2,000	-	-	-	853	-	853	853	1,147	1,082

	2023-24 £000									2022-23 £000
	Estimate	Outturn								
		Administration			Programme			Outturn	Outturn vs Estimate	Outturn
Type of spend (Resource)	**Net Total**	**Gross**	**Income**	**Net**	**Gross**	**Income**	**Net**	**Net Total**	**Saving/ (excess)**	**Total**
N Utilised provisions	(20,000)	-	-	-	(14,730)	-	(14,730)	(14,730)	(5,270)	(19,615)
O COVID-19[1]	5,330	-	-	-	(21,800)	-	(21,800)	(21,800)	27,130	(132,476)
Total voted	14,327,021	-	-	-	13,919,165	(5,200)	13,913,965	13,913,965	413,056	12,534,958
Non-voted:										
P Personal tax credits	8,768,082	-	-	-	7,307,214	-	7,307,214	7,307,214	1,460,868	8,834,945
Q Other reliefs and allowances	13,264,446	-	-	-	12,053,282	-	12,053,282	12,053,282	1,211,164	12,560,346
Total non-voted	22,032,528	-	-	-	19,360,496	-	19,360,496	19,360,496	2,672,032	21,395,291
Total spending in Annually Managed Expenditure	**36,359,549**	**-**	**-**	**-**	**33,279,661**	**(5,200)**	**33,274,461**	**33,274,461**	**3,085,088**	**33,930,249**
Non-budget spending voted:										
R Prior period adjustment	200,000	-	-	-	-	-	-	-	200,000	-
Total non-budget expenditure	**200,000**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**200,000**	**-**
Total voted	20,987,955	1,007,966	(89,116)	918,850	19,505,723	(286,094)	19,219,629	20,138,479	849,476	18,604,166
Total non-voted	22,265,528	63,962	-	63,962	19,573,756	-	19,573,756	19,637,718	2,627,810	21,654,704
Total	**43,253,483**	**1,071,928**	**(89,116)**	**982,812**	**39,079,479**	**(286,094)**	**38,793,385**	**39,776,197**	**3,477,286**	**40,258,870**

Figures in the areas outlined in thick line are the amounts that comprise the Group's consolidation position but have been separately identified in alignment with the Estimate and Internal Governance.

1 Repayments of COVID-19 support schemes received and reported in the Resource Accounts exceeded expenditure for the financial year 2023 to 2024.

+ 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 33: Analysis of capital outturn by Estimate line

					2023-24 £000	2022-23 £000
	Estimate	Outturn			Outturn vs Estimate	Outturn
Type of spend (Capital)	Net Total	Gross	Income	Outturn Net total	Saving/ (excess)	Total
Spending in Departmental Expenditure Limit						
Voted:						
A HMRC administration	715,282	771,192	(75,439)	695,753	19,529	524,552
B VOA administration	35,896	34,306	(4,942)	29,364	6,532	31,848
C Utilised provisions	-	-	-	-	-	-
D Cost of Living	-	-	-	-	-	-
Total voted	751,178	805,498	(80,381)	725,117	26,061	556,400
Non-voted:						
E National Insurance Fund	-	-	-	-	-	-
Total non-voted	-	-	-	-	-	-
Total spending in Departmental Expenditure Limit	**751,178**	**805,498**	**(80,381)**	**725,117**	**26,061**	**556,400**
Spending in Annually Managed Expenditure						
Voted:						
F Child Benefit	-	2	-	2	(2)	1
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	20,109	-	-	-	20,109	-
L VOA payments of Local Authority rates	-	-	-	-	-	-
M VOA administration	-	-	-	-	-	-
N Utilised provisions	-	-	-	-	-	-
O COVID-19	-	-	-	-	-	-
Total voted	20,109	2	-	2	20,107	1
Non-voted:						
P Personal tax credits[1]	-	166,679	(166,679)	-	-	-
Q Other reliefs and allowances	-	-	-	-	-	-
Total non-voted	-	166,679	(166,679)	-	-	-
Total spending in Annually Managed Expenditure	**20,109**	**166,681**	**(166,679)**	**2**	**20,107**	**1**
Total voted	771,287	805,500	(80,381)	725,119	46,168	556,401
Total non-voted	-	166,679	(166,679)	-	-	-
Total	**771,287**	**972,179**	**(247,060)**	**725,119**	**46,168**	**556,401**

Figures in the areas outlined in thick line are the amounts that comprise the Group's consolidation position but have been separately identified in alignment with the Estimate and Internal Governance.

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 34: Reconciliation of net resource outturn to net operating expenditure

		Reference	2023-24 £000 Outturn	2022-23 £000 Outturn
Statement of Parliamentary Supply: Total resource outturn				
Departmental Expenditure Limit		SOPS 1.1	6,501,736	6,328,621
Annually Managed Expenditure		SOPS 1.1	33,274,461	33,930,249
			39,776,197	**40,258,870**
Excluded from SOPS total resource outturn:				
Expenditure:	Transfer of personal tax credits receivables to DWP		166,679	146,843
	Expenditure meeting ESA10 R&D Criteria		2,057	-
	Child Benefit (Child Trust Fund)	SOPS 1.2	2	1
	Non-current asset costs outside of budgeting		5,287	7,366
Income:	Grant capital income and non-current assets received.		(49,292)	(488)
	Payable to the Consolidated Fund	SOPS 4	(850)	(268)
			123,883	**153,454**
Excluded from Consolidated Statement of Comprehensive Net Expenditure (CSoCNE) net operating expenditure:				
Expenditure:	Service concession arrangements liability repayment		(6,877)	(8,396)
			(6,877)	**(8,396)**
Consolidated Statement of Comprehensive Net Expenditure: Net operating expenditure		Page 214	**39,893,203**	**40,403,928**

Explanation of reconciling items

Transfer of personal tax credits receivables to Department for Work and Pensions (DWP)

The receivable balance relating to customers who have made a valid claim to Universal Credit, now administered by DWP.

Expenditure meeting ESA10 R&D Criteria

This represents expenditure that does not meet the criteria for capitalisation under IFRS but satisfies the ESA10 definition of R&D and is therefore treated as expenditure in the Statement of Comprehensive Net Expenditure, but as capital within budgets.

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.

Grant capital income and non-current assets received

The value of a non-current asset received from Department of Transport by way of a Capital Grant in Kind. This relates to the provision of a unified shared service across HMRC, Department for Transport and Department for Levelling Up, Housing & Communities.

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 35: 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	43,253,483	39,776,197	3,477,286
Capital outturn	1.2	771,287	725,119	46,168
Remove arm's length bodies resource and capital		-	-	-
Accruals to cash adjustments:				
Remove non-cash items:				
Depreciation and amortisation		(701,297)	(530,655)	(170,642)
New provisions and adjustments to existing provisions		(22,000)	14,252	(36,252)
Prior period adjustments		(200,000)	-	(200,000)
Other non-cash items		-	(33,763)	33,763
Reflect movement in working balances:				
Increase/(decrease) in inventories		-	537	(537)
Increase/(decrease) in receivables		162,391	83,443	78,948
(Increase)/decrease in payables		414,302	(9,765)	424,067
Use of provisions		20,000	14,730	5,270
Other adjustments:				
Remove non-voted budget items:				
Funded outside the vote		(22,265,528)	(19,637,718)	(2,627,810)
Lease liability repayment		–	191,014	(191,014)
Other		–	34,932	(34,932)
Net cash requirement		**21,432,638**	**20,628,323**	**804,315**

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 36: Analysis of income payable to the Consolidated Fund

		Outturn 2023-24 £000		**Outturn 2022-23 £000**	
	Reference	**Accruals**	**Cash basis**	**Accruals**	**Cash basis**
Income outside the ambit of the Estimate	SOPS 2	850	850	268	268
[Excess] cash surrenderable to the Consolidated Fund		-	-	-	-
Total amount payable to the Consolidated Fund	Page 218 (in CSoCiTE)	**850**	**850**	**268**	**268**

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 185 to 211.

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 202.

Losses statement[1]

Losses are made up of remissions and write-offs. Remissions are generated by 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 37: Losses statement

				2023-24				2022-23
	Core department and agency		Departmental group		Core department and agency		Departmental group	
	cases	£m	cases	£m	cases	£m	cases	£m
COVID Schemes								
Self Employed Income Support Scheme	-	-	-	-	1	-	1	-
Personal tax credits remissions and write-offs[2, 3]	619,591	352.6	619,591	352.6	597,947	181.3	597,947	181.3
Child Benefit remissions and write-offs	49,975	8.7	49,975	8.7	40,729	8.6	40,729	8.6
Exchange rate losses[4]	21	-	21	-	29	0.1	29	0.1
Others[4]	363	-	363	-	253	(0.9)	253	(0.9)
Total	**669,950**	**361.3**	**669,950**	**361.3**	**638,959**	**189.1**	**638,959**	**189.1**

In 2023 to 2024 £352.6 million of personal tax credit debt was remitted/written off as it was uncollectable (2022 to 2023 £181.3 million). For further information see the Resource Accounts on pages 234 to 237 (notes 4.1.1 and 4.1.2).

In 2023 to 2024 the department wrote off £8.7 million of Child Benefit debt that was uncollectable (2022 to 2023 £8.6 million).

There were no individual cases of more than £300,000.

1 This section has been subject to external audit.

2 Personal tax credits remissions and write-offs were previously reported on separate lines, comparatives have been combined.

3 The significant increase in personal tax credits remissions and write offs is due to a bulk write off exercise undertaken during 2023 to 2024.

4 The monetary sum of these cases in 2023 to 2024 is immaterial.

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 38: Special payments

				2023-24				2022-23
	Core department and agency		Departmental group		Core department and agency		Departmental group	
	cases	£m	cases	£m	cases	£m	cases	£m
Payments and accruals[2]	16,656	3.2	16,656	3.2	18,519	4.4	18,519	4.4

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 2023 to 2024, we made 6 payments totalling £63,750 (2022 to 2023 10 payments totalling £348,090) in respect of severance cases. The highest payment was £23,000 (2022 to 2023 £196,000) and the lowest payment was £3,000 (2022 to 2023 £590). The median payment was £9,375 (2022 to 2023 £16,750).

There were no individual cases of more than £300,000.

1 This section has been subject to external audit.

2 The number of cases in the comparative for 2022 to 2023 has been updated from that published.

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 £198.8 million and as this figure is not material to the accounts the department has not published a separate income note.

Table 39: Analysis of income where full cost exceeds £10 million

			2023-24 £m			**2022-23 £m**
	Income	**Full cost**	**Surplus/ (deficit)**	**Income**	**Full cost**	**Surplus/ (deficit)**
Fees and charges raised by the Valuation Office Agency (VOA)						
District valuer services	23.2	20.9	2.3	17.1	16.7	0.4
Business rates and Council Tax	17.1	16.1	1.0	12.8	12.5	0.3
Fees and charges raised by the core department						
Memorandum of Terms of Occupation (MoTO)[2]	46.7	46.7	-	38.6	38.6	-
National Minimum Wage	30.6	30.6	-	27.8	27.8	-
Economic Crime Supervision[3]	23.5	28.0	(4.5)	26.9	26.6	0.3
UK Border Agency	11.5	11.5	-	11.5	11.5	-
30 hour childcare services[4]	13.9	13.9	-	11.7	9.5	2.2
Total	**166.5**	**167.7**	**(1.2)**	**146.4**	**143.2**	**3.2**

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. The comparatives have been restated to remove the transactions between bodies within the departmental group.

3 This was formerly called Anti-Money Laundering Service.

4 This was formerly called Tax-Free Childcare. Previously the amounts were less than £10 million and were therefore not published.

Remote contingent liabilities

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 40: Indemnities

	1 April 2023	Increase in year	Liabilities crystallised in year	Obligation expired in year	31 March 2024	Amount reported to Parliament by departmental minute
	£m	£m	£m	£m	£m	£m
Indemnities	56.3	12.3	-	(34.8)	33.8	-

Managing Public Money requires that the full potential costs of indemnified contracts be reported to Parliament.

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 vs amount disclosed in Resource Accounts, £000)
Legal claims	145,000	129,200	15,800
Guaranteed costs	700	700	-
Other	118,400	126,600	(8,200)
Valuation Office Agency	620	720	100

Unquantifiable Contingent Liabilities: The department has no unquantifiable Contingent Liabilities

Sir Jim Harra KCB
Accounting Officer

26 July 2024

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 the HM Revenue & Customs (referred to as HMRC) Trust Statement for the year ended 31 March 2024 under the Exchequer and Audit Departments Act 1921.

The financial statements comprise HMRC Trust Statement's:

- Statement of Financial Position as at 31 March 2024;
- 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 the HMRC Trust Statement's affairs as at 31 March 2024 and its 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 Bodies 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 HMRC 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 HMRC's use of the going concern basis in respect of its Trust Statement 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 HMRC'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 Principal Accounting Officer with respect to going concern are described in the relevant sections of this report.

The going concern basis of accounting for the HMRC 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. The key audit matters are included in the table below.

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 the potential for management override of controls, the migration of certain IT systems to the cloud by HMRC as part of its 'Securing our Technical Future' programme, or payments due to the Consolidated Fund as these 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 several new and legacy IT systems supporting a wide range of taxes. Due to HMRC's 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 general IT controls including change management, access management, computer operations and systems development
Examined 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
Identified relevant controls and tested the supporting IT general controls for the application(s) involved (around access, change and operations)
Tested the 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 rebuttable significant risk of material misstatement due to fraud in revenue recognition. HMRC's Trust Statement reports £843.4 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. These account for £144.3 billion of total revenue generated.

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 streams is 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.
- Reviewing the quality assurance processes, performed by HMRC's analyst and finance functions, where these are designed to provide assurance over the production of significant estimates.
- 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 the 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 2023-24 accounts is £14.1 billion (2022-23 £10.1 billion) of which £8.9 billion (2022-23 £6.3 billion) related to CT ARR estimate with the remainder relating to postponed adjustments. The SA ARR balance reported in the 2023-24 accounts is £31.4 billion (2022-23 £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 for SA and late payments and overpayments 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 included confirming that the scope of their work is appropriate and sufficient for the purposes relied upon by management. • Challenging management's assessment of estimation uncertainty • Reviewing the accounts 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 £5.7 billion at 31 March 2024 (£4.5 billion at 31 March 2023).

The provision is inherently uncertain in that it is required to forecast the future costs and profitability of the oil and gas sector, alongside other key assumptions such as 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 2067; the complex coding required in arriving at the model outputs, the current volatility of oil and gas prices 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. • Reviewing and 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 confirming 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 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.

- Challenging management's assessment of estimation uncertainty.
- Reviewing the accounts 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 £148.8 billion (£130.3 billion in 2022-23). The two largest components of repayments are VAT £112.2 billion (£107.2 billion 2022-23) and income tax £17.9 billion (£15.6 billion 2022-23). For both VAT and income tax, HMRC used TRUCE (the Transaction Risking Upstream in a Connect Environment) to identify and stop repayments that may require investigation. From August 2023, HMRC replaced TRUCE with IDRS (the Investigation and Detection Risking Service) for VAT repayments.

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', although they are likely to be immaterial in aggregate.

My risk assessment has 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 my work was 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 and IDRS), including the design, implementation, and operating effectiveness of key controls with the support of my IT audit specialists. • Underlying testing and authorisation documentation for risk rules and scorecards, as well as review of TRUCE and IDRS performance. • The governance arrangements, including 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. My procedures relating to sample tests included consideration of potential payments made to parties that have been sanctioned by the UK. • Risk rules that are built into tax stream systems and assessment of 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. • 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 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 based on prior year collection statistics and revenue losses. The prevailing economic conditions have had a significant impact on businesses and individuals in 2023-24, which required HMRC to revisit and update its impairment methodology. As well as using prior year data, HMRC has 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 £43.0 billion at 31 March 2024 (£43.9 billion at 31 March 2023), £0.9 billion (2%) lower than the debt reported at 31 March 2023. 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 the 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 HMRC's financial statements as a whole as follows:

	Departmental group
Materiality	£8.4 billion
Basis for determining materiality	1% of revenue of £843 billion (2022-23 £814 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 2023-24 audit (2022-23: 75%). 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 £68.1 million. The unadjusted audit differences comprise of known differences which would decrease revenue by £109.8 million and extrapolated differences which would increase revenue by £41.7 million.

Audit scope

The scope of my audit was determined by obtaining an understanding of HMRC's 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 parts of the 'Our Accountability' part of the Annual Report subject to audit have been properly prepared in accordance with HM Treasury directions issued under the Exchequer and Audit Departments Act 1921;
- the information given in the 'Performance Overview', 'Performance Analysis' and 'Our Accountability' part of the Annual Report 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 HMRC 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' part of the Annual 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 have not been 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, 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 HMRC 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;
- preparing financial statements which give a true and fair view and are in accordance with HM Treasury directions issued under the Exchequer and Audit Departments Act 1921;
- preparing the annual report, in accordance with HM Treasury directions issued under the Exchequer and Audit Departments Act 1921; and
- assessing HMRC 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 the HMRC 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 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 HMRC's accounting policies.
- inquired of management, HMRC's head of internal audit and those charged with governance, including obtaining and reviewing supporting documentation relating to the HMRC's policies and procedures on:
    - 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 the HMRC's 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 2023
- inquired of management, HMRC's and those charged with governance whether:
    - they were aware of any instances of non-compliance with laws and regulations; and
    - they had knowledge of any actual, suspected, or alleged fraud,
- discussed with the engagement team and internal specialists on IT audit 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 HMRC for fraud and identified the greatest potential for fraud in the following areas: revenue recognition, posting of unusual journals, accounting for estimates and the regularity of revenue repayments. In common with all audits under ISAs (UK), I am required to perform specific procedures to respond to the risk of management override.

I obtained an understanding of HMRC's framework of authority and other legal and regulatory frameworks in which HMRC 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 HMRC. The key laws and regulations I considered in this context included Exchequer and Audit Departments Act 1921, Commissioners for Revenue and Customs Act 2005, Finance Act 2023, 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;
- I addressed the risk of fraud through management override of controls by testing the appropriateness of journal entries and other adjustments; assessing 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 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 revenue repayments to ensure that those repayments are regular and that, where relevant, HMRC has obtained licences from HM Treasury to allow it to collect tax revenue from entities which are sanctioned.

I communicated relevant identified laws and regulations and potential risks of fraud 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 certificate.

Other auditor's responsibilities

I am required to obtain sufficient appropriate audit evidence to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities 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 I identify during my audit.

Report

I have no observations to make on these financial statements.

Gareth Davies
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

26 July 2024

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 2024 under the Government Resources and Accounts Act 2000. 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 2023. The financial statements comprise: the Department's and the Departmental Group's:

- Statement of Financial Position as at 31 March 2024;
- Statement 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 Department and Departmental Group's 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 2024 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 2024 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 4.1.4 to the Resource Accounts records Corporation Tax research and development reliefs expenditure of £9.4 billion in 2023-24. 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 4.1.5 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 £0.6 billion (7.8% of related expenditure).

Error and fraud in Personal Tax Credits

Note 4.1.1 to the Resource Accounts records Personal Tax Credits expenditure of £7.3 billion in 2023-24. 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.

For 2023-24 the mid-point of the Department's estimates, which are based on the latest available data are:

- overpayments of £365 million (4.7% of forecast expenditure); and
- underpayments of £60 million (0.8% of forecast expenditure).

Error and fraud in Child Benefit

Note 2 to the Resource Accounts records Child Benefit expenditure of £12.5 billion in 2023-24. Where error and fraud results in overpayments, the transactions do not conform with the relevant primary legislation specifying entitlement and calculation criteria, and the expenditure is irregular. For 2023-24 the mid-point of the Department's estimates, which are based on the latest available data are £200 million (1.6% of related expenditure).

I consider the levels of error and fraud arising from overpayments and underpayments in these areas of expenditure to be material to my opinion on the accounts. I have, therefore, qualified my opinion on the regularity of expenditure in respect of Corporation Tax research and development reliefs, Personal Tax Credits and Child Benefit 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 R43 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 (UK) (ISAs UK), applicable law and Practice Note 10 *Audit of Financial Statements and Regularity of Public Sector Bodies 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 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	Government Resources and Accounts Act 2000, 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 Acts
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 of 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. The key audit matters are included in the table below.

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 development reliefs expenditure, Personal Tax Credits and Child Benefit expenditure, which are covered more fully on my report on pages R1 to R43 and not in the table below, I have determined that there are no other key audit matters to communicate in our 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 the potential for management override of controls, transactions with the Consolidated Fund or the migration of certain IT systems to the cloud by HM Revenue & Customs as part of its 'Securing our Technical Future' programme, as these are areas where my work has not identified any matters to report.

The key audit matters were discussed with the Audit and Risk Committee; their report on matters that they considered to be significant to the financial statements is set out in the Governance Statement.

In this year's report the only change to the identified risks compared to my prior year report is around the key audit matter on the Adoption of IFRS 16 (Leases). This has been derecognised due to HM Revenue & Customs being in the second year of implementation with a stable lease portfolio.

<table>
<tr><th colspan="2">Key audit matter 1 – IT systems that impact financial reporting</th></tr>
<tr><td colspan="2">Description of risk
HM Revenue & Customs' 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 HM Revenue & Customs' 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:
Tested General IT controls including change management, access management, computer operations and systems development.
Examined 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
Identified relevant controls and tested supporting IT general controls for the application(s) involved (around access, change and operations)
Tested IT interfaces for significant benefits such as tax credits, child benefit and corporation tax R&D reliefs
Key observations
I am satisfied that HM Revenue & Customs' overall IT control environment appropriately supports the financial reporting process.</td></tr>
</table>

Key audit matter 2 – Estimate of Corporation Tax research and development reliefs expenditure

Description of risk

This risk relates solely to my true and fair opinion, the basis for my qualification on regularity related to Corporation Tax research and development expenditure is explained more fully in my report on pages R1 to R43 and the *Basis for qualified opinion on regularity* section above.

Corporation Tax research and development reliefs expenditure and liabilities are calculated using a model produced by HM Revenue & Customs' 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 £9.4 billion in 2023-24, 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 of at least two years between the expenditure for which relief is being claimed and the filing of the Corporation Tax claim in relation to that expenditure. HM Revenue & Customs has set out the method used to develop the estimate in note 4.1.4 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. • I engaged my own experts in modelling to support my work in evaluating the methodology, logical integrity and assumptions applied in the estimates performed by management. • I re-performed the calculation using an auditor generated model and confirmed that the output is materially consistent with the figure disclosed by HM Revenue & Customs. • I engaged my IT auditors to agree significant input data streams to source records and examined the code used to extract the data from HM Revenue & Customs' 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.

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	Core Department
Materiality	£402,000,000	£400,000,000
Basis for determining materiality	1% of gross expenditure of £40.3 billion (2022-23: £40.7 billion)	1% of gross expenditure of £40.0 billion (2022-23: £40.5 billion)
Rationale for the benchmark applied	HM Revenue & Customs 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. I therefore consider that expenditure is likely to be of greatest interest to users of the accounts and is a suitable basis on which to calculate materiality.	

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 of the financial statements as a whole. Group performance materiality was set at 75% of Group materiality for the 2023-24 audit (2022-23: 50%). In determining performance materiality, we have considered the uncorrected misstatements identified in the previous period. The increase in performance materiality is directly linked to the reduced level of uncorrected misstatements 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 my audit work to support my opinion on regularity and in 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 £300,000, as well as differences below this threshold that in my view warranted reporting on qualitative grounds. I also report to the Audit 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 net expenditure and increased net assets by £57.2 million. The unadjusted audit differences comprise of known errors which would have increased expenditure and decreased net assets by £42.1 million and extrapolated differences which would have decreased expenditure and increased net assets by £99.3 million.

Audit scope

The scope of my Group audit was determined by obtaining an understanding of the Department and its 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 substantially all of the Group's gross expenditure, assets and liabilities through the audit of the Core Department. The Valuation Office Agency (VOA) is an Executive Agency of the Department and is the only other component of the Departmental Group. I examined the consolidation data for the VOA to confirm that the results are correctly reported in the Department's consolidated financial statements. I also liaise with the auditors of VOA to consider any risks arising in those component audits and their impact on the Group as a whole.

This work, together with the procedures performed at a 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 the information included in the Annual Report, but does not include the financial statements and 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 Remuneration and Staff Report to be audited has been properly prepared in accordance with HM Treasury directions issued 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 issued under the Government Resources and Accounts Act 2000;
- 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 have not been 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, 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;
- preparing financial statements which give a true and fair view and are in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000;
- preparing the annual report, which includes the Remuneration and Staff Report, in accordance with HM Treasury directions issued 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 on:
    - o identifying, evaluating and complying with laws and regulations;
    - o detecting and responding to the risks of fraud; 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 2023; 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 and the relevant internal specialists, 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 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 and 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 Government Resources and Accounts Act 2000, Managing Public Money, Supply and Appropriation (Main Estimates) Act 2023, employment legislation and relevant tax legislation, including the Corporation Tax Act 2010, Tax Credits Act 2002 and Child Benefit Act 2005.

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 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;

- I addressed the risk of fraud through management override of controls by testing the appropriateness of journal entries and other adjustments; assessing 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 communicated relevant identified laws and regulations and potential risks of fraud 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 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 sufficient appropriate audit evidence to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities 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 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.

I have no observations to make on these financial statements.

Error and fraud in Corporation Tax research and development reliefs, Personal Tax Credits and Child Benefit

I have prepared a Report on HM Revenue & Customs' 2023-24 Accounts, under Section 2 of the Exchequer and Audit Departments Act 1921, on pages R1 to R43. This includes further information on the qualification of my audit opinion on the regularity of Corporation Tax research and development reliefs, Personal Tax Credits and Child Benefit expenditure:

- Corporation Tax research and development reliefs – paragraphs 2.1 to 2.21 on pages R27 to R33.
- Personal Tax Credits – paragraphs 3.1 to 3.14 on pages R34 to R37.
- Child Benefit – paragraphs 3.15 to 3.27 on pages R37 to R41.

Gareth Davies
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

26 July 2024

Trust Statement

Statement of Revenue, Other Income and Expenditure

For the year ended 31 March	Note	2024 £bn	2023 £bn
Taxes and duties			
Income Tax	2.1	286.2	258.0
Value Added Tax	2.2	165.5	166.9
Corporation Tax	2.3	89.6	80.5
Hydrocarbon oils duties	2.4	24.9	25.0
Stamp taxes	2.5	15.0	19.0
Capital Gains Tax	2.6	14.3	17.0
Alcohol duties	2.7	12.5	12.3
Tobacco duties	2.8	9.0	9.4
Other taxes and duties	2.9	42.4	43.8
Total taxes and duties		**659.4**	**631.9**
Other revenue and income			
National Insurance Contributions	3.1	177.0	175.8
Student Loan recoveries	3.2	4.4	4.0
Fines and penalties	3.3	2.6	2.3
Total other revenue and income		**184.0**	**182.1**
Total revenue		**843.4**	**814.0**
Less expenditure			
Impairment in-year expenditure	4.3	(9.1)	(4.4)
Revenue losses	4.4	(5.6)	(3.8)
Provisions in-year expenditure	6.1	(1.7)	5.5
Total expenditure		**(16.4)**	**(2.7)**
Less disbursements			
National Insurance Contributions paid and payable to the National Insurance Funds and National Health Services	3.1	(174.9)	(174.8)
Appropriation of revenue to Resource Account	3.4	(19.1)	(21.1)
Student Loan recoveries paid and payable to the Department for Education	3.2	(4.4)	(4.0)
Taxation paid to the Isle of Man	3.5	(0.3)	(0.3)
Total disbursements		**(198.7)**	**(200.2)**
Total expenditure and disbursements		**(215.1)**	**(202.9)**
Net revenue for the Consolidated Fund		**628.3**	**611.1**

There were no recognised gains or losses accounted for outside the above Statement of Revenue, Other Income and Expenditure.

The notes at pages 188 to 211 form part of this statement.

Statement of Financial Position

As at 31 March	Note	2024 £bn	2023 £bn
Non-current assets			
Receivables falling due after one year	4	1.2	2.1
Current assets			
Receivables	4	32.0	38.7
Accrued revenue receivable	4	144.3	131.1
Total current assets		**176.3**	**169.8**
Total assets		**177.5**	**171.9**
Current liabilities			
Payables	5	(27.2)	(25.8)
Accrued revenue payable	5	(48.4)	(45.6)
Deferred revenue	5	(3.6)	(2.9)
Cash and cash equivalents	5	(1.1)	(1.4)
Total current liabilities		**(80.3)**	**(75.7)**
Assets less current liabilities		**97.2**	**96.2**
Non-current liabilities			
Provision for liabilities	6	(8.3)	(7.5)
Total assets less total liabilities		**88.9**	**88.7**
Balance due to/(due from) on Consolidated Fund account	7	**88.9**	**88.7**

Sir Jim Harra KCB
Accounting Officer

26 July 2024

The notes at pages 188 to 211 form part of this statement.

Statement of Cash Flows

For the year ended 31 March	2024 £bn	2023 £bn
Net revenue for the Consolidated Fund	628.3	611.1
(Increase) / decrease in non-cash assets	(5.6)	(14.4)
Increase / (decrease) in non-cash current liabilities	4.9	4.6
Increase / (decrease) in provision for liabilities	0.8	(6.1)
Net cash flow from operating activities	**628.4**	**595.2**
Less: Cash paid to the Consolidated Fund	(628.1)	(595.0)
Increase/(decrease) in cash and cash equivalents in this period	**0.3**	**0.2**
Net funds as at 1 April (opening cash and cash equivalents balance)	(1.4)	(1.6)
Net funds as at 31 March (closing cash and cash equivalents balance)	**(1.1)**	**(1.4)**

Notes to the Trust Statement

Notes to the financial statements provide additional information required by statute and accounting standards to explain a particular feature of the financial statements. The notes 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 2023 to 2024 Financial Reporting Manual (FReM) issued by HM Treasury
- International Financial Reporting Standards (IFRS) adapted or interpreted for the public sector context
- 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 2023 to 2024. These policies have been applied consistently in dealing with items considered material in relation to the accounts.

The Trust Statement is prepared on a going concern basis.

The financial information presented is rounded to the nearest £0.1 billion, except for taxation due to the Isle of Man (note 3.5), revenue losses (note 4.4), 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
- Inheritance Tax – note 2.9

As agreed with HM Treasury the following elements and some repayments are accounted for on a cash basis:

- VAT Import One Stop Shop (IOSS) – VAT return information reported via IOSS is not available at the time of producing the accounts so this is recognised on a cash basis
- Stamp Duty – note 2.5

- National Insurance classes 1A and 1B – note 3.1
- Student Loans – note 3.2
- 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 Payments) 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 revenue and keeping the tax gap low (page 16).

2. Accounting policies and analysis

2.1 Income Tax

For the year ended 31 March	2024 £bn	2023 £bn
Pay As You Earn and other Income Tax	236.2	209.8
Self Assessment	49.4	47.7
Simple Assessment	0.6	0.5
Total	**286.2**	**258.0**

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.

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	2024 £bn	2023 £bn
Gross revenue	277.7	274.1
Less: revenue repayable	(112.2)	(107.2)
Net revenue	**165.5**	**166.9**

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.

Net revenue was negatively impacted in 2023 to 2024 by £2.4 billion due to the net accrued revenue actuals being lower than estimated and a £1.0 billion adjustment for suspended debt.

2.3 Corporation Tax

For the year ended 31 March	2024 £bn	2023 £bn
Total	**89.6**	**80.5**

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, £11.7 billion (£12.2 billion in 2022 to 2023) was recorded in the Trust Statement as revenue received and as a disbursement from the Trust Statement to the Resource Accounts to fund the CTR expenditure reported in the Resource Accounts. For further information see note 4.1.4 in the Resource Accounts.

2.4 Hydrocarbon oils duties

For the year ended 31 March	2024 £bn	2023 £bn
Total	**24.9**	**25.0**

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	2024 £bn	2023 £bn
Stamp Duty Land Tax	11.7	15.2
Stamp Duty Reserve Tax	2.3	2.5
Stamp Duty	0.9	1.2
Annual Tax on Enveloped Dwellings	0.1	0.1
Total	**15.0**	**19.0**

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	2024 £bn	2023 £bn
Total	**14.3**	**17.0**

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	2024 £bn	2023 £bn
Wine, cider and perry	4.8	4.7
Spirits	4.1	4.1
Beer	3.6	3.5
Total	**12.5**	**12.3**

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	2024 £bn	2023 £bn
Cigarettes	6.7	7.1
Hand-rolling tobacco	2.1	2.1
Cigars	0.2	0.1
Tobacco for heating and other	-	0.1
Total	**9.0**	**9.4**

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	2024 £bn	2023 £bn
Insurance Premium Tax		8.1	7.6
Inheritance Tax		7.4	7.1
Customs duties		4.5	5.8
Apprenticeship Levy		3.9	3.6
Air Passenger Duty		3.9	3.3
Betting and Gaming duties		3.4	3.4
Energy Profits Levy	2.9.1	2.5	4.6
Electricity Generator Levy	2.9.2	1.8	-
Bank Surcharge		1.6	2.7
Climate Change Levy		1.6	2.1
Bank Levy		1.3	1.1
Digital Services Tax		0.7	0.6
Landfill Tax		0.5	0.6
Soft Drinks Industry Levy		0.4	0.4
Aggregates Levy		0.4	0.4
Plastic Packaging Tax		0.3	0.3
Residential Property Developer Tax		0.1	0.2
Diverted Profits Tax		0.1	-
Petroleum Revenue Tax	2.9.3	(0.1)	-
Total		**42.4**	**43.8**

Details of taxes and duties are shown below where:

- taxes are reported in the Trust Statement for the first time
- accounting adjustments have impacted net revenue, and
- negative net revenue is reported

2.9.1 Energy Profits Levy

Energy Profits Levy (EPL) was introduced in May 2022 in response to the exceptional profits of oil and gas companies operating in the UK and on the UK Continental Shelf. Profit levels in the sector had increased due to the rise in oil and gas prices.

A large proportion of EPL revenue relates to an accrued revenue receivable estimate that contains an assumption of oil and gas prices for the following year. The 2022 to 2023 estimate was overstated due to a 35.5% drop in the gas price assumption, impacting 2023 to 2024 net revenue by £0.6 billion.

2.9.2 Electricity Generator Levy

The Electricity Generator Levy (EGL) is a temporary charge on exceptional receipts exceeding £10 million in an accounting period generated from the production of wholesale electricity. The levy is effective from 1 January 2023 to 31 March 2028. The taxable event for EGL is the earning of exceptional receipts during the taxation period by the taxpayer.

No revenue was recorded in 2022 to 2023 as Royal Assent authorising the legislation was granted after the reporting date.

2.9.3 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 fields liable to PRT) 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	2024 £bn	2023 £bn
National Insurance Fund Great Britain (NIF GB)	139.4	129.8
National Insurance Fund Northern Ireland (NIF NI)	3.0	2.8
National Health Services (NHS)	34.6	43.2
Total National Insurance Contributions (NICs)	**177.0**	**175.8**
Less: NIC expenditure	(2.1)	(1.0)
NICs due to NIF and NHS	**174.9**	**174.8**

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 Student Loan recoveries

For the year ended 31 March	2024 £bn	2023 £bn
Student Loan recoveries	4.4	4.0
Student Loan recoveries paid and payable to the Department for Education	(4.4)	(4.0)
Net revenue	**-**	**-**

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).

3.3 Fines and penalties

For the year ended 31 March	2024 £bn	2023 £bn
Fines and penalties	2.6	2.3

This consists of income arising from the levying of tax fines and penalties. Penalties relating to NICs are accounted for as NIC income and paid over to the National Insurance Fund.

3.4 Appropriation of revenue to the Resource Accounts

For the year ended 31 March	2024 £bn	2023 £bn
Corporation tax reliefs	11.7	12.2
Personal tax credits	7.4	8.9
Total appropriation of revenue to Resource Accounts	**19.1**	**21.1**

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 4.1.1 and 4.1.4 respectively, on page 234 and page 238 in the Resource Accounts.

For further reference to the disbursement, see the Consolidated Statement of Changes in Taxpayers' Equity, page 218 in the Resource Accounts.

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 2024 net payments to the IoM totalled £295 million (£304 million net payments for the period 1 April 2022 to 31 March 2023).

4. Receivables, accrued revenue receivable, impairment and losses

	As at 31 March 2024			As at 31 March 2023		
	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	2.2	-	2.2	2.1	-	2.1
Non-current assets before impairment	**2.2**	**-**	**2.2**	**2.1**	**-**	**2.1**
Less impairment (note 4.3)	(1.0)	-	(1.0)	-	-	-
Total non-current assets after impairment	**1.2**	**-**	**1.2**	**2.1**	**-**	**2.1**
Current assets						
Receivables and ARR due within one year:						
Income Tax	12.6	58.4	71.0	11.9	48.7	60.6
Value Added Tax	18.3	46.1	64.4	20.9	46.2	67.1
Corporation Tax	6.7	14.1	20.8	6.2	10.1	16.3
National Insurance Contributions	7.1	18.6	25.7	6.9	17.4	24.3
Other taxes and duties	13.9	9.3	23.2	12.0	10.2	22.2
Current assets before impairment	**58.6**	**146.5**	**205.1**	**57.9**	**132.6**	**190.5**
Less impairment (note 4.3)	(26.6)	(2.2)	(28.8)	(19.2)	(1.5)	(20.7)
Total current assets after impairment	**32.0**	**144.3**	**176.3**	**38.7**	**131.1**	**169.8**
Total assets before impairment	**60.8**	**146.5**	**207.3**	**60.0**	**132.6**	**192.6**
Less impairment (note 4.3)	(27.6)	(2.2)	(29.8)	(19.2)	(1.5)	(20.7)
Total assets after impairment	**33.2**	**144.3**	**177.5**	**40.8**	**131.1**	**171.9**

4.1 Receivables

Receivables represent all taxpayer liabilities that have been established, 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 25).

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), HMRC 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 2024 Budget and the Economic and Fiscal Outlook published by the Office for Budget Responsibility (OBR) in March 2024.

These estimates have been prepared using the judgement of professional departmental economists and statisticians.

4.2.1 Uncertainty around the ARR estimates

Conclusions around estimation uncertainty are based on evidence from the performance of our estimation models over previous years, changes to reflect the March 2024 Budget and the Economic and Fiscal Outlook published by the OBR in March 2024.

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 £0.7 billion (0.1% of 2022 to 2023 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 £31.4 billion this year (£25.3 billion in 2022 to 2023), which is included in the total Income Tax ARR of £58.4 billion (£48.7 billion in 2022 to 2023) in note 4.

The SA regime involves long filing and payment lags, so the ARR estimate is based on forecast liabilities as the corresponding SA returns for 2023 to 2024 are not due until 31 January 2025.

The SA ARR estimate is the total of the forecast liabilities for 2023 to 2024 less:

i) any payments already received by 31 March 2024, and

ii) Unpaid Payment on Account 1 liabilities relating to 2023 to 2024.

The estimate is driven by the March 2024 Budget forecast and the underlying economic determinants are based on the OBR central forecast rather than by receipts data.

There are several key economic factors that underpin these estimates and are the main contributors to the increase in the ARR estimate for 2023 to 2024. These include self-employed income growth, dividend income growth and Average Effective Tax Rates (AETR).

Sensitivity analysis has been produced to demonstrate the impact of changes to key assumptions used in the current estimate, and the results of those considered high-risk are shown in the table below.

Based on historic data, likely changes in key assumptions are not expected 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
AETR on NSND income of mainly SA individuals[1] (+/-0.6%)	1.8	(1.8)
Self-employed income growth (+/-6%)	1.6	(1.6)
Dividend AETR of mainly SA individuals[1] (+/-3%)	0.9	(0.9)
NSND SA liability of mainly PAYE individuals[2] (+/-43%)	0.8	(0.8)
Deduction rate on PAYE income of mainly SA individuals[1] (+/-0.55%)	(0.6)	0.6

1 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

2 Mainly PAYE individuals are those within SA whose NSND income is entirely from PAYE sources (employment/pension)

4.2.3 Corporation Tax

Corporation Tax (CT) ARR is £14.1 billion (£10.1 billion in 2022 to 2023) which includes an estimated amount of £8.9 billion (£6.3 billion in 2022 to 2023).

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 £3.1 billion (£2.3 billion in 2022 to 2023) 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 2023 to 2024 but are not available at the point of estimation. Separate ARR estimates have been calculated for onshore and North Sea oil and gas (offshore) 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 and very large onshore companies is paid in 4 Quarterly Instalment Payments (QIPs). CT ARR has been estimated where between one and four QIPs 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 2024 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 oil and gas 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 to liabilities 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 2024 North Sea taxes forecast which shows a decrease in receipts from last year as a result of energy prices continuing to fall back from their highs in 2022 following Russia's invasion of Ukraine. This is a contributing factor to the decrease in the ARR estimate for North Sea companies from 2022 to 2023.

Impact on CT ARR of varying key economic factors

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.

Key Assumption (percentage point change)	Increase £bn	Decrease £bn
CT liability growth (+/-10% points)	0.4	(0.4)
Late payments (+/-1% point)	0.2	(0.2)
Overpayments (+/-1% point)	(0.3)	0.3
Proportion of companies' CT liabilities paid with in-year QIPs (+/-1% point)	(0.4)	0.6

4.2.4 Value Added Tax

Value Added Tax (VAT) ARR is £46.1 billion (£46.2 billion in 2022 to 2023). 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 2023 to 2024 is £5.9 billion representing 2% of total VAT gross revenue. If this proportion increased (decreased) by 0.5% points the impact on revenue would be +/(-) £1.4 billion.

4.3 Impairment of receivables and accrued revenue receivable

	As at 31 March 2024			As at 31 March 2023
	Impairment of receivables	Impairment of accrued revenue receivable	Total	Total
	£bn	£bn	£bn	£bn
Balance as at 1 April	19.2	1.5	20.7	16.3
Impairment in-year expenditure	8.4	0.7	9.1	4.4
Balance as at 31 March	**27.6**	**2.2**	**29.8**	**20.7**

Receivables and accrued revenue receivable (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, debt and ARR collection rates.

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 simplified 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 current debt recovery rates, accepting that the non-payment risk associated with tax debt increases with age.

HMRC has reviewed a number of scenarios and determined that current period recovery rates are reasonable in estimating future recoveries.

HMRC has improved the accuracy of the impairment estimate by individually impairing receivables considered unlikely to be collectable by 100%, and by expanding the age categories to include receivables where collection is currently deferred. These receivables were impaired at a lower rate in 2022 to 2023 whereas this year we found that the 100% rate better reflects the likelihood of collection. This is to be taken into consideration when comparing to previous reporting periods.

Receivables that are unlikely to be collected will be reported as revenue losses once the outstanding charges are formally closed and no longer reported in the receivables balance.

The table below provides an age breakdown of the current scenario:

Age	Gross balance £bn	Impairment rate %	Impairment £bn
Not impaired[1]	2.2	0.0	0.0
Accrued revenue receivable	146.5	1.5	2.2
Receivables not overdue	6.8	5.0	0.4
Receivables less than 1 year overdue	24.4	23.0	5.6
Receivables 1 to 2 years overdue	8.5	54.0	4.6
Receivables more than 2 years overdue	12.2	85.0	10.4
Debts considered unlikely to be collectable	6.7	100.0	6.7
Total	**207.3**	**14.4**	**29.9**

HMRC has reviewed the Bank of England's Monetary Policy report[2], published in May 2024, 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 rate (excluding ARR) is 45.4% in 2023 to 2024 (32% in 2022 to 2023). The increase is due to receivables unlikely to be collectable and an increase in receivables older than 12 months which attract a higher impairment rate.

The total impairment rate is 14.4% (10.6% in 2022 to 2023).

Sensitivity Analysis

HMRC recognises that future economic conditions remain uncertain and has produced sensitivity analysis to demonstrate the possible outcomes if the impairment scenario were to differ from the current scenario.

Potential impact on the impairment balance

Scenario	Change to Impairment £bn
Impairment rate increase 1%	2.1
Impairment rate decrease 1%	(2.1)

1 Items not impaired are predominantly receivables owed from the National Insurance Fund.
2 https://www.bankofengland.co.uk/monetary-policy-report/2024/may-2024

4.4 Revenue losses

For the year ended 31 March			2024			2023
	Remissions £m	Write-offs £m	Total £m	Remissions £m	Write-offs £m	Total £m
Income Tax	144	990	1,134	216	439	655
Value Added Tax	106	2,518	2,624	62	1,742	1,804
Corporation Tax	22	360	382	13	268	281
National Insurance Contributions	34	705	739	30	343	373
Fines and penalties	177	421	598	206	283	489
Other remissions and write-offs	84	55	139	69	79	148
Total revenue losses	**567**	**5,049**	**5,616**	**596**	**3,154**	**3,750**

Revenue losses are made up of remissions and write-offs. Remissions are debts capable of recovery, but HMRC has decided not to pursue the liability on the grounds of value for money. Write-offs are debts that are considered to be irrecoverable because there is no practical means for pursuing the liability. The vast majority of revenue losses are driven by individual and business insolvencies.

HMRC write off debt from the statement of financial position when a customer is formally declared insolvent. On 31 March 2024, HMRC had £4.1 billion of debt that may go into formal insolvency. Once in formal insolvency, on average the dividend payment HMRC eventually receives is 5 pence in the pound. In 2023 to 2024 we received £162 million in such dividend payments.

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.

Taxpayers can satisfy their inheritance tax with certain categories of property rather than cash. HMT set an annual limit of £40 million for the amount of tax that can be satisfied by acceptance in lieu. This is treated as a tax loss and is included in other remissions and write-offs, as no revenue will flow to the consolidated fund. For 2023 to 2024, tax satisfied by acceptance in lieu was £23 million.

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’, ‘Collecting debt’ (page 19)

Revenue losses - cases more than £10 million

For the year ended 31 March 2024, there were 31 cases (24 cases as at 31 March 2023) where the loss exceeded £10 million, totalling £1.2 billion (£833 million as at 31 March 2023). Details are shown below:

There were 28 write-offs (21 write-offs and one remission as at 31 March 2023) relating to Insolvency totalling £934 million (£579 million as at 31 March 2023).

There were no cases relating to Missing Trader Fraud (one write-off case of £38 million as at 31 March 2023).

There were 3 bulk remissions (1 case as at 31 March 2023) totalling £227 million (£216 million as at 31 March 2023). Details are shown below:

There was a bulk remission for Self Assessment penalties of £189 million (£216 million as at 31 March 2023), where it had been identified customers were no longer liable for SA or were no longer self-employed and had ceased to trade. HMRC decided not to pursue on the grounds of value for money.

There was a one-off remission of £15 million due to an official error in the transfer of funds relating to Anti-Money Laundering Supervision income from the Trust Statement to the Resource Account.

5. Payables, accrued revenue payable, deferred revenue, and cash and cash equivalents

	As at 31 March 2024				As at 31 March 2023			
	Payables	Accrued revenue payable	Deferred revenue	Total	Payables	Accrued revenue payable	Deferred revenue	Total
	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Income Tax	5.2	1.3	-	6.5	4.5	1.1	-	5.6
Value Added Tax	1.6	21.4	-	23.0	1.5	19.5	-	21.0
Corporation Tax	13.7	4.7	0.2	18.6	11.7	3.5	0.2	15.4
National Insurance Contributions	0.8	20.8	-	21.6	1.0	21.3	-	22.3
Other taxes and duties	2.8	0.2	3.4	6.4	2.9	0.2	2.7	5.8
Payments on account	3.1	-	-	3.1	4.2	-	-	4.2
Current liabilities before cash and cash equivalents	**27.2**	**48.4**	**3.6**	**79.2**	**25.8**	**45.6**	**2.9**	**74.3**
Cash and cash equivalents	1.1	-	-	1.1	1.4	-	-	1.4
Total current liabilities	**28.3**	**48.4**	**3.6**	**80.3**	**27.2**	**45.6**	**2.9**	**75.7**

There are no liabilities in the table above which fall due after one year.

5.1 Payables

Payables are amounts due to customers by HMRC at the end of the reporting period, but for which 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 £4.3 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 £1.5 billion (0.2% of 2022 to 2023 total revenue).

5.3 Deferred revenue

Deferred revenue includes taxes and duties 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. The balance does not represent an overdraft position.

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.

Contingent liabilities relate to legal cases for which the outcome is uncertain or 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 2024 £bn	Total 2023 £bn
Balance as at 1 April	3.0	4.5	7.5	13.6
Provided in the year	0.1	1.8	1.9	1.2
Provision not required written back	(0.2)	-	(0.2)	(6.7)
Provision utilised in the year	(0.3)	(0.6)	(0.9)	(0.6)
Balance as at 31 March	**2.6**	**5.7**	**8.3**	**7.5**

Analysis of expected timing of cash flows

	Legal claims £bn	Oil and gas field decommissioning £bn	Total 2024 £bn
Amounts payable within 5 years	2.6	2.3	4.9
Amounts payable after 5 years	-	3.4	3.4
Balance as at 31 March	**2.6**	**5.7**	**8.3**

6.1 Provisions in-year expenditure

	Legal claims £bn	Oil and gas field decommissioning £bn	Total 2024 £bn	Total 2023 £bn
Total provided in the year	0.1	1.8	1.9	1.2
Provision not required written back	(0.2)	-	(0.2)	(6.7)
Net movement increase/(decrease)	**(0.1)**	**1.8**	**1.7**	**(5.5)**

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 2023 to 2024; 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 2024, HMRC has 8 cases estimated to have a value of £5.4 billion (compared to 8 cases with an estimated value of £4.1 billion as at 31 March 2023) 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 taxes and duties, 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 £5.7 billion has been reported in 2023 to 2024 based on the estimated tax repayments of PRT £2.1 billion (£1.3 billion in 2022 to 2023) and offshore CT £3.6 billion (£3.2 billion in 2022 to 2023) by HMRC to companies over the period to 2067 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) latest UKCS Stewardship Survey

- oil and gas prices, expenditure and production from the Office for Budget Responsibility (OBR), Department for Energy Security and Net Zero (DESNZ) and NSTA
- discount rates from HM Treasury
- the US Dollar/Sterling exchange rate from the OBR

There has been a £1.2 billion increase in the overall provision since last year. The main causes of the increase were lower oil and gas price assumptions, leading to lower company profits, therefore increasing the provision. This has been partially offset by higher discount rates and the utilisation of the provision for 2023 to 2024.

The provision utilised in-year is the tax repayments in 2023 to 2024 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 July 2024. A 10% increase in the decommissioning cost estimate would increase the provision to £6.1 billion. Similarly, a 10% reduction would decrease the provision to £5.4 billion.

A major economic determinant which drives the provision are oil and gas prices. The model has utilised DESNZ long-term projections. Compared to the baseline oil and gas price forecasts a 10% increase (decrease) would decrease (increase) the provision by approximately £0.4 billion (£0.5 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 £0.3 billion increase in the required provision.

7. Balance on Consolidated Fund Account

Movements on Consolidated Fund account

	2024 £bn	2023 £bn
Balance due to/(due from) Consolidated Fund as at 1 April	88.7	72.6
Net revenue for the Consolidated Fund	628.3	611.1
Less amount paid to Consolidated Fund	(628.1)	(595.0)
Balance due to/(due from) Consolidated Fund Account	**88.9**	**88.7**

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.

Since 23 November 2017, the CTD scheme has been closed for new purchases but existing certificates continued to be honoured up until 23 November 2023. The value redeemed for the year ended 31 March 2024 totalled £240 million (£142 million in 2022 to 2023).

9. R.N. Limited

R.N. Limited is a registered company that administers, on behalf of HMRC, the holding of charges securing tax debts owed to HMRC. These 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 (i.e. transactions of £0.1 million or more) 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 2023 to 2024 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 2023 to 2024 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 2023 to 2024 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 2023 to 2024

The provisional estimate of revenue raised in 2023 to 2024 from Scottish Income Tax is £17.3 billion and from Welsh rates of Income Tax it is £2.9 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 2023 to 2024 tax year, since the deadline for submitting SA returns online is not until 31 January 2025, 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 2021 to 2022. These are also adjusted to take account of the latest 2022 to 2023 Income Tax for the Scottish and Welsh final outturn data. This latter adjustment involves scaling each of the provisional estimates in 2023 to 2024 by the percentage difference between their 2022 to 2023 final outturn data and the underlying methodology’s estimates of 2022 to 2023 based on the HMRC Survey of Personal Incomes.

The underlying methodology estimated lower Scottish Income Tax receipts in 2022 to 2023 than the final outturn, therefore, the 2023 to 2024 provisional estimate has been scaled up by a proportionate amount. Conversely, the methodology estimated higher Welsh rates of Income Tax receipts for 2022 to 2023 than the final outturn and the 2023 to 2024 provisional estimate has been scaled down by a proportionate amount.

Further information on revenue for the tax year 2023 to 2024 that becomes available during 2024 to 2025 will allow refinement of these calculations. Updated figures will be disclosed in the 2024 to 2025 Trust Statement, allowing a final reconciliation for the 2023 to 2024 tax year.

12.4 Scottish and Welsh rates of Income Tax outturn for 2022 to 2023

Provisional estimates for Scottish Income Tax of £15.0 billion and £2.6 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 2022 to 2023 have been calculated as £15.2 billion for Scottish Income Tax and £2.6 billion for Welsh rates of Income Tax.

For full details on the 2022 to 2023 outturn please refer to the HMRC publications released on 11 July 2024 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 2024 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") 2023-24.
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 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.

Charlotte Goodrich

Deputy Director, Government Financial Reporting

His Majesty’s Treasury

14 December 2023

Resource Accounts

Consolidated Statement of Comprehensive Net Expenditure

for the year ended 31 March 2024

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

			2023-24		2022-23
		Core	£m	Core	£m
	Note	department and agency	Departmental group	department and agency	Departmental group
Cash items:					
Child Benefit		12,514.4	12,514.4	11,599.5	11,599.5
Corporation tax reliefs	4.1.4	12,049.1	12,049.1	12,556.4	12,556.4
Personal tax credits	4.1.1	7,305.5	7,305.5	8,835.0	8,835.0
Staff and related costs		3,551.6	3,551.6	3,343.2	3,356.3
Goods and services		1,545.2	1,545.2	1,535.3	1,518.3
Cost of Living Payment		760.0	760.0	717.9	717.9
Tax-Free Childcare		635.3	635.3	494.4	494.4
Lifetime ISA		499.1	499.1	436.8	436.8
Payments in lieu of tax relief and rates		262.6	262.6	76.1	76.1
Service charges		117.2	117.2	140.7	140.7
Help to Save		51.7	51.7	53.2	53.2
COVID-19 support schemes		(22.0)	(22.0)	(132.5)	(132.5)
Other cash expenditure		266.6	266.6	345.1	345.9
Non-cash items:					
Transfer of personal tax credit receivables to DWP		166.7	166.7	146.8	146.8
Amortisation	6	392.3	392.3	330.1	330.1
Depreciation	5, 7.1	147.4	147.4	151.2	151.2
Personal tax credit provisions	4.1.1, 12	1.7	1.7	-	-
Other provisions	12	(16.0)	(16.0)	21.0	21.0
Other		30.1	30.1	29.8	29.8
Total operating expenditure	2	**40,258.5**	**40,258.5**	**40,680.0**	**40,676.9**
Total operating income		**(365.3)**	**(365.3)**	**(276.1)**	**(273.0)**
Net operating expenditure		**39,893.2**	**39,893.2**	**40,403.9**	**40,403.9**
Net expenditure for the year		**39,893.2**	**39,893.2**	**40,403.9**	**40,403.9**
Other comprehensive net expenditure					
Items that will not be reclassified to net operating expenditure:					
Net loss/(gain) on:					
– revaluation of property, plant and equipment		(9.9)	(9.9)	(2.7)	(2.7)
– revaluation of intangible assets		(151.1)	(151.1)	(87.6)	(87.6)
– actuarial revaluation of pension scheme		(6.9)	(6.9)	2.1	2.1
Total comprehensive expenditure for the year		**39,725.3**	**39,725.3**	**40,315.7**	**40,315.7**

The notes on pages 219 to 264 form part of these accounts

Consolidated Statement of Financial Position

as at 31 March 2024

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

	Note	Core department and agency	Departmental group	Core department and agency	Departmental group
			2023-24 £m		2022-23 £m
Non-current assets:					
Intangible assets	6	2,859.4	2,859.4	2,405.4	2,405.4
Receivables	9	1,112.4	1,112.4	1,250.1	1,250.1
Right-of-use assets	7.1	989.4	989.4	1,028.4	1,028.4
Property, plant, and equipment	5	717.3	717.3	611.4	611.4
Pension Asset	13	8.5	8.5	1.7	1.7
Total non-current assets		**5,687.0**	**5,687.0**	**5,297.0**	**5,297.0**
Current assets:					
Trade and other receivables	9	1,092.7	1,092.7	1,037.1	1,036.7
Cash and cash equivalents	10	41.0	41.0	77.9	78.6
Inventories		2.9	2.9	2.2	2.2
Total current assets		**1,136.6**	**1,136.6**	**1,117.2**	**1,117.5**
Total assets		**6,823.6**	**6,823.6**	**6,414.2**	**6,414.5**
Current liabilities:					
Trade and other payables	11	(10,895.7)	(10,895.7)	(10,571.9)	(10,572.2)
Lease liabilities	7.2	(63.1)	(63.1)	(65.5)	(65.5)
Provisions	12	(22.3)	(22.3)	(26.0)	(26.0)
Total current liabilities		**(10,981.1)**	**(10,981.1)**	**(10,663.4)**	**(10,663.7)**
Total assets less current liabilities		**(4,157.5)**	**(4,157.5)**	**(4,249.2)**	**(4,249.2)**
Non-current liabilities:					
Trade and other payables	11	(1,881.5)	(1,881.5)	(1,845.6)	(1,845.6)
Lease liabilities	7.2	(1,181.5)	(1,181.5)	(1,345.8)	(1,345.8)
Provisions	12	(108.0)	(108.0)	(133.3)	(133.3)
Total non-current liabilities		**(3,171.0)**	**(3,171.0)**	**(3,324.7)**	**(3,324.7)**
Total assets less total liabilities		**(7,328.5)**	**(7,328.5)**	**(7,573.9)**	**(7,573.9)**
Taxpayers' equity and other reserves:					
General Fund		7,577.0	7,557.0	7,733.2	7,733.2
Revaluation reserve		(248.5)	(248.5)	(159.3)	(159.3)
Total equity		**7,328.5**	**7,328.5**	**7,573.9**	**7,573.9**

The notes on pages 219 to 264 form part of these accounts.

Sir Jim Harra KCB
Accounting Officer

26 July 2024

Consolidated Statement of Cash Flows

for the year ended 31 March 2024

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

			2023-24 £m		2022-23 £m
	Note	Core department and agency	Departmental group	Core department and agency	Departmental group
Cash flows from operating activities					
Net operating expenditure		(39,893.2)	(39,893.2)	(40,403.9)	(40,403.9)
Adjustments for non-cash transactions[1]		19,726.4	19,726.4	21,827.7	21,827.7
(Increase)/decrease in trade and other receivables	9	82.1	81.7	(95.1)	(101.1)
Less: Movements in receivables not passing through the Statement of Comprehensive Net Expenditure		(113.3)	(113.3)	117.6	117.6
Personal tax credits receivables, adjusted for impairment, transferred to DWP	4.1.2	(166.7)	(166.7)	(146.8)	(146.8)
(Increase)/decrease in inventories		(0.7)	(0.7)	(0.1)	(0.1)
Increase/(decrease) in trade and other payables	11	359.7	359.4	(4,271.1)	(4,269.6)
Capital element of receipts in respect of sub-leases		0.1	0.1	5.9	5.9
Less: Movements in payables not passing through the Statement of Comprehensive Net Expenditure		58.2	58.2	4,638.3	4,638.3
Use of provisions	12	(14.7)	(14.7)	(19.6)	(19.6)
Net cash outflow from operating activities		**(19,962.1)**	**(19,962.8)**	**(18,347.1)**	**(18,351.6)**
Cash flows from investing activities					
Additions to property, plant, and equipment	5	(70.2)	(70.2)	(65.0)	(64.9)
Less additions to leased property, plant, and equipment		-	-	3.1	3.1
Additions to intangible assets[2]	6	(675.7)	(675.7)	(580.0)	(580.0)
Less additions to leased intangible assets		5.9	5.9	-	-
Proceeds of disposal of property, plant, and equipment		0.5	0.5	0.2	0.6
Net cash outflow from investing activities		**(739.5)**	**(739.5)**	**(641.7)**	**(641.2)**
Cash flows from financing activities					
From the Consolidated Fund (Supply) – current year		20,591.5	20,591.5	14,194.3	14,194.3
From the National Insurance Fund		272.0	272.0	258.8	258.8

	Note	2023-24 £m Core department and agency	2023-24 £m Departmental group	2022-23 £m Core department and agency	2022-23 £m Departmental group
Capital element of payments in respect of leases and on-Statement of Financial Position PFI contracts		(198.0)	(198.0)	(86.2)	(86.2)
Net financing		**20,665.5**	**20,665.5**	**14,366.9**	**14,366.9**
Net increase/(decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund		**(36.1)**	**(36.8)**	**(4,621.9)**	**(4,625.9)**
Payments of amounts due to the Consolidated Fund		(0.8)	(0.8)	(1.7)	(1.7)
Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund		**(36.9)**	**(37.6)**	**(4,623.6)**	**(4,627.6)**
Cash and cash equivalents at the beginning of the period	10	**77.9**	**78.6**	**4,701.5**	**4,706.2**
Cash and cash equivalents at the end of the period	10	**41.0**	**41.0**	**77.9**	**78.6**

1 The comparative value has been revised to demonstrate that expenditure reported in the Resource Accounts but met by the Trust Statement, principally personal tax credits and corporation tax reliefs, is paid to claimants through Trust Statement mechanisms and processes and as such do not represent a Cash Flow to be reported in these Resource Accounts.

2 This value excludes the non-current asset received from Department of Transport by way of a Capital Grant in Kind. this relates to the provision of a unified shared service across HMRC, Department for Transport and Department for Levelling Up, Housing and Communities.

The notes on pages 219 to 264 form part of these accounts

Consolidated Statement of Changes in Taxpayers' Equity

for the year ended 31 March 2024

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

				2023-24			2022-23
				Departmental group			Departmental group
		General Fund	Revaluation reserve[1]	Taxpayers' equity	General Fund	Revaluation reserve[1]	Taxpayers' equity
	Note	£m	£m	£m	£m	£m	£m
Opening Balance		**(7,733.2)**	**159.3**	**(7,573.9)**	**(7,317.2)**	**118.2**	**(7,199.0)**
IFRS 16 adjustment[2 3]		5.9	-	5.9	(290.0)	-	(290.0)
Net Parliamentary funding – drawn down		20,591.5	-	20,591.5	14,194.3	-	14,194.3
Net Parliamentary funding – deemed[4]		72.3	-	72.3	4,694.5	-	4,694.5
Funding from Trust Statement[5]		19,053.5	-	19,053.5	21,148.8	-	21,148.8
National Insurance Fund		281.4	-	281.4	263.2	-	263.2
Supply (payable)/receivable adjustment		(35.5)	-	(35.5)	(72.3)	-	(72.3)
Income payable to the Consolidated Fund		(0.8)	-	(0.8)	(0.3)	-	(0.3)
Net expenditure for the year		(39,893.2)	-	(39,893.2)	(40,403.9)	-	(40,403.9)
Other net comprehensive expenditure:							
Revaluation of property, plant and equipment		-	9.9	9.9	-	2.7	2.7
Revaluation of intangible assets		-	151.1	151.1	-	87.6	87.6
Transfer between reserves		71.8	(71.8)	-	49.2	(49.2)	-
Pension reserve actuarial (losses)/gains		6.9	-	6.9	(2.1)	-	(2.1)
Contributions to Local Government Pension Scheme pension fund by DWP		0.3	-	0.3	0.6	-	0.6
Non-cash charges – auditor's remuneration	2	2.1	-	2.1	2.0	-	2.0
Balance at 31 March		**(7,577.0)**	**248.5**	**(7,328.5)**	**(7,733.2)**	**159.3**	**(7,573.9)**

1 The 31 March 2024 balance comprised £21.9 million in relation to property, plant and equipment assets (31 March 2023 £13.0 million) and £226.6 million in relation to intangible assets (31 March 2023 £146.3 million).

2 2022 to 2023 value represents developer contribution income received and spent before the adoption of IFRS 16.

3 This adjustment relates to a refinement in the application of HMRC's IFRS 16 subleasing policy which results in an increase in the number of operating subleases and a corresponding reduction in finance subleases. (see note 1.9.2)

4 This is any Supply drawn down in the previous year not spent at year-end and available to be spent in a subsequent financial year.

5 Personal tax credits and corporation tax reliefs are funded out of tax receipts from the Trust Statement. Please see the Statement of Revenue, Other Income and Expenditure in the Trust Statement, page 185.

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 2023 to 2024 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.

+ **2023 to 2024 FReM:**
www.gov.uk/government/publications/government-financial-reporting-manual-2023-24

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 and Valuation Office Agency (VOA).

1.4 Cost of Living Payment

HMRC are jointly delivering the Cost of Living Payment with the Department for Work and Pensions (DWP). Payments in respect of Cost of Living Payment are made in accordance with the relevant legislation. Cost of Living payment expenditure is recognised in the financial year when payment due to a customer has been approved by HMRC for payment and an accrual is recognised for payments not made by year end in line with the forecast tax credit award.

1.5 Tax credits

1.5.1 Personal tax credits

Where overpayments of personal tax credits arise, these are not by arrangement and are not credit assessed or loan agreements. Customers are given a certain time to settle the overpayment or enter into an arrangement to pay debt. The debt is considered to be overdue after 30 days. The HMRC business model for managing personal tax credit overpayment debt is to collect the contractual cash flows only, with no intention to sell the debt asset.

Personal tax credit debt is being transferred to DWP as part of the transition to Universal Credit, this is a transfer between government bodies and not a sale of the 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 151.

1.5.2 Corporation tax reliefs

In the absence of a specific applicable accounting standard, management have determined the following accounting policy for recognising and measuring expenditure on corporation tax reliefs in line with the principles of IFRS.

Expenditure 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.

1.6 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 151. Losses are made up of remissions and write-offs.

1.7 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.

1.8 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.

1.9 Non-current assets

1.9.1 General

Property, furniture, vehicles, IT hardware, software licences and website development costs reported by the core department are capitalised (excluding certain low-value assets).

The following thresholds apply:

- Accommodation refurbishments £150,000 (VOA: £15,000)
- Other tangible assets £5,000
- Information technology £5,000
- Software licences £250,000 (formerly £5,000 - this is a change from 2023 to 2024)

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, under the lease accounting standard IFRS 16. In accordance with options given within the accounting standard, HMRC has elected not to apply IFRS 16 to leases of intangible assets. These continue to be accounted for under IAS 38.

Non-property assets with the exception of software, are valued on a depreciated historical cost basis as a proxy for fair value as they are of low-value with short lives.

1 Payments in respect of Child Benefit, Tax-Free Childcare, and Lifetime ISA (LISA) are made in accordance with the relevant legislation.

Assets are stated at cost less accumulated depreciation/amortisation and impairment losses. These are depreciated/amortised at rates calculated to write them down to estimated residual values on a straight-line basis over their useful lives. All intangible assets are assessed to have a finite useful life over which they are amortised. Asset useful lives are normally in the following ranges:

Asset category – property, plant and equipment	Useful economic life
Freehold land	Not depreciated
Leasehold land	Period of the lease
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, developed computer software assets and intangible assets under construction.

Assets under construction are recorded at cost and are not depreciated or amortised until they are available for use. Once in use they are capitalised, depreciated and subject to impairment reviews in accordance with the policy applicable to the asset class.

1.9.2 Property, plant and equipment

Property

Freehold property is recognised where the contract in substance transfers a freehold interest in the building to HMRC.

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.

Scope and exclusions – the departmental group as lessee

In accordance with IFRS 16 Lease accounting, 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. Leases relating to low-value items, where the underlying asset would have a cost of less than £5,000 when new, and those with a term of less than 12 months, are not included.

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 HMT, 3.51% for leases recognised to 31 December 2023, 4.72% for leases recognised from 1 January 2024 (0.95% 2022).

Expenditure charge 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.

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 a right-of-use (RoU) or 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 headlease, 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. In 2023 to 2024 HMRC reassessed its accounting treatment where the department acts as lessor and sublets to another government department under a Memorandum of Terms of Occupation (MoTO). Such agreements are not legally enforceable, and the risks and rewards incidental to ownership of an RoU or underlying asset are not deemed to have transferred from the lessor to lessee. Accordingly, all MoTOs under which the department is lessor are treated as operating leases to reflect the economic and legal substance of the arrangements. An immaterial adjustment to restate RoU assets since transition to IFRS 16 has been included in the current year.

Where a long leasehold for property transfers to HMRC in substance, the contract is not treated as a right-of-use asset in accordance with IFRS 16, the asset is instead recognised as freehold property.

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 concession arrangements.

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. For IFRS 16, the cost model is applied as a proxy for fair value as the lease payments are updated to reflect current market pricing.

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.

1.9.3 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

For a software licence to be identified as a capital asset, it needs to adhere to IAS 38 and HMRC policy. From 1 April 2024 the threshold for the capitalisation of software licences is £250,000. Software licences must also have a life over 12 months, be separately identifiable, (arising from legal rights), under HMRC control and will generate a future economic benefit for HMRC.

Assets under construction

Intangible assets under construction relate to software development by the department and our commercial IT partners. 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.

1.10 Pensions

1.10.1 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/

1.10.2 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

1.10.3 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).

1.11 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) (2023) 10.

1.11.1 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 2.45% as set by HM Treasury (2022 to 2023: 1.70%).

1.12 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.

1.13 Critical accounting judgements and key sources of estimation

The preparation of financial statements in accordance with IFRS requires the use of certain accounting estimates. It also requires management to exercise judgement in the process of applying the department's accounting policies.

The areas that involve a higher degree of judgement or complexity, or where the assumptions and estimates are significant to the Resource Accounts, are as follows:

Personal tax credits expenditure

Personal tax credits, reported at note 4.1.1, consist of Child Tax Credit and Working Tax Credit. 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 3.4 on page 195), 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 2023 to 2024. The estimate produced for financial year 2023 to 2024 considers the impact of claimants migrating to DWP under Universal Credit throughout 2024 to 2025 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 4.1.4 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 9).

To calculate the impairment for personal tax credits receivables we use an expected credit losses (ECL) model that estimates future debt recoverability of personal tax credits debt based on historic debt recovery rates.

The main judgements that we have made when producing the ECL model are:

- 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 2.05%, 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
    - 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 15% likelihood and the base scenario with a 70% 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.

1.14 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. Whilst 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 assessing the impact of the adoption of this standard with key business areas.

IFRS 18 – Presentation and Disclosure of Financial Statements

The objective of IFRS 18 is to set out requirements for the presentation and disclosure of information in general purpose financial statements to help ensure they provide relevant information that faithfully represents an entity's assets, liabilities, equity, income and expenses.

IFRS 19 – Subsidiary without Public Accountability

The objective of IFRS 19 is to specify the disclosure requirements an entity is permitted to apply instead of the disclosure requirements in other IFRS Accounting Standards.

IFRS 18 and IFRS 19 become effective from 1 January 2027, however have not yet been endorsed by the UK Endorsement Board (UKEB) and have not yet been considered by the Financial Reporting Board (FRAB). HMRC will consider impacts of implementing these standards once endorsed by UKEB and FRAB.

2. Expenditure

		2023-24 £m		2022-23 £m	
	Note	Core department and agency	Departmental group	Core department and agency	Departmental group
Personal tax credits[1]	4.1.1	**7,305.5**	**7,305.5**	**8,835.0**	**8,835.0**
Corporation tax reliefs	4.1.4	**12,049.1**	**12,049.1**	**12,556.4**	**12,556.4**
Child Benefit					
Child Benefit[2]		12,510.2	12,510.2	11,595.6	11,595.6
Guardian's Allowance (funded from National Insurance Fund)		4.2	4.2	3.9	3.9
		12,514.4	**12,514.4**	**11,599.5**	**11,599.5**
Cost of Living Payment		**760.0**	**760.0**	**717.9**	**717.9**
Tax-Free Childcare		**635.3**	**635.3**	**494.4**	**494.4**
Lifetime ISA		**499.1**	**499.1**	**436.8**	**436.8**
Help to Save		**51.7**	**51.7**	**53.2**	**53.2**
COVID-19 support schemes[3]					
Coronavirus Job Retention Scheme		(19.0)	(19.0)	(130.9)	(130.9)
Self-Employment Income Support Scheme		(0.6)	(0.6)	(1.5)	(1.5)
Eat Out to Help Out		(2.4)	(2.4)	-	-
Working Households Receiving Tax Credits		-	-	(0.1)	(0.1)
		(22.0)	**(22.0)**	**(132.5)**	**(132.5)**
National Insurance Fund top-up		-	-	-	-
Staff and related costs	p.126				
Wages and salaries		2,611.2	2,611.2	2,438.8	2,449.4
Other pension costs		654.6	654.6	630.3	631.2
Less capitalised costs		(69.5)	(69.5)	(62.2)	(62.2)
Social security costs		282.4	282.4	266.6	267.9
Travel, subsistence and hospitality		40.4	40.4	41.7	42.0
Recruitment and training		28.7	28.7	31.4	31.4
Early severance schemes[4]		3.8	3.8	(3.4)	(3.4)
		3,551.6	**3,551.6**	**3,343.2**	**3,356.3**

	Note	2023-24 £m Core department and agency	2023-24 £m Departmental group	2022-23 £m Core department and agency	2022-23 £m Departmental group
Service charges					
Contract payments		100.0	100.0	122.2	122.2
Interest charges		17.2	17.2	18.5	18.5
		117.2	**117.2**	**140.7**	**140.7**
Goods and services					
IT services and consumables		1,011.7	1,011.7	1,024.2	1,006.8
Contracted out services		322.7	322.7	305.2	305.2
Printing, postage, stationery and office supplies		63.9	63.9	58.6	58.6
Legal and investigation		46.2	46.2	52.7	52.7
Enforcement costs		37.8	37.8	41.1	41.1
Telephone expenses		26.9	26.9	29.6	30.0
Other goods and services		22.0	22.0	18.9	18.9
Consultancy		14.0	14.0	5.0	5.0
		1,545.2	**1,545.2**	**1,535.3**	**1,518.3**
Payments in lieu of tax relief and rates		**262.6**	**262.6**	**76.1**	**76.1**
Other cash expenditure					
Accommodation expenses		176.4	176.4	211.4	211.4
Operating leases		19.8	19.8	38.2	38.2
Payments to add capacity		0.1	0.1	-	-
NIF collection service on behalf of other government departments		51.1	51.1	51.3	51.3
Losses and special payments (excluding Child Benefit, tax credits & COVID-19 support schemes)		3.2	3.2	3.6	3.6
Auditors' remuneration and expenses[5]		-	-	-	0.1
Other		16.0	16.0	40.6	41.3
		266.6	**266.6**	**345.1**	**345.9**

	Note	2023-24 £m Core department and agency	2023-24 £m Departmental group	2022-23 £m Core department and agency	2022-23 £m Departmental group
Non-cash items:					
Amortisation, depreciation and impairments					
Amortisation	6	392.3	392.3	330.1	330.1
Depreciation	5	147.4	147.4	151.2	151.2
Loss on impairment of non-current assets		14.5	14.5	10.7	10.7
		554.2	**554.2**	**492.0**	**492.0**
Provisions for liabilities and charges	12	(14.3)	(14.3)	21.0	21.0
Other non-cash					
Transfer of personal tax credits receivables to DWP		166.7	166.7	146.8	146.8
Auditors' remuneration and expenses[5]		2.1	2.1	2.0	2.0
Other		13.5	13.5	17.1	17.1
		182.3	**182.3**	**165.9**	**165.9**
Total non-cash items		**722.2**	**722.2**	**678.9**	**678.9**
Total operating expenditure		**40,258.5**	**40,258.5**	**40,680.0**	**40,676.9**

1 Personal tax credits expenditure reported in note 4.1.1 includes £1.7 million (2022 to 2023: nil) of provision created in 2023 to 2024.

2 Child Benefit expenditure includes amounts paid to higher rate taxpayers earning greater than £50,000 per annum in the 2023 to 2024 financial year. It is estimated that £560 million (2022 to 2023: £494 million) will be recovered via future income tax charges arising from payments of Child Benefit to those earning over £50,000 in 2023 to 2024. These income tax charges are accounted for in the Trust Statement. The prior year comparative has been revised.

3 Negative values represent return of COVID-19 payments.

4 Early severance schemes include an adjustment of £4.5 million in 2022 to 2023 relating to 2019 to 2020 exit scheme cases where no further payments are required.

5 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

			2023-24 £m			**2022-23 £m**
	Gross expenditure	**Income**	**Net expenditure**	**Gross expenditure**	**Income**	**Net expenditure**
Reportable segment						
Customer Services	1,021.7	58.9	962.8	927.6	46.4	881.2
Customer Strategy and Tax Design	261.3	7.9	253.4	233.7	7.1	226.6
Customer Compliance	1,669.4	74.1	1,595.3	1,602.5	72.5	1,530.0
Solicitors Office and Legal Services	102.5	8.5	94.0	130.0	7.0	123.0
Borders and Trade	336.9	14.0	322.9	375.0	11.9	363.1
Chief Digital and Information Officer Group	1,096.9	71.1	1,025.8	1,118.6	53.4	1,065.2
Chief Finance Officer Group[1]	424.1	119.5	304.6	427.0	68.8	358.2
Corporately Managed[1]	47.1	1.7	45.4	63.2	1.3	61.9
Chief People Officer Group	110.2	7.2	103.0	113.0	6.8	106.2
Chief Executive Office	2.5	-	2.5	2.2	-	2.2
Transformation Group	212.4	0.9	211.5	225.9	0.9	225.0
Communications	22.7	0.1	22.6	22.6	0.6	22.0
Valuation Office Agency	242.7	58.4	184.3	218.2	47.1	171.1
Total	**5,550.4**	**422.3**	**5,128.1**	**5,459.5**	**323.8**	**5,135.7**

1 2022 to 2023 restated to separately identify the Corporately Managed reportable segment from the Chief Finance Officer Group segment.

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

	2023-24 £m	2022-23 £m
Total net expenditure reported for operating segments	**5,128.1**	**5,135.7**
COVID-19 support schemes	(22.0)	(132.5)
Cost of Living payment	760.0	717.9
Personal tax credits	7,307.2	8,835.0
Child Benefit and Child Trust Fund	12,514.4	11,599.5
Corporation tax reliefs	12,049.1	12,556.4
Lifetime ISA	499.1	436.8
Depreciation/Amortisation/Impairment	546.3	488.6
Transfer of personal tax credits receivables to DWP	166.7	146.8
Tax-Free Childcare	635.3	494.5
Help to Save	51.7	53.1
Payments in lieu of tax relief	173.6	7.9
Payments of Local Authority Rates	83.7	64.2
Net Operating Expenditure in Statement of Comprehensive Net Expenditure	**39,893.2**	**40,403.9**

4. Tax credits, Child Benefit and Tax-Free Childcare

4.1 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 whose design allows the inclusion of a payment of entitlement are reported in these accounts.

4.1.1 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 1.13 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

			2023-24 £m			2022-23 £m
	Child Tax Credit	Working Tax Credit	Total tax credits	Child Tax Credit	Working Tax Credit	Total tax credits
Tax credits	5,894.8	1,543.3	7,438.1	7,209.4	1,577.3	8,786.7
Movement in impairment of receivables	(383.2)	(100.3)	(483.5)	(107.9)	(25.1)	(133.0)
Remissions/write-offs	225.7	126.9	352.6	106.0	75.3	181.3
Total personal tax credits	**5,737.3**	**1,569.9**	**7,307.2**	**7,207.5**	**1,627.5**	**8,835.0**

Further information on the operation of personal tax credits can be found at www.gov.uk/government/organisations/hm-revenue-customs

4.1.2 Personal tax credits receivables

Where under or overpayments are identified, either during the award year or subsequently, adjustments are made to expenditure. Overpayments are treated as receivables and the department seeks to recover these from future personal tax credits awards or through direct repayment.

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). 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	2023-24 £m	2022-23 £m
			£m
Receivables as at 1 April		**2,963.2**	**3,326.8**
Adjustment to prior year finalisation estimate		98.6	152.8
Estimated overpayment of awards prior to finalisation[1]		86.0	235.0
Overpayments identified from change of circumstances in year		304.2	265.4
Transferred to DWP[2]		(309.9)	(290.7)
Recoveries made		(499.5)	(544.7)
Remissions/write-offs		(352.6)	(181.3)
Receivables as at 31 March		**2,290.0**	**2,963.3**
Impairment as at 1 April		**1,369.5**	**1,646.4**
– Transferred to DWP[3]		(143.2)	(143.9)
– Movement in impairment		(483.6)	(133.0)
Impairment at 31 March		**742.7**	**1,369.5**
Net receivables at 31 March		**1,547.3**	**1,593.8**
Of which:			
Amounts expected to be recovered within one year	9	434.9	464.8
Amounts expected to be recovered in more than one year	9	1,112.4	1,129.0
Total		**1,547.3**	**1,593.8**

1 The range of the estimate is £65 million to £190 million (2022 to 2023: £100 million to £345 million).

[2 & 3] **Summary of receivables transferred to DWP**		
Gross receivables	309.9	290.7
Impairments	(143.2)	(143.9)
Net receivables transferred to DWP	**166.7**	**146.8**

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 1.13.

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	**2,290.0**	**742.5**	**1,547.5**
of which debt less than one year old	271.6	17.0	254.6
of which debt more than one but less than 5 years old	738.6	71.1	667.5
of which debt more than 5 but less than 10 years old	604.3	144.3	460.0
of which debt more than 10 years old	675.5	510.1	165.4

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%	(55.0)
The lower recovery scenario was applied to 100% of the debt stock (as opposed to 10%).	14%	315.0

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 £65 million, and the upper end is £190 million.

The estimate produced for 2023 to 2024 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.

4.1.3 Personal tax credits error and fraud

Error and fraud in personal tax credits (PTC E&F) was previously estimated by the tax credits Error and Fraud Analytical Programme (EFAP); a stratified random sample of tax credits awards was investigated by HMRC compliance officers to identify error and fraud in favour of the claimant or HMRC. From tax year 2022 to 2023, HMRC has ceased the tax credits EFAP random enquiry as PTC is planned to close in tax year 2024 to 2025, and remaining customers will move to Universal Credit, administered by the Department for Work and Pensions (DWP).

HMRC has developed a new projection methodology based on 5 previous years of data from EFAP to produce PTC E&F estimates for the remaining duration of PTC. The data over the course of EFAP has shown that the overall E&F rate has remained stable, with a central estimate between 4.4% and 5.5% since tax year 2012 to 2013. This stability is expected to continue, with the main impact on error and fraud expected to be changes to the composition of the PTC population rather than changes in individuals' propensity for error and fraud. In particular, managed migration to Universal Credit could mean that customer groups with different levels of E&F risk move at different rates, meaning those remaining in PTC represent a smaller or larger proportion of the overall population that are in E&F.

To estimate E&F from tax year 2022 to 2023 onwards, the methodology breaks down the PTC population into 10 distinct groups and calculates the average E&F rate for each group from historic E&F data from EFAP. The categories used to create the 10 groups are listed below:

Type of PTC received

- Child Tax Credits, no Working Tax Credits
- Both Working and Child Tax Credits
- Working Tax Credits, no Child Tax Credits

Employment status

- Self-employed
- Not self-employed

Number of adults on the claim

- Single claim
- Joint claim

Calculated E&F rates for each of these groups are applied to the relevant entitlement forecast for the group and then summed to give the central estimate of the total value of E&F. This value can then be expressed as a percentage of total forecast entitlement for the tax year to give the central E&F rate. As the historical E&F rates for each group are based on a random sample, there is uncertainty associated with the estimate. A 95% confidence interval has been calculated using the standard error for the historic E&F data for each group.

We no longer need to wait for awards to be finalised and compliance investigations to be completed to produce an estimate, therefore we are now able to produce estimates for the current reporting year. This means we have produced estimates for tax year 2022 to 2023 and 2023 to 2024, as the latest published statistics from EFAP relate to tax year 2021 to 2022. The central claimant favour E&F rate for both tax year 2022 to 2023 and 2023 to 2024 is 4.7% of total PTC entitlement, with a 95% confidence interval of 4.4% to 5%. This equates to £415 million in tax year 2022 to 2023 and £365 million in tax year 2023 to 2024. The HMRC favour error rate for both years is 0.8% (0.7% to 0.9%), or £70 million in tax year 2022 to 2023 and £60 million in tax year 2023 to 2024.

Estimates are not directly comparable to previous years due to the change in estimation methodology, however these estimates are broadly in line with the established trend observed in PTC E&F since tax year 2012 to 2013.

Estimated value of personal tax credits error and fraud and as a percentage of final award value

			2023-24 awards £m			2022-23 awards £m
	Lower bound	Central estimate	Upper bound	Lower bound	Central estimate	Upper bound
Overpayments to claimants	335 (4.4%)	365 (4.7%)	385 (5.0%)	385 (4.4%)	415 (4.7%)	580 (5.25%)
Underpayments to claimants	50 (0.7%)	60 (0.8%)	70 (0.9%)	60 (0.7%)	70 (0.8%)	80 (0.9%)

4.1.4 Corporation tax reliefs

In certain circumstances, companies are permitted to reduce their tax liability by making a claim for corporation tax reliefs. To 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 (£m)

		2023-24	2022-23
Research and development:	Research and development expenditure credits (RDEC)	4,893.3	3,701.0
	Small and Medium-sized Enterprises (SME) scheme	4,547.6	6,492.5
Creative industries:	High-end Television Tax Relief	1,212.4	952.5
	Film Tax Relief	580.9	824.7
	Video Games Tax Relief	307.4	208.8
	Theatre Tax Relief	206.3	224.6
	Audio-Visual and Video Games Expenditure Credits[1]	119.5	-
	Orchestra Tax Relief	47.4	42.5
	Children's Television Tax Relief	40.6	29.6
	Animation Tax Relief	22.3	26.2
	Museums and Galleries Exhibition Tax Relief	14.6	8.3
Land Remediation Relief		56.1	45.3
Enhanced Capital Allowance		0.7	0.4
Total		**12,049.1**	**12,556.4**

1 Reliefs introduced in 2023 to 2024

In accordance with our accounting policy set out in note 1.5.2, of the expenditure reported in 2023 to 2024 above, £1,912.7 million relates to our final estimate for 2018 to 2019:

Expenditure relating to 2018-19:

	Estimate reported in historic Resource Accounts (£m)	Final estimate (£m)	Included in value reported in these accounts (£m)
Research and development SME	2,219.0	3,509.7	1,290.7
Research and development RDEC	2,354.2	2,800.3	446.1
Creative industries	1,004.9	1,174.3	169.4
Land remediation	30.0	36.5	6.5
Total	**5,608.1**	**7,520.8**	**1,912.7**

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 1.5.2). The settled values for 2018 to 2019 are reported in 2023 to 2024.

Research and development tax relief

The cut-off date for data used in the research and development tax relief estimate for the financial year 2023 to 2024 were claims for the 2022 to 2023 financial year processed by 31 January 2024. The percentage uplift factor applied for claims not received at the cut-off date is:

- R&D SME claims: for negative taxation element 52.0%; for payment element 20.0%
- R&D Expenditure Credit (RDEC) claims: 49.8%

The forecast growth assumption used for the 2023 to 2024 R&D reliefs estimates are:

- R&D expenditure on which RDEC is claimed, will grow by 3.1% in 2023 to 2024. This is calculated as the OBR ICC determinant.
- R&D expenditure on which R&D SME relief is claimed will fall by 3% in 2023 to 2024. This is calculated by growing expenditure in line with the OBR ICC investment determinant of 3.1% and applying a downward adjustment to account for the reduction in claims relating to 2023 to 24 since the implementation of the R&D Additional Information Form (AIF). The adjustment is calculated by producing a counterfactual estimate of R&D expenditure that excludes the impact of the AIF from outturn data, and applying an 18% reduction.

While the overall estimated cost of CT reliefs remains similar to figures reported in 2022 to 2023, there has been a substantial increase in the cost of the RDEC scheme and a simultaneous decrease in the cost of the SME scheme. There are two key reasons for this:

- R&D claims relating to the 2023 to 2024 year are affected by recent changes to the rates of relief available for R&D claims, which were announced at the 2023 Autumn Statement. The RDEC rate was increased from 13% to 20%, while the SME additional deduction rate was reduced from 130% to 86% and the SME credit rate fell from 14.5% to 10%. This results in an increase in the cost of RDEC claims and a decrease in the cost of SME claims relating to the 2023 to 2024 financial year.
- The recent introduction of the mandatory AIF for R&D claims has resulted in a fall in the number and value of claims received for the SME scheme in both 2022 to 2023 and 2023 to 2024.

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 actual values may exceed them.

Change to key assumption:	Change in assumption	Variation £m	Change in assumption	Variation £m
R&D SME uplift for 2022 to 2023 vary by up to 11.0%[1]	Increase by 11%	385	Decrease by 11%	(385)
RDEC uplift for 2022 to 2023 varies by up to 15%[2]	Increase by 15%	307	Decrease by 15%	(307)
R&D SME expenditure growth in 2023 to 2024 varies by up to +5.0%/-5.0%[3]	Increase by 5%	167	Decrease by 5%	(158)
RDEC expenditure growth in 2023 to 2024 varies by up to +5.0%/-5.0%[3]	Increase by 5%	228	Decrease by 5%	(216)
R&D SME additional information form impact varies by up to +5.0%/-5.0%[4]	Increase by 5%	266	Decrease by 5%	(266)

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 the 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/RDEC expenditure growth, the increase and decrease use a flat rate of + 5.0%/-5.0%. Previously, these levels were based on the highest and lowest growth levels observed in the previous 3 years. However, due to the large increases and decreases seen over the COVID period, these produced extreme scenarios.

4 For the SME additional information form impact, the increase and decrease use a flat rate of +5.0%/-5.0%.

Creative industries reliefs

The key assumptions underpinning the creative 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, the cut-off date used for data was returns received by 12 March 2024. For the other creative industries tax reliefs, we have used outturn data extracted by 31 May 2023.

The forecast growth rate assumptions used for the financial year 2023 to 2024 are:

- Film Tax Relief, 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.
- Theatre Tax Relief, Orchestra Tax Relief and Museum and Galleries Exhibition Tax Relief expenditure is forecast to be the estimated expenditure for the financial year 2019 to 2020 (pre-Covid) 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 Television 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 2023 to 2024 varies by up to +6.3%/-2.2%[1]	Increase by 6.3%	68	Decrease by 2.2%	(25)
Film Tax Relief expenditure growth in 2023 to 2024 varies by up to +6.3%/-2.2%[1]	Increase by 6.3%	36	Decrease by 2.2%	(13)

1 For Film and High-end Television Tax Relief, 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 average growth rate in the last 3 years.

4.1.5 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. We first 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. 2023 to 2024 is the second year we have used a REP to estimate error and fraud for SMEs. 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 2021 to 2022, relating to the financial years 2019 to 2020, 2020 to 2021 and 2021 to 2022.

Therefore, we are reporting an updated estimate of error and fraud relating to the financial year 2021 to 2022 in these Accounts. We are also providing an illustrative estimate for 2023 to 2024 based on legislative changes and operational measures to reduce error and fraud. See the last paragraph of this note for further details.

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 2021 to 2022 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 2021 to 2022. For LB claiming RDEC, the approach is similar to that used to calculate R&D error and fraud in previous years.

Estimated value of R&D error and fraud and as a percentage of the estimated R&D tax relief expenditure

	2021-22	
	Estimate of the rate of error and fraud	**Implied monetary value of error and fraud £bn**
Error and fraud – SME scheme[1]	25.8%	1.2
Error and fraud – RDEC[2&3]	4.6%	0.1
Error and fraud – Total R&D tax relief expenditure[4]	17.6%	1.3

1 Revised figures for 2021 to 2022 – the estimated rate of error and fraud for SME scheme for 2021 to 2022 previously reported in Annual Report & Accounts was 7.3% (£430 million) of the expenditure estimate originally reported for 2021 to 2022.

2 Revised figures for 2021 to 2022 – the estimated rate of error and fraud for RDEC for 2021 to 2022 previously reported in Annual Report & Accounts was 1.1% (£39 million) of the expenditure estimate originally reported for 2021 to 2022.

3 RDEC includes claims made by LB and SME claiming RDEC.

4 Revised figures for 2021 to 2022 – previously reported in Annual Report & Accounts: estimated rate of error and fraud for total R&D tax relief expenditure for 2021 to 2022 was 4.9% (£469 million).

For the SME estimate, we estimated ranges which illustrate a 95% confidence interval for the error and fraud estimate. The rate of error and fraud in the SME scheme for 2021 to 2022 is not statistically different from the rate for 2020 to 2021 and reflects natural variability in the results based on a sample of cases.

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 2021 to 2022 (as reported in the Resource Accounts for 2021 to 2022) gives the results below. The overall rate of error and fraud in total R&D expenditure across the SME and RDEC schemes for 2021 to 2022 is not statistically different from 2020 to 2021.

	Lower bound		Most likely		Upper bound	
	£bn	**%**	**£bn**	**%**	**£bn**	**%**
SME scheme	0.95	20.5	1.20	25.8	1.58	33.9
RDEC scheme	0.10	3.3	0.14	4.6	0.18	6.2
Combined	1.05	13.8	1.34	17.6	1.76	23.2

Also impacting the quantitative estimates of error and fraud for 2021 to 2022 are revisions to the estimated expenditure base of R&D corporation tax reliefs for that year. As explained in note 4.1.4 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 5 years preceding. We have used the latest estimate for 2021 to 2022 which decreases the expenditure base and reflects overestimations in earlier estimates.

	2021-22 expenditure initially estimated £m	Final adjustment relating to 2016-17 £m	Total expenditure reported in 2021-22 Annual Report and Accounts £m	Updated estimate for 2021-22 £m
R&D SME	4,990.3	905.3	5,895.6	4,655.9
RDEC	2,775.5	844.8	3,620.3	2,940.4
Total	**7,765.8**	**1,750.1**	**9,515.9**	**7,596.3**

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.

For illustrative purposes, we have considered the possible error and fraud position for 2023 to 2024 expenditure to take account of legislative changes and operational measures. The legislative changes include rate changes, extending relief to data and cloud computing costs and the mandation of digital claims requiring additional information (including pre-notification of some claims). Taking account of the estimated level of expenditure in 2023 to 2024 (£7.7 billion excluding a final adjustment relating to 2018 to 2019) and the quantification of legislative and operational changes on the error and fraud rate, this would suggest error and fraud of £601 million in total across the SME scheme and RDEC (equating to 7.8% of total relevant expenditure). This is a reduction from the illustrative estimate of 13.3% (£1.1 billion of total relevant expenditure) prepared for 2022 to 2023. The level of error and fraud for the SME scheme in 2023 to 2024 is estimated at £475 million, or 14.6% of expenditure and £125 million, or 2.8% of expenditure for the RDEC scheme. For the SME scheme the central error and fraud rate is estimated to be 14.6% with an upper range of around 17% and a lower range of around 11%. The lower rates of error and fraud in 2023 to 2024 reflect the policy changes and operational measures that HMRC has implemented to tackle error and fraud.

4.2 Child Benefit

From 2023 to 2024 the method of measuring Child Benefit error and fraud (E&F) has changed to a monthly sampling approach. To estimate the level of E&F in the Child Benefit population, a random sample of 300 claimants has been drawn from the population for each month between March 2023 to November 2023, and asked to provide evidence that they are eligible for Child Benefit for the month under investigation, with casework concluding in March 2024. In previous years, we have selected the full sample of 2,700 claimants from the August Child Benefit data and assessed their eligibility across a full year, with cases worked from October through to the following March. This methodology change means that estimates from 2023 to 2024 cannot be directly compared to previous years.

Prior to the move to monthly sampling, HMRC committed to developing new methodologies to estimate overpayments for non-compliant non-responders. This was because in the annual approach, for non-compliant non-responders, E&F was calculated from the period of suspension to the end of the tax year only without any backdating of earlier non-compliance, meaning that E&F was likely being under-reported for this group. Therefore, we expected that the E&F rate would increase this year as we now take full account of the duration of E&F for all cases. Due to differences in the operational arrangements for running the annual and monthly sample enquiries, there is no opportunity to dual run the old and new estimates. The decision to move to a monthly sampling approach brings us in line with best practice methodologies used in other Government departments. The move also makes it easier to assess the duration of error and fraud, the main deficiency in the annual method, as an assessment of eligibility is only required within each month, rather than for the full tax year. After all monthly samples are worked, the individual E&F estimates are combined to give an annual estimate of E&F.

In 2023 to 2024, the vast majority of claimants (86.4%) responded to these compliance requests providing the necessary evidence to prove their eligibility, while a small number (1.3%) informed HMRC that they are ineligible for Child Benefit (and so their claim is in error and fraud).

12.3% failed to respond to the compliance request. To determine whether these non-responder claimants should be considered compliant or non-compliant they were put through a Desk-Based Analysis model, which uses other information HMRC holds on these claimants. This analysis concluded that 10.5% of these claims were most likely to be non-compliant and 89.5% were likely to be compliant.

The largest reason for error and fraud in customers who responded to the enquiry was Full Time Non-Advanced Education (FTNAE) issues (67%), where claims have continued for children who have left FTNAE.

It is important to note that the results of our random enquiry programmes do not suggest that Child Benefit error and fraud has materially increased since the previous year. The number of cases in error and fraud has not increased in the latest year. However, the new monthly sampling approach addresses previous under-reporting of the value of E&F for non-compliant non-responders, making the overall E&F rate estimate more accurate. The 2023 to 2024 current estimates are not directly comparable to previous estimates because of the methodology changes.

Estimated value of Child Benefit error and fraud and as a percentage of estimated Child Benefit expenditure

			2023-24 £m			2022-23 £m
	Lower bound	Central estimate	Upper bound	Lower bound	Central estimate	Upper bound
Child Benefit error and fraud[1]	150 (1.2%)	200 (1.6%)	250 (2.0%)	70 (0.6%)	90 (0.8%)	110 (1%)

1 Figures are not comparable between years due to improvements in estimation methodology to better account for the duration of E&F for non-compliant non-responders.

4.3 Tax-Free Childcare

A Tax-Free Childcare (TFC) Error and Fraud (E&F) estimate is included in this year's report to reflect increased availability of robust modelling data since the inception of the scheme in April 2017 when only limited samples were available.

E&F in TFC can arise either through the customer having been found to not meet one or more of the eligibility criteria at the point of reconfirmation, occurring every 3 months, or through using top up to pay a childcare provider for something other than qualifying childcare.

HMRC developed and implemented an ongoing annual Error and Fraud Analytical Programme (EFAP) for TFC, starting in 2021. The exercise uses a stratified random sample to select 1,440 households (120 per month) across a calendar year for a full compliance investigation, and results are weighted to the TFC population level to give our best estimate of E&F in TFC for the year. The calendar year estimate is then used as a proxy for the reporting year (i.e. using the 2023 E&F estimate for tax year 2023 to 2024). This allows time for operational and analytical work to conclude for publication in the Resource Accounts.

The central estimates of TFC E&F in 2021 and 2022 were 2.3% and 2.2% of government top up, respectively. The central estimate for 2023 is 2.3%, with a 95% confidence interval of 1.2% to 3.5%. This is equivalent to £14 million and is within the confidence range of the 2021 and 2022 estimates.

Based on results to date, the sample size of 1,440 gives an accuracy of +/- 0.5%. For example, if the true E&F rate was 2%, the central estimate from EFAP could be anywhere between 1.5% and 2.5%. Note that accuracy is a separate measure to precision. Accuracy describes how close an estimate is to its true value (which is unknown), whereas precision describes statistical or sampling variability, and is expressed in the 95% confidence interval around the central estimate.

5. Property, plant and equipment

	Land[1] £m	Buildings[1] £m	Accommodation refurbishments[1] £m	Office and computer equipment £m	Vehicles £m	Furniture and fittings £m	Assets under construction £m	Scientific aids £m	2023-24 Total £m
Cost or valuation									
At 31 March 2023	20.4	94.7	436.4	318.8	16.8	68.4	35.8	0.4	991.7
IFRS16 adjustment[2]	-	1.2	22.1	-	-	-	-	-	23.3
Balance at 1 April 2023	20.4	95.9	458.5	318.8	16.8	68.4	35.8	0.4	1,015.0
Additions	18.1	-	-	26.8	1.6	1.1	22.6	-	70.2
Disposals	(6.6)	(18.5)	(34.0)	(19.5)	(1.8)	(2.7)	-	(0.3)	(83.4)
Impairments	-	-	-	-	-	-	-	-	-
Reclassifications	23.5	96.4	1.6	6.2	-	0.4	(31.3)	-	96.8
Revaluations[3]	-	113.4	-	-	-	-	-	-	113.4
At 31 March 2024	**55.4**	**287.2**	**426.1**	**332.3**	**16.6**	**67.2**	**27.1**	**0.1**	**1,212.0**
Depreciation									
At 31 March 2023	-	(72.3)	(83.8)	(198.1)	(11.2)	(14.7)	-	(0.3)	(380.4)
IFRS16 adjustment[2]	-	(0.2)	0.5	-	-	-	-	-	0.3
Balance at 1 April 2023	-	(72.5)	(83.3)	(198.1)	(11.2)	(14.7)	-	(0.3)	(380.1)
Charged in year	(0.1)	(6.4)	(22.2)	(41.3)	(1.1)	(6.1)	-		(77.2)
Disposals	-	5.5	33.1	18.9	1.6	1.6	-	0.3	61.0
Impairments	-	-	-	-	-	-	-	-	-
Reclassifications	-	-	5.1	-	-	-	-	-	5.1
Revaluations[3]	-	(103.5)	-	-	-	-	-	-	(103.5)
At 31 March 2024	**(0.1)**	**(176.9)**	**(67.3)**	**(220.5)**	**(10.7)**	**(19.2)**	**-**	**-**	**(494.7)**
Carrying amount at 31 March 2023	20.4	22.4	352.6	120.7	5.7	53.7	35.8	0.1	611.4
Carrying amount at 31 March 2024	**55.3**	**110.3**	**358.8**	**111.8**	**5.9**	**48.0**	**27.1**	**0.1**	**717.3**

	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	2023-24 Total £m
Of the total:									
Core department	55.3	110.3	354.9	111.8	5.9	47.8	27.1	0.1	713.2
Valuation Office Agency	-	-	3.9	-	-	0.2	-	-	4.1
Carrying amount at 31 March 2024	**55.3**	**110.3**	**358.8**	**111.8**	**5.9**	**48.0**	**27.1**	**0.1**	**717.3**
The assets are financed as follows:									
Owned	55.3	96.9	109.0	109.9	5.9	46.3	27.1	0.1	450.5
Developer contribution funded	-	-	249.8	-	-	1.7	-	-	251.5
PFI contracts	-	13.4	-	1.9	-	-	-	-	15.3
Carrying amount at 31 March 2024	**55.3**	**110.3**	**358.8**	**111.8**	**5.9**	**48.0**	**27.1**	**0.1**	**717.3**

									2022-23[4]
	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 2022	6.6	104.7	331.3	294.9	15.8	63.1	159.2	3.0	978.6
Additions	-	-	0.1	21.9	1.7	1.4	37.3	-	62.4
Donations	-	-	-	-	-	-	-	-	-
Disposals	-	-	(7.7)	(14.6)	(0.9)	(7.7)	-	(2.6)	(33.5)
Impairments	-	-	(7.2)	-	-	-	-	-	(7.2)
Reclassifications	13.8	-	119.9	16.6	0.3	11.6	(160.7)	-	1.5
Revaluations[2]	-	(10.0)	-	-	-	-	-	-	(10.0)
At 31 March 2023	**20.4**	**94.7**	**436.4**	**318.8**	**16.9**	**68.4**	**35.8**	**0.4**	**991.8**
Depreciation									
At 1 April 2022	-	(76.8)	(53.1)	(173.1)	(11.1)	(12.0)	-	(2.8)	(328.9)
Charged in year	-	(2.8)	(35.0)	(37.5)	(1.0)	(6.4)	-	-	(82.7)
Disposals	-	-	4.3	12.5	0.9	3.7	-	2.5	23.9
Impairments	-	-	-	-	-	-	-	-	-
Reclassifications	-	-	-	-	-	-	-	-	-
Revaluations[2]	-	7.3	-	-	-	-	-	-	7.3
At 31 March 2023	**-**	**(72.3)**	**(83.8)**	**(198.1)**	**(11.2)**	**(14.7)**	**-**	**(0.3)**	**(380.4)**
Carrying amount at 31 March 2022	6.6	27.9	278.2	121.8	4.7	51.1	159.2	0.2	649.7
Carrying amount at 31 March 2023	**20.4**	**22.4**	**352.6**	**120.7**	**5.7**	**53.7**	**35.8**	**0.1**	**611.4**

	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
									2022-23[4]
Of the total:									
Core department	20.4	22.4	348.0	120.6	5.7	52.2	35.6	0.1	605.0
Valuation Office Agency	-	-	4.6	0.1	-	1.5	0.2	-	6.4
Carrying amount at 31 March 2023	**20.4**	**22.4**	**352.6**	**120.7**	**5.7**	**53.7**	**35.8**	**0.1**	**611.4**
The assets are financed as follows:									
Owned	20.4	-	101.9	115.1	5.7	51.8	35.8	0.1	330.8
Developer contribution funded	-	-	250.7	-	-	1.9	-	-	252.6
PFI contracts	-	22.4	-	5.6	-	-	-	-	28.0
Carrying amount at 31 March 2023	**20.4**	**22.4**	**352.6**	**120.7**	**5.7**	**53.7**	**35.8**	**0.1**	**611.4**

1 See note 1.9.2 for the accounting policy for property assets.

2 This adjustment relates to a refinement in the application of HMRC's IFRS16 subleasing policy which results in an increase in the number of operating subleases and a corresponding reduction in finance subleases. (see note 1.9.2)

3 See notes 1.2 and 1.9.2 for the accounting policy regarding revaluation of property, plant and equipment.

4 Analysis of right-of-use assets is now excluded from these comparatives, being presented in note 7.1.

Property revaluation

Valuations were performed by the Valuation Office Agency, an executive agency of HM Revenue and Customs, whose services include providing valuation and estate surveying services to government departments.

6. Intangible assets

				2023-24
	Licences £m	Software and website development[1] £m	Assets under construction[1] £m	Total £m
Cost or valuation				
At 1 April 2023	79.1	4,888.7	836.3	5,804.1
Additions	31.2	0.1	693.8	725.1
Disposals	(22.5)	(361.6)	(2.5)	(386.6)
Impairments	-	(14.5)	-	(14.5)
Reclassifications	18.8	520.3	(539.6)	(0.5)
Revaluation[2]	-	449.7	-	449.7
At 31 March 2024	**106.6**	**5,482.7**	**988.0**	**6,577.3**
Amortisation				
At 1 April 2023	(42.4)	(3,356.3)	-	(3,398.7)
Charged in year	(27.0)	(365.3)	-	(392.3)
Disposals	22.7	349.0	-	371.7
Impairments	-	-	-	-
Reclassifications	-	-	-	-
Revaluation[2]	-	(298.6)	-	(298.6)
At 31 March 2024	**(46.7)**	**(3,671.2)**	**-**	**(3,717.9)**
Carrying amount at 31 March 2023	36.7	1,532.4	836.3	2,405.4
Carrying amount at 31 March 2024	**59.9**	**1,811.5**	**988.0**	**2,859.4**
The assets are financed as follows:				
Owned	59.9	1,811.5	988.0	2,859.4
PFI contracts	-	-	-	-
Carrying amount at 31 March 2024	**59.9**	**1,811.5**	**988.0**	**2,859.4**
Of the total:				
Core department	59.9	1,796.7	915.5	2,772.1
Valuation Office Agency	-	14.8	72.5	87.3
Carrying amount at 31 March 2024	**59.9**	**1,811.5**	**988.0**	**2,859.4**

				2022-23
	Licences £m	Software and website development £m[1]	Assets under construction £m[1]	Total £m
Cost or valuation				
At 1 April 2022	87.4	4,153.4	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[2]	-	287.2	-	287.2
At 31 March 2023	**79.1**	**4,888.7**	**836.3**	**5,804.1**
Amortisation				
At 1 April 2022	(47.7)	(2,901.4)	-	(2,949.1)
Charged in year	(30.7)	(299.4)	-	(330.1)
Disposals	36.4	43.8	-	80.2
Impairments	-	-	-	-
Reclassifications	(0.4)	0.4	-	-
Revaluation[2]	-	(199.7)	-	(199.7)
At 31 March 2023	**(42.4)**	**(3,356.3)**	**-**	**(3,398.7)**
Carrying amount at 31 March 2022	39.7	1,252.0	786.1	2,077.8
Carrying amount at 31 March 2023	**36.7**	**1,532.4**	**836.3**	**2,405.4**
The assets are financed as follows:				
Owned	36.7	1,532.4	836.3	2,405.4
PFI contracts	-	-	-	-
Carrying amount at 31 March 2023	**36.7**	**1,532.4**	**836.3**	**2,405.4**
Of the total:				
Core department	36.7	1,526.4	786.6	2,349.7
Valuation Office Agency	-	6.0	49.7	55.7
Carrying amount at 31 March 2023	**36.7**	**1,532.4**	**836.3**	**2,405.4**

1 Software and Website Development asset class includes material assets for Customs Declaration Service (CDS) which relate to declarations for all goods, including excise goods and those that move through all routes including maritime ports. The carrying amount for these at 31 March 2024 is £704 million (2022 to 2023: £577 million). Additionally, the assets under construction asset class includes CDS assets with a carrying amount at 31 March 2024 of £44 million (2022 to 2023: £31 million).

2 See notes 1.2 and 1.9.3 for the accounting policy regarding revaluation of intangible assets.

7. Leases

7.1 Right-of-use assets recognised in Statement of Financial Position

				2023-24
				Departmental group
		Buildings	Vehicles	Total £m
Cost:	At 31 March 2023	1,094.7	2.1	1,096.8
	IFRS 16 adjustment[1]	127.8	-	127.8
	Balance at 1 April 2023	**1,222.5**	**2.1**	**1,224.6**
	Additions	9.4	2.9	12.3
	Disposals	(14.3)	-	(14.3)
	Cost reclassification	(110.1)	-	(110.1)
	Revaluations	-	-	-
Depreciation:	At 31 March 2023	(67.6)	(0.8)	(68.4)
	IFRS 16 adjustment[1]	1.4	-	1.4
	Balance at 1 April 2023	**(66.2)**	**(0.8)**	**(67.0)**
	Charged in-year	(69.1)	(1.2)	(70.3)
	Disposals	5.5	-	5.5
	Depreciation reclassification	8.7	-	8.7
Carrying amount at 31 March 2024		**986.4**	**3.0**	**989.4**

				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)
	Disposals	0.2	-	0.2
Carrying amount at 31 March 2023		**1,027.1**	**1.3**	**1,028.4**

1 This adjustment relates to a refinement in the application of HMRC's IFRS 16 subleasing policy which results in an increase in the number of operating subleases and a corresponding reduction in finance subleases (see note 1.9.2)

7.2 Lease liabilities recognised in Statement of Financial Position

Maturity analysis

		2023-24 £m		2022-23 £m
	Core department & agency	Departmental group	Core department & agency	Departmental group
Buildings				
Not later than one year	77.4	77.4	80.8	80.8
Later than one year and not later than 5 years	307.4	307.4	351.8	351.8
Later than 5 years	1,010.1	1,010.1	1,154.0	1,154.0
Less interest element	153.6	153.6	176.7	176.7
Present Value of obligations	1,241.3	1,241.3	1,409.9	1,409.9
Vehicles				
Not later than one year	0.7	0.7	0.4	0.4
Later than one year and not later than 5 years	2.6	2.6	1.0	1.0
Later than 5 years	-	-	-	-
Less interest element	0.1	0.1	-	-
Present Value of obligations	3.2	3.2	1.4	1.4
Total Present Value of obligations	**1,244.5**	**1,244.5**	**1,411.3**	**1,411.3**
Current portion	63.0	63.0	65.5	65.5
Non-current portion	1,181.5	1,181.5	1,345.8	1,345.8

7.3 Amounts recognised in Statement of Comprehensive Net Expenditure

	2023-24 £m		2022-23 £m	
	Core department & agency	Departmental group	Core department & agency	Departmental group
Interest paid to lessor	15.6	15.6	14.6	14.6
Depreciation	71.8	71.8	68.5	68.5
Variable lease payments not included in lease liabilities	(0.2)	(0.2)	(3.7)	(3.7)
Non-recoverable VAT	14.8	14.8	16.3	16.3
Expenses related to short-term leases	0.1	0.1	5.2	5.2
Expenses related to low value asset leases (excluding short-term leases)	-	-	0.2	0.2
Income from sub-leasing	(29.1)	(29.1)	(8.6)	(8.6)
Total charged to the Statement of Comprehensive Net Expenditure under IFRS 16	**73.0**	**73.0**	**92.5**	**92.5**

Total charged to the Statement of Comprehensive Net Expenditure under IFRS 16 above is materially the same as would have been charged under IAS 17.

7.4 Amounts recognised in Consolidated Statement of Cash Flows

	2023-24 £m		2022-23 £m	
	Core department & agency	Departmental group	Core department & agency	Departmental group
Total cash outflow for leases	**(77.9)**	**(77.9)**	**(100.0)**	**(100.0)**

8 Commitments under PFI and other service concession arrangements

8.1 Off-Statement of Financial Position

The department has no off-Statement of Financial Position PFI contracts.

8.2 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. These comprise of commitments relating to Newcastle Estates Partnership (NEP) held with DWP and 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 £49.6 million (2022 to 2023: £97.8 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

		2023-24 £m		2022-23 £m
	Core department and agency	Departmental group	Core department and agency	Departmental group
Minimum lease payments:				
Due within one year	7.9	7.9	11.7	11.7
Due between one year and 5 years	10.6	10.6	34.2	34.2
Due later than 5 years	-	-	-	-
Total minimum lease payments due in future periods	**18.5**	**18.5**	**45.9**	**45.9**

Details of the obligations for service elements

		2023-24 £m		2022-23 £m
	Core department and agency	Departmental group	Core department and agency	Departmental group
Service elements due in future periods:				
Due within one year	31.7	31.7	33.1	33.1
Due between one year and 5 years	52.5	52.5	68.5	68.5
Due later than 5 years	-	-	-	-
Total service elements due in future periods	**84.2**	**84.2**	**101.6**	**101.6**
Total commitments	**102.7**	**102.7**	**147.5**	**147.5**

8.3 Capital commitments

The capital commitments reported relate to the future cost of development of the estate and IT infrastructure.

Contracted capital commitments at 31 March not otherwise included in these financial statements

		2023-24 £m		2022-23 £m
	Core department and agency	Departmental group	Core department and agency	Departmental group
Property, plant, and equipment	14.4	14.4	0.2	0.2
Intangible assets	19.5	19.5	23.2	23.2
	33.9	**33.9**	**23.4**	**23.4**

8.4 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:

		2023-24 £m		2022-23 £m
	Core department and agency	Departmental group	Core department and agency	Departmental group
Due within one year	306.8	306.8	346.3	346.3
Due between one year and 5 years	333.8	333.8	201.6	201.6
Due later than 5 years	10.2	10.2	3.3	3.3
	650.8	**650.8**	**551.2**	**551.2**

9. Trade receivables, financial and other assets

	Note	2023-24 £m Core department and agency	2023-24 £m Departmental group	2022-23 £m Core department and agency	2022-23 £m Departmental group
Amounts expected to be received within one year:					
Personal tax credits	4.1.2	434.9	434.9	464.8	464.8
Child Benefit[1]		157.2	157.2	136.4	136.4
Statutory Sick Pay Rebate - (DWP)		0.3	0.3	0.3	0.3
Help to Save		11.1	11.1	9.3	9.3
Trade receivables		5.3	5.3	3.9	4.6
Receivable as intermediate lessor		0.2	0.2	5.1	5.1
Other receivables[2]		60.3	60.3	50.4	50.4
Deposits and advances		161.4	161.4	137.9	137.9
Value Added Tax		59.7	59.7	56.9	56.3
Prepayments - Child Benefit		-	-	37.8	37.8
Accrued income, other prepayments		202.3	202.3	133.8	133.8
RCDTS Ltd funding[3]		-	-	0.5	-
		1,092.7	**1,092.7**	**1,037.1**	**1,036.7**
Amounts expected to be received in more than one year:					
Personal tax credits	4.1.2	1,112.4	1,112.4	1,129.0	1,129.0
Receivable as intermediate lessor		-	-	121.1	121.1
		1,112.4	**1,112.4**	**1,250.1**	**1,250.1**

1 This figure is net of provision for impairment amounting to £28.2 million (2022 to 2023: £28.2 million).

2 This figure is net of provision for impairment amounting to departmental group: £22.8 million (2022 to 2023 departmental group: £21.2 million).

3 HMRC 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 closure of RCDTS Ltd.

10. Cash and cash equivalents

Cash and bank balances relate to the administering of the department and programme expenditure but exclude all tax and duty revenues collected. The latter are included in the department's Trust Statement. Cash and cash equivalents comprise cash in hand and current balances, which are readily convertible to known amounts of cash and which are subject to insignificant changes in value. Bank accounts are part of the Exchequer pyramid whereby balances are effectively held overnight with the Bank of England.

Cash and cash equivalents

		2023-24 £m		2022-23 £m
	Core department and agency	**Departmental group**	**Core department and agency**	**Departmental group**
Balance at 1 April	77.9	78.6	4,701.5	4,706.2
Net change in cash and cash equivalent balances	(36.9)	(37.6)	(4,623.6)	(4,627.6)
Balance at 31 March	**41.0**	**41.0**	**77.9**	**78.6**
Of which balances were held at:				
Government Banking Service	47.9	47.9	92.3	93.1
Commercial banks and cash in hand[1]	(6.9)	(6.9)	(14.4)	(14.5)
Balance at 31 March	**41.0**	**41.0**	**77.9**	**78.6**

1 The balance also reflects money owing to/from the Trust Statement.

10.1 Reconciliation of liabilities arising from financing activities

	Balance at 31 March 2023			Cash flows	Non-cash changes		Balance at 31 March 2024
		Opening Balance Adjustment	Financing cash flows	Net cash requirement	Acquisition	Disposal	
	£m	£m	£m	£m	£m	£m	£m
Supply – current year	72.3	-	20,591.5	(20,628.3)	-	–	35.5
From the National Insurance Fund	(8.7)	12.5	272.1	(281.4)	-	–	(5.5)
Lease liabilities	1,448.5	21.0	(70.6)	-	13.2	(150.1)	1,262.0
Total liabilities from financing activities	**1,512.1**	**33.5**	**20,793.0**	**(20,909.7)**	**13.2**	**(150.1)**	**1,292.0**

	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	Disposal	
	£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**

11. Trade and other payables

	2023-24 £m		2022-23 £m	
	Core department and agency	Departmental group	Core department and agency	Departmental group
Amounts expected to be paid within one year:				
Personal tax credits	399.0	399.0	377.3	377.3
Child Benefit and Tax-Free Childcare	298.2	298.2	393.2	393.2
Trade payables	31.9	31.9	(2.0)	(2.0)
Taxation and social security excluding VAT	62.2	62.2	61.5	61.5
Other payables	116.9	116.9	88.8	88.8
Accruals – COVID-19 support schemes	0.1	0.1	0.1	0.1
Accruals – corporation tax reliefs	9,359.4	9,359.4	9,009.3	9,009.3
Other accruals	573.7	573.7	549.1	549.4
Deferred income	13.2	13.2	16.7	16.7
Amounts issued from the Consolidated Fund for Supply but not spent at year end	35.5	35.5	72.3	72.3
Consolidated Fund Extra Receipts due to be paid to the Consolidated Fund				
Received	5.6	5.6	5.6	5.6
	10,895.7	**10,895.7**	**10,571.9**	**10,572.2**
Amounts expected to be paid in more than one year:				
Accruals – corporation tax reliefs	1,863.7	1,863.7	1,814.3	1,814.3
IT Public Private Partnership	1.7	1.7	2.7	2.7
Accommodation PFI	9.5	9.5	25.0	25.0
Accommodation non-PFI	-	-	3.6	3.6
Other payables	6.6	6.6	-	-
	1,881.5	**1,881.5**	**1,845.6**	**1,845.6**

12. Provisions for liabilities and charges

Provisions are recognised when HMRC has a present legal or constructive obligation as a result of a past event, it is probable that HMRC will be required to settle that obligation, and an amount has been reliably estimated.

Provisions for liabilities and charges

		2023-24 £m		2022-23 £m
	Core department and agency	Departmental group	Core department and agency	Departmental group
Balance at 1 April	**159.3**	**159.3**	**157.9**	**157.9**
Provided in the year	38.0	38.0	52.4	52.4
Provisions not required written back	(52.3)	(52.3)	(31.4)	(31.4)
Net expenditure	(14.3)	(14.3)	21.0	21.0
Provisions utilised in the year	(14.7)	(14.7)	(19.6)	(19.6)
Balance at 31 March	**130.3**	**130.3**	**159.3**	**159.3**

12.1 Analysis of expected timing of discounted flows

		2023-24 £m		2022-23 £m
	Core department and agency	Departmental group	Core department and agency	Departmental group
Not later than one year	22.3	22.3	26.0	26.0
Later than one year and not later than 5 years	61.5	61.5	124.2	124.2
Later than 5 years	46.5	46.5	9.1	9.1
Balance at 31 March	**130.3**	**130.3**	**159.3**	**159.3**

	Child Trust Fund £m	Legal claims £m	Accommodation costs £m	Other £m	Total £m
Not later than one year	0.1	11.5	1.4	9.3	22.3
Later than one year and not later than 5 years	0.3	53.5	7.3	0.4	61.5
Later than 5 years	-	40.6	5.3	0.6	46.5
Balance at 31 March	**0.4**	**105.6**	**14.0**	**10.3**	**130.3**

12.2 Child Trust Fund
Child Trust Fund (CTF) endowments; eligibility to which ceased on 3 January 2011, provided assistance with the funding on long-term individual savings and investment accounts provided by approved financial institutions. A provision of £0.4 million was retained for general CTF payments amounts forecast to become payable in respect of children qualifying for CTF endowments.

12.3 Legal claims
A provision of £105.6 million (2022 to 2023: £131.8 million) has been made for costs relating to various legal claims against the department. The provision reflects all known claims, where legal advice indicates that it is probable that the claim will be successful.

12.4 Accommodation costs
A provision of £14.0 million has been made (2022 to 2023: £14.9 million) for buildings related claims giving rise to probable liabilities under tenancy agreements.

12.5 Other
Provisions relating to various other claims against the department amount to £10.3 million (2022 to 2023: £12.2 million).

13. Pension asset/liability
The Valuation Office Agency merged with The Rent Service on 1 April 2009, taking on staff who are members of the Local Government Pension Scheme. The pension assets part of the Local Government Pension Scheme are reflected in the Consolidated Statement of Financial Position (see page 215).

14. 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 £129.2 million (2022 to 2023: £139.4 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, 32 cases (2022 to 2023: £0.7 million, 43 cases).

Other – the department has a further number of contingent liabilities amounting to £127.3 million (2022 to 2023: £55.7 million).

15. Related-party transactions

The department is the parent of the Valuation Office Agency. This body is 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.

In addition, the department has had a small number of transactions with other government departments and other central government bodies.

No Board member, key manager or other related party has undertaken any material transactions (i.e. transactions of £0.1 million or more) with the department during the year. Details of compensation for key management personnel can be found in the remuneration report within the accountability section.

16. Entities within the departmental boundary

The Valuation Office Agency is a supply-financed agency. Its Annual Report and Accounts are published at www.voa.gov.uk.

17. Investments and loans in other public sector bodies

The department holds no ordinary shares, loans, public dividend capital or other interests in public bodies outside the departmental boundary.

18. Events after the reporting period date

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.

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 limit. AME is more volatile than DEL expenditure and therefore is more difficult to explain or control as it is spent on programmes which are demand-led – such as tax credits or Child Benefit.

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) – this 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 – 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 – 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.

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 Cash Flows – a statement that reports the cash flows relating to revenue from taxes, duties, fines and penalties.

Statement of Financial Position – a statement that reports a snapshot of the assets and liabilities relating to revenue from taxes, duties, fines and penalties as at the end of the reporting period.

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.

Statement of Revenue, Other Income and Expenditure – this statement, the equivalent of a 'Profit and Loss' Account, reports a summary of the department's income and expenditure relating to revenue from taxes, duties, fines and penalties.

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 – an indirect tax, penalty or surcharge that is under challenge, dispute or appeal. The value is currently excluded from the receivables and debt balance.

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 pages 109 to 110 within the Principal Accounting Officers report. The following bodies are those within our accounting boundary for 2023 to 2024 that contribute to the departmental group.

				Permanently employed staff		Other staff[1]	
	Total operating income £'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	(309,181)	39,979,801	39,670,620	61,723	3,331,266	451	18,080
VOA	(56,165)	278,748	222,583	3,426	184,140	253	10,086

1 "Other staff" includes Fixed Term Appointments and Temporary Fixed Term Appointments.

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 Outturn	2024-25 Plans
Resource DEL[1]							
HMRC Administration	3,483,718	3,813,617	4,335,323	4,570,843	5,199,284	5,271,201	5,093,753
VOA Administration	142,738	164,797	141,100	143,995	132,548	183,309	212,167
Utilised Provisions	42,918	54,597	96,219	31,502	19,614	10,004	20,000
National Insurance Fund	282,548	254,332	222,649	251,344	259,413	277,222	233,000
Cost of Living	-	-	-	-	717,872	760,000	-
COVID-19	-	-	-	719,062	-110	-	-
Total Resource DEL	**3,951,922**	**4,287,343**	**4,795,291**	**5,716,746**	**6,328,621**	**6,501,736**	**5,558,920**
Of which:							
Staff costs	2,360,289	2,602,310	2,778,298	2,862,995	3,265,139	3,477,773	3,359,496
Purchase of goods and services	1,199,928	1,207,607	1,494,300	1,842,658	1,903,404	1,907,881	1,622,885
Income from sales of goods and services	-201,710	-204,751	-288,573	-269,435	-268,378	-370,010	-369,102
Current grants to persons and non-profit bodies (net)	1,714	6,277	52,638	743,791	720,321	757,241	1,944
Current grants abroad (net)	1,418	1,287	840	1,025	1,043	1,672	-
Subsidies to private sector companies	387	-	-	-	-	-	-
Rentals	208,542	296,210	326,652	277,172	159,943	112,242	119,746
Depreciation[2]	288,680	296,137	310,833	174,352	478,237	535,681	846,520
Change in pension scheme liabilities	1,324	-210	-210	-	-	-	-
Other resource	91,350	82,476	120,513	84,188	68,912	82,366	-22,569
	3,951,922	**4,287,343**	**4,795,291**	**5,716,746**	**6,328,621**	**6,501,736**	**5,558,920**

1 Outturn values are consistent with those reported in SoPS 1.1 on page 144.

2 Includes impairments.

Note: The totals may differ to the information in the Statement of Parliamentary Supply due to rounding.

	2018-19 Outturn	2019-20 Outturn	2020-21 Outturn	2021-22 Outturn	2022-23 Outturn	2023-24 Outturn	2024-25 Plans
Resource AME[1]							
Child Benefit	11,475,319	11,487,105	11,541,713	11,420,034	11,595,575	12,510,146	13,992,041
Tax Free Childcare	115,730	245,524	253,047	428,406	494,401	635,340	558,412
Providing payments in lieu of tax relief to certain bodies	97,388	116,035	140,071	130,003	7,973	173,626	161,080
Lifetime ISA	251,019	225,808	346,120	418,943	436,809	499,125	523,431
Help to Save	-	-	-	20,361	53,202	51,654	63,814
HMRC Administration	93,672	82,016	52,212	8,072	33,808	-3,987	20,000
VOA – Payments of rates to LAs on behalf of certain bodies	66,785	83,886	75,646	78,061	64,199	83,738	95,500
VOA Administration	7,094	1,523	1,184	1,010	1,082	853	2,000
Utilised Provisions	-42,920	-54,607	-96,223	-31,510	-19,615	-14,730	-20,000
Personal Tax Credit	22,288,296	18,331,274	15,063,222	10,605,481	8,834,945	7,307,214	1,874,960
Other Reliefs and Allowances	5,879,196	10,103,140	10,698,573	11,696,601	12,560,346	12,053,282	10,993,028
COVID-19	-	-	81,233,264	16,543,682	-132,476	-21,800	210
Total Resource AME	**40,231,579**	**40,621,704**	**119,308,829**	**51,319,144**	**33,930,249**	**33,274,461**	**28,264,476**
Of which:							
Purchase of goods and services	71,679	89,110	95,721	83,492	68,188	89,053	100,704
Income from sales of goods and services	-4,894	-5,224	-4,535	-4,412	-3,918	-5,200	-5,200
Current grants to persons and non-profit bodies (net)	34,231,898	30,418,746	26,770,567	39,076,439	21,426,819	21,311,587	17,173,940
Subsidies to private sector companies	5,876,916	10,100,691	88,673,903	12,186,849	12,423,956	11,897,211	10,993,028
Depreciation[2]	477	1,290	1,785	9,514	12,752	12,208	-
Take up of provisions	100,289	82,249	50,315	-2,222	22,067	-15,327	2,004
Release of provision	-42,920	-54,607	-102,416	-31,299	-19,615	-15,071	-
Change in pension scheme liabilities	-	-	-	-	-	-	-
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**	**33,274,461**	**28,264,476**
Resource budget[1]							
Total Resource DEL	3,951,922	4,287,343	4,795,291	5,716,746	6,328,621	6,501,736	5,558,920
Total Resource AME	40,231,579	40,621,704	119,308,829	51,319,144	33,930,249	33,274,461	28,264,476
Total Resource Budget	**44,183,501**	**44,909,047**	**124,104,120**	**57,035,890**	**40,258,870**	**39,776,197**	**33,823,396**
Of which:							
Depreciation[2]	289,157	297,427	312,618	183,866	490,989	545,134	846,520

1 Outturn values are consistent with those reported in SoPS 1.1 on page 144.

2 Includes impairments.

Note: The totals may differ to the information in the Statement of Parliamentary Supply due to rounding.

	2018-19 Outturn	2019-20 Outturn	2020-21 Outturn	2021-22 Outturn	2022-23 Outturn	2023-24 Outturn	2024-25 Plans
Capital DEL[1]							
HMRC Administration	353,476	328,666	529,830	643,880	524,552	695,753	466,866
VOA Administration	8,742	6,362	6,746	20,650	31,848	29,364	40,640
Total Capital DEL	**362,218**	**335,028**	**536,576**	**664,530**	**556,400**	**725,117**	**507,506**
Of which:							
Purchase of assets	387,376	420,306	677,700	982,938	644,473	805,498	524,157
Income from sales of assets	-25,158	-85,278	-141,124	-318,408	-88,073	-80,381	-16,651
	362,218	**335,028**	**536,576**	**664,530**	**556,400**	**725,117**	**507,506**
Capital AME[1]							
Child Benefit	2	10	4	7	1	2	10
HMRC Administration[2]	-	-	-	-	-	-	250
Total Capital AME	**2**	**10**	**4**	**7**	**1**	**2**	**260**
Of which:							
Capital grants to persons & non-profit bodies (net)	2	10	4	7	1	2	10
Depreciation	-	-	-	-	-	-	250
	2	**10**	**4**	**7**	**1**	**2**	**260**
Capital budget[1]							
Total Capital DEL	362,218	335,028	536,576	664,530	556,400	725,117	507,506
Total Capital AME	2	10	4	7	1	2	260
Total Capital Budget	**362,220**	**335,038**	**536,580**	**664,537**	**556,401**	**725,119**	**507,766**

1 Outturn values are consistent with those reported in SoPS 1.2 on page 146.
2 HMRC Administration included Capital AME due to the introduction of IFRS16.

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 Outturn	2024-25 Plans
Resource DEL							
HMRC administration	773,467	767,280	896,424	828,681	948,413	918,850	1,020,650
Utilised provisions	7,057	2,208	-	-	-	-	10,000
National Insurance Fund	59,264	51,552	50,536	56,030	54,712	63,962	53,966
Total administration budget	**839,788**	**821,040**	**946,960**	**884,711**	**1,003,125**	**982,812**	**1,084,616**
Of which:							
Staff costs	335,364	401,196	467,299	437,580	474,413	560,426	553,741
Purchase of goods and services	341,999	245,209	338,798	374,643	450,180	425,260	427,822
Income from sales of goods and services	-35,670	-34,256	-94,044	-94,887	-59,763	-89,116	-89,508
Current grants to persons and non-profit bodies (net)	1,671	1,660	1,661	1,642	1,659	1,936	936
Rentals	94,795	132,956	149,860	110,563	39,512	24,279	32,438
Depreciation[1]	76,452	63,784	52,274	30,933	86,522	50,496	146,542
Other resource	25,177	10,491	31,112	24,237	10,602	9,531	12,645
	839,788	**821,040**	**946,960**	**884,711**	**1,003,125**	**982,812**	**1,084,616**

Note: The totals may differ to the information in the Statement of Parliamentary Supply due to rounding.

1 Includes impairments.

Annex 3: Sustainability data tables

Greening Government Commitments (GGC)

	2017-18[1]	2021-22	2022-23	2023-24
Greenhouse gas emissions (tonnes CO_2e, 000s)	88.4	38.5	37.0	30.6
Direct building emissions (tonnes CO_2e, 000s)	25.4	18.7	17.4	11.7
Domestic flight emissions (tonnes CO_2e, 000s)	2.2	0.2	0.7	0.9
Paper purchased (A4 reams equivalent, 000s)	295.3	22.8	35.7	30.2
Water consumption (m^3 000s)	566.1	239.1	211.3	207.2
Waste generated (tonnes, 000s excl. ICT)	9.5	4.9	4.0	3.1
Waste to landfill (% excl. ICT)	1.9	0.2	0.04	–
Waste recycled (% excl. ICT)	81	76	67	68
ICT waste recycled (tonnes)	70.6	122.0	121.0	47.5
ICT waste reused (tonnes)	213.8	230.7	271.3	75.3

1 This is in the baseline year for our GGC commitments.

Greenhouse gas emissions

	2021-22	2022-23	2023-24
Non-financial indicators		**tCO_2e, 000s**	
Total gross emissions	38.87	38.54	32.87
Total net emissions	24.65	25.99	20.47
Gross emissions Scope 1 and 2	37.03	32.85	26.73
Gross emissions Scope 3 (business travel)	1.84	5.69	6.14
Energy consumption		**kWh, 000s**	
Electricity: non-renewable	3,762	2,872	2,164
Electricity: renewable	61,537	59,491	55,135
Gas	89,768	88,635	62,559
Oil	8,709	4,828	8.20
Whitehall District Heating	3,373	N/A	N/A
Enviroenergy District Heating	4,207	N/A	N/A
Stratford District Heating	5,289	6,289	6,638
Sheffield District Heating	N/A	N/A	N/A
Travel breakdown		**tCO2e, 000s**	
Road	1.89	2.75	2.43
Rail	0.37	1.86	1.54
Air (domestic and overseas)	0.62	2.23	3.15
		% of fleet	
Ultra Low Emission Vehicles	10	13[1]	29
Financial indicators		**£000**	
Expenditure on energy	24,540	24,556	23,375
Expenditure on accredited offset purchases	–	–	–
Expenditure on official business travel	6,098	20,405	19,610

1 This figure increases to 29% when vehicles on order are included, meeting the interim Government Fleet Commitment target.

Waste[1]

		2021-22	2022-23	2023-24
Non-financial indicators			**Tonnes 000s**	
Total waste (excl. ICT)		4.80	4.03	3.11
Waste	Landfill	0.01	0.002	–
	Recycled/ composted	3.64	2.70	2.13
	Incinerated/ energy from waste	1.15	1.33	0.99
	ICT waste	0.35	0.39	0.12
Financial indicators			**£000s**	
Total waste (excl. ICT)		270	226	174
Waste	Landfill	1	0.28	–
	Recycled/ composted	204	151	119
	Incinerated/ energy from waste[1]	65	75	55
	ICT waste	1,144	1,253	661

1 In 2021 to 2022 a small amount of waste (0.22%) was incinerated without energy recovery.

Food waste

		2022-23	2023-24
			Tonnes
Reuse	Redistribution for human consumption	–	–
	Animal feed	–	–
	Bio-based materials/Biochemical processing	–	–
	Other reuse	–	–
Waste	Anaerobic Digestion/Codigestion	28.18	39.40
	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	39.40

1 Figures may not sum due to rounding.

Finite resource consumption – water

		2021-22	2022-23	2023-24
Financial indicators			**£000s**	
Water consumption	Supplied	1,305	1,270	1,278

Copier paper purchased

	2021-22	2022-23	2023-24
Financial indicators		**£000s**	
	69	154	137

Air travel breakdown[1]

			2021-22			2022-23			2023-24
Non-financial indicators	**No**	**Kms**	**mtCO$_2$e**	**No**	**Kms**	**mtCO$_2$e**	**No**	**Kms**	**mtCO$_2$e**
Total domestic	**3,335**	**1,488,241**	**193.51**	**13,359**	**5,505,928**	**715.94**	**13,096**	**5,310,480**	**854.93**
Total international	**636**	**2,428,117**	**418.58**	**2,400**	**6,488,016**	**1,510.17**	**2,512**	**6,984,379**	**2,291.85**
Short haul economy	329	585,225	88.38	1,127	1,107,488	167.25	1,158	1,243,080	227.32
Short haul business	4	11,108	2.52	27	34,147	7.73	27	36,635	10.05
Long haul economy	146	1,244,143	183.97	632	2,978,393	440.42	563	2,629,894	527.55
Long haul premium economy	14	136,810	32.37	54	310,958	73.57	61	330,856	105.93
Long haul business	14	111,233	47.70	332	1,649,887	707.50	442	2,259,994	1,311.45
Long haul first	–	–	–	18	78,385	46.36	4	23,644	18.93
International non-UK	129	339,598	63.64	210	328,758	67.34	257	460,276	90.63

Online meetings

	2021-22	2022-23	2023-24
Total number of on-line meetings initiated	6,799,672	11,788,133	13,931,789

1 Figures may not sum due to rounding.

Annex 4: Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013 (Northern Ireland 1997): reports to the Health and Safety Executive

RIDDOR incidents	**2023-24**	**2022-23**
Specified injuries to workers	8	8
Occupational diseases	3	1
Fatal injuries	0	0
Dangerous occurrences	0	2
Over 3-day incapacitation of worker (Northern Ireland)	0	1
Non-fatal accidents to non-workers	0	0
Over 7-day incapacitation of worker	20	11
Total	**31**	**23**

Non-RIDDOR incidents	**2023-24**	**2022-23**
Stress	819	613
Musculoskeletal	76	65
Slips/trips/falls	112	103
Violence and verbal abuse	277	222
Environmental	50	44
Road traffic accident	74	82
Bite (animal/insect)	7	8
Burns	17	33
Collision with a moving/fixed object	99	74
Cut	13	13
Manual handling	9	11
Exposure to hazardous substances	10	6
Asbestos, lead, ionising radiation	3	0
Noise	2	8
Electrical	10	17
Other	16	23
Total	**1594**	**1322**

Report by the Comptroller and Auditor General

HM Revenue & Customs 2023-24 Accounts

This report is published alongside the 2023-24 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

26 July 2024

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 £843.4 billion of tax revenue for 2023-24. 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 2023-24 was £7.2 billion. HMRC paid out £33.3 billion, including £7.3 billion of Personal Tax Credits and £12.5 billion of Child Benefit. Under the Government Resources and Accounts Act 2000, the C&AG must certify whether HMRC's Resource Accounts are true and fair, and whether HMRC has used the income and expenditure for the purposes Parliament intended. The C&AG 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); • there remains a material level of error and fraud in Personal Tax Credits expenditure (Part Three); and • there is a material level of error and fraud in Child Benefit 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 £843.4 billion raised during 2023-24 (Part One). We reviewed whether HMRC is delivering value for money and reported our findings to Parliament under section 6 and section 9 of the National Audit Act 1983.

Summary

HM Revenue & Customs' performance, 2023-24

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 2023-24, 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 2023-24 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 2023-24 objective of collecting revenues and managing compliance, the main components of the £843.4 billion raised in 2023-24 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 and Child Benefit (Part Three).

Summary findings

Total revenues

4 **HMRC reported total revenues of £843.4 billion for 2023-24, the highest on record for the third successive year, representing a 3.6% increase on 2022-23.** Total revenues increased by £29.4 billion compared with 2022-23 (£814.0 billion). This was driven largely by growth in revenue from Income Tax, reflecting the continued freezing of tax bands and thresholds, and Corporation Tax, where the tax rate increased in 2023-24 from 19% to 25% (paragraph 1.2 and Figure 1).

5 **HMRC estimates that the tax gap – the difference between the amount of tax that should be paid to HMRC, and what was actually paid – has increased from £38.1 billion to £39.8 billion. As a proportion of tax due, it decreased from 5.2% to 4.8%.** HMRC published its latest estimates of the tax gap in June 2024, but these figures may be revised in later years. Its estimate of the tax gap for 2021-22 was 5.2% and £38.1 billion; HMRC revised it up from the 4.8% and £35.8 billion previously reported, mainly because it incorporated more recent data from its enquiries with taxpayers and updated data on consumer spending into its estimates. It also revised its estimate of total theoretical liabilities for the year. The tax gap arises for several reasons including mistakes, failure to take reasonable care, avoidance and evasion of tax, and insolvency. It can be affected by factors such as changes in the economy and demographics. In monetary terms, HMRC estimates that the Corporation Tax gap increased the most in 2022-23. The proportion of the tax gap made up by small businesses has increased every year since 2017-18, from 37% to 60% of the tax gap in 2022-23 (paragraphs 1.12 to 1.14, and Figure 3).

6 **HMRC estimates that the yield from its compliance activities in 2023-24 was £41.8 billion, up 23% compared with 2022-23 and £1.3 billion higher than 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 2023-24 is higher than HMRC's target for the year of £40.5 billion, which it set at a level to maintain the tax gap. HMRC considers that the increase in yield reflects its increasing focus on promoting compliance and preventing non-compliance before it occurs, and a more productive workforce. HMRC's compliance yield in 2023-24 represents 5.0% of total revenues reported by HMRC, higher than the proportion seen in both 2021-22 and 2022-23 (4.2%) and broadly consistent with the five-year average of 5.2% achieved between 2015-16 and 2019-20, before the pandemic (paragraphs 1.15 to 1.23 and Figures 4 and 5).

7 **Tax debt was £43.0 billion at 31 March 2024, £0.9 billion (1.9%) less than the tax debt reported at 31 March 2023.** As a proportion of annual revenues, tax debt decreased from 5.4% to 5.1% across the same period. The decrease in the tax debt balance was driven by an 11% decrease in the level of new taxpayer debt, from £116.6 billion in 2022-23 to £103.5 billion in 2023-24, indicating more taxpayers paid their tax on time. The amount of tax debt paid back by taxpayers also fell, but by a smaller amount (5%), indicating the tax debts held by HMRC are getting older on average. Older tax debts are less likely to be repaid. This is reflected in an increase in HMRC's impairment estimate from 32.0% of receivables at 31 March 2023 to 45.4% of receivables at 31 March 2024. The impairment estimate represents HMRC's assessment of the proportion of debt that may be recovered from taxpayers. The amount of debt written off by HMRC increased from £3.2 billion in 2022-23 to £5.0 billion in 2023-24. This reflects an increase in corporate insolvencies and HMRC processing a large volume of write-offs from earlier years. 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 £15 billion, or 2.5% of tax revenues. HMRC received an additional £303 million in the Autumn Statement 2023 and Spring Budget 2024 to improve its capacity to manage tax debts, including to increase staffing, increase its use of debt collection agencies and purchase data on business taxpayers from credit reference agencies (paragraphs 1.6 to 1.11 and Figure 2).

Customer service performance

8 **HMRC's telephone answering performance continued to decline in 2023-24. Its performance for handling correspondence improved, though it is still below target. Its digital services performance remained stable.** It answered 66.4% of callers' attempts to speak to an adviser in 2023-24, compared with 71.1% in 2022-23 and against a target of 85%. Callers who did get through waited on average 23:14 minutes, compared with 16:24 minutes in 2022-23 and up from 5:14 minutes in 2018-19. HMRC improved the proportion of correspondence handled within 15 working days from 72.7% in 2022-23 to 76.3% in 2023-24, though still below its target of 80%, and broadly maintained the proportion handled within 40 working days (88.9% in 2023-24 compared with 89.4% in 2022-23 and against a target of 95%). HMRC's digital services performance in 2023-24 was in line with 2022-23, with 83.1% of customers surveyed reporting they were satisfied after using a digital service (paragraphs 1.24, 1.25 and 1.29, and Figure 6).

9 **HMRC reduced telephone services in 2023-24, which helped it tackle correspondence processing backlogs, but has had to reverse similar plans for 2024-25.** Following the 2021 Spending Review and the government's efficiency and savings review in 2022-23, HMRC is aiming to find £149 million in efficiency savings from customer service by 2024-25. To help achieve these savings in 2023-24, it closed or reduced the queries it handles on four customer service helplines, including closing the Self Assessment helpline for three months and thereby releasing 350 staff. HMRC considered the changes were successful and had not negatively affected the submission of tax returns or the payment of taxes due; however, its evaluation of the changes did not consider stakeholder views or adequately assess the impacts of the changes on customers. In March 2024, it announced further closures and restrictions it would make in 2024-25, but reversed this decision just one day after announcing the changes to the public, following criticism from stakeholders. It said it recognised it needed to do more to ensure it met all taxpayers' needs as HMRC shifts more people to online self-service in the longer term. In May 2024, HM Treasury announced £51 million additional funding for HMRC to cover approximately 1,500 temporary staff for 2024-25 to bring customer service performance to target levels for answering the telephone and handling correspondence within 15 working days. It expects to achieve this by the second half of 2024-25 (paragraphs 1.23 and 1.26 to 1.28).

Error and fraud in Corporation Tax research and development reliefs, Personal Tax Credits and Child Benefit

10 **The C&AG has qualified his opinion on the regularity of HMRC's 2023-24 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's most recent estimate shows that the level of error and fraud present in this area of expenditure is £601 million or 7.8% of related expenditure (2022-23: £1.1 billion, or 13.3% of related expenditure). Some £475 million of error and fraud relates to the small and medium-sized enterprise (SME) scheme, representing 14.6% of SME expenditure. HMRC's estimate for 2023-24 takes into account changes in patterns of expenditure in the current year, which are partly driven by the change in relief rates. It also includes an assumption that recent compliance interventions and new claim requirements will have reduced error and fraud by £444 million, but it will not know the actual impact of these interventions until it has completed and evaluated its random enquiries on 2023-24 returns (paragraphs 2.2, 2.6 and 2.8, and Figure 7).

11 HMRC's revised estimate of error and fraud in Corporation Tax research and development reliefs for 2021-22 is £1.3 billion (17.6% 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 2019-20. HMRC considers that applying the results from its random enquiry programme to 2021-22 expenditure provides the most statistically robust estimate of error and fraud it can produce at this time. The 2021-22 and 2020-21 estimates are materially consistent. HMRC estimates that, in 2021-22, error and fraud in Corporation Tax research and development reliefs could have been as high as £1.8 billion (23.2%) or as low as £1.0 billion (13.8%) (paragraphs 2.12 and 2.14).

12 The C&AG has also qualified his opinion on the regularity of HMRC's 2023-24 Resource Accounts due to the material level of error and fraud in Personal Tax Credits. HMRC estimates that, in 2023-24, error and fraud resulted in overpayments of 4.7% of tax credits expenditure and underpayments of 0.8% of expenditure. This equates to overpayments of £365 million (2022-23: £415 million) and underpayments of £60 million (2022-23: £70 million). This reduction in the value of error and fraud relates largely to a reduction in related tax credits expenditure as claimants continue to migrate across to Universal Credit. There has been no reduction in the underlying rate of error and fraud (paragraphs 3.6, 3.8 and 3.9, and Figure 8).

13 The C&AG has also qualified his opinion on the regularity of HMRC's 2023-24 Resource Accounts due to the material level of error and fraud in Child Benefit expenditure. HMRC estimates that, in 2023-24, the overall level of error and fraud resulting in overpayments of Child Benefit amounted to 1.6% of expenditure (2022-23: 0.8%). This equates to overpayments of £200 million (2022-23: £90 million). HMRC estimates the level of error and fraud by selecting a random sample of claims for inspection. Most of the increase in HMRC's estimate for 2023-24 relates to individuals who did not respond to HMRC's enquiries. HMRC considers that the reason for the increase compared to previous years is due to a change in its estimate methodology for 2023-24. HMRC told us that the absence of any increase in the number of awards resulting from error and fraud supports its view. More data from the new methodology is needed to confirm this, or establish whether there are other factors contributing to the increase that need to be factored into HMRC's risk assessment and compliance approaches (paragraphs 3.19 to 3.26, and Figures 9 and 10).

Conclusion

14 We recognise that no tax collection system can ensure that everyone meets their tax obligations. In fulfilling our statutory duties under the Exchequer and Audit Departments Act 1921, we conclude that, in 2023-24, overall 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.

15 HMRC reported record tax revenues again in 2023-24, mainly reflecting the freezing of income tax bands and thresholds, and an increase in the rate of Corporation Tax. Tax debt has fallen marginally in absolute terms and as a proportion of revenue, but remains significantly higher than before the pandemic. HMRC's estimate of the amount it may not ultimately be able to collect from taxpayers has continued to rise. HMRC met its compliance yield target for the year. The tax gap remained broadly stable in percentage terms, but increased in monetary terms with HMRC's latest statistics indicating that over half of it now arises from small businesses.

16 Delivering responsive customer service continues to be one of HMRC's biggest challenges, with performance on the telephone deteriorating again in 2023-24. It has been forced to rethink its plans to close and restrict phone lines further. The additional funding HMRC received in 2024-25 should buy it some time to consult stakeholders and plan for further service redesign more effectively.

17 The levels of error and fraud in tax credits and Corporation Tax research and development reliefs expenditure remain material and have, again, resulted in qualification of the C&AG's audit opinion. For 2023-24, the C&AG has also qualified his audit opinion on the level of error and fraud in Child Benefit expenditure. HMRC is attributing the increase in Child Benefit error and fraud to changes in its approach to estimating it, but more work is needed to establish whether there are other underlying causes which need to be investigated and addressed.

Part One

Performance in 2023-24

1.1 This part of the report sets out HM Revenue & Customs' (HMRC's) performance in 2023-24 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 in 2023-24 reported by HMRC.

Total revenue in 2023-24

1.2 HMRC reported £843.4 billion in revenues in 2023-24 (£814.0 billion in 2022-23). Revenues have now increased to their highest reported level for the third successive year (**Figure 1** overleaf).[1] Total revenues increased by £29.4 billion (3.6%). This growth in revenue was driven by a £28.2 billion (10.9%) increase in Income Tax revenue, due to growth in both employment and wages, combined with frozen tax thresholds, and an £9.1 billion (11.3%) increase in Corporation Tax revenue, due to an increase in the main rate of Corporation Tax from 19% to 25% from April 2023. While employment and wages increased in 2023-24, some National Insurance Contributions (NICs) rates were cut in January 2024 and so, revenue from NICs stayed broadly constant, as did revenue from Value Added Tax (VAT) and hydrocarbon oils duties.

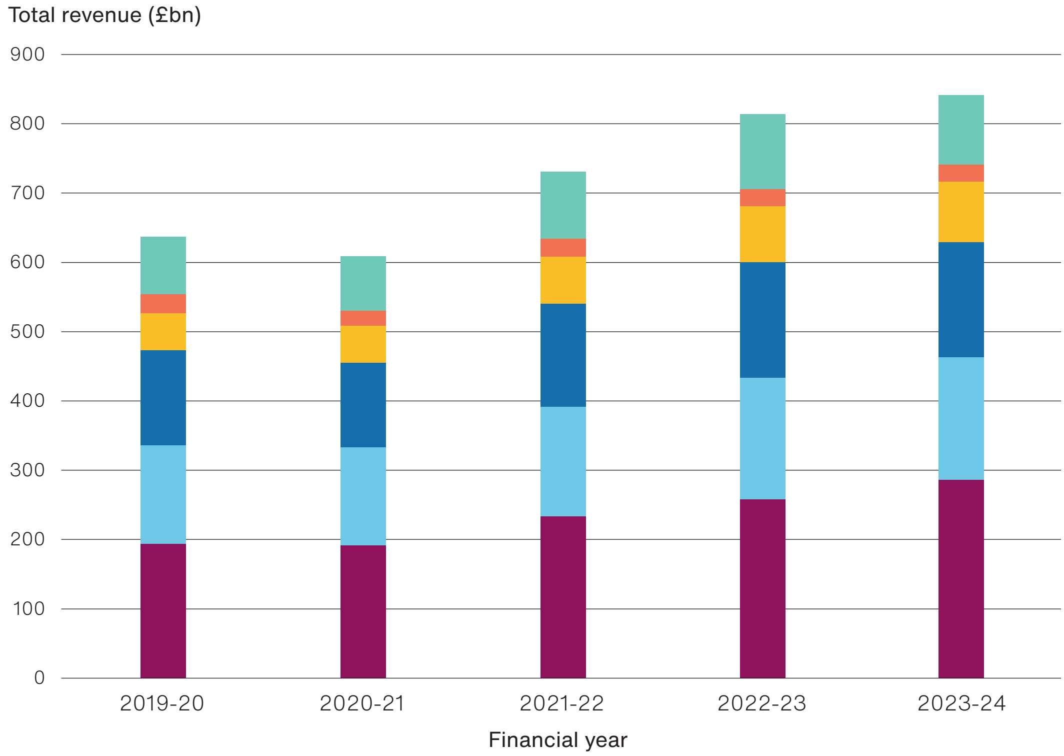
1.3 In March 2024, the Office for Budget Responsibility (OBR) forecast that public sector receipts in 2023-24 would increase by 7.1% (£73 billion) compared with 2022-23.[2] This forecast is not directly comparable with the growth rate in revenue of 3.6% reported in the Trust Statement as public sector receipts are calculated on a different basis and include a different set of components. For example, the OBR's forecast of public sector receipts includes taxes not administered by HMRC, including Council Tax and Business Rates. Also, nominal GDP increased by 6.4% in 2023-24, compared with an expectation of 7.0% at the time of the OBR's forecasts.

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.

2 Office for Budget Responsibility, *Economic and fiscal outlook*, March 2024.

Figure 1
Total revenues reported by HM Revenue & Customs (HMRC), 2019-20 to 2023-24

In 2023-24 total revenues increased by 3.6%



	2019-20	2020-21	2021-22	2022-23	2023-24
Income Tax (£bn)	194.2	192.0	233.4	258.0	286.2
National Insurance Contributions (£bn)	141.9	141.5	158.3	175.8	177.0
Value Added Tax (£bn)	137.4	122.1	148.8	166.9	165.5
Corporation Tax (£bn)	53.0	53.7	68.3	80.5	89.6
Hydrocarbon oils duty (£bn)	27.4	21.3	25.8	25.0	24.9
Other[1] (£bn)	82.8	78.2	96.5	107.8	100.2
Total revenue (£bn)	**636.7**	**608.8**	**731.1**	**814.0**	**843.4**
Change in total revenue from previous year (£bn)	–	-27.9	122.3	82.9	29.4
Change in total revenue from previous year (%)	–	-4.4	20.1	11.3	3.6

Notes

1 'Other' includes, for example, Stamp Taxes, Inheritance Tax, alcohol and tobacco duties, Insurance Premium Tax, Capital Gains Tax, student loan recoveries, customs duties, and fines and penalties.

2 Values are in nominal terms to maintain consistency with HMRC's Annual Report and Accounts.

Source: National Audit Office analysis of HM Revenue & Customs Trust Statements 2019-20 to 2023-24

Receivables, impairment and revenue losses

Receivables

1.4 Receivables represent taxpayer liabilities to HMRC that have been established but not yet received. They can include taxes, duties, recovery of tax credits, penalties and interest charges owed by individuals and businesses. As at 31 March 2024, the receivables balance was £60.8 billion (March 2023: £60.0 billion).

1.5 In addition to receivables, HMRC estimates a further £146.5 billion at 31 March 2024 (March 2023: £132.6 billion) of taxes are not yet due from taxpayers but relating to 2023-24 revenues where a tax return has not been received from the taxpayer by the end of the reporting period. Substantially all (£13.8 billion) of the £13.9 billion increase in these accrued revenue receivables was attributable to Income Tax and Corporation Tax.

Tax debt

1.6 When a receivable becomes overdue for payment and is not under appeal, it becomes a debt. As at 31 March 2024, HMRC's tax debt balance was £43.0 billion, £0.9 billion (1.9%) less than the tax debt reported at 31 March 2023 (**Figure 2** overleaf).[3] As a proportion of annual revenues, tax debt reduced from 5.4% at 31 March 2023 to 5.1% at 31 March 2024. During 2023-24, the number of taxpayers in debt decreased from 8.4 million to 8.3 million. 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 £15 billion, or 2.5% of tax revenues.

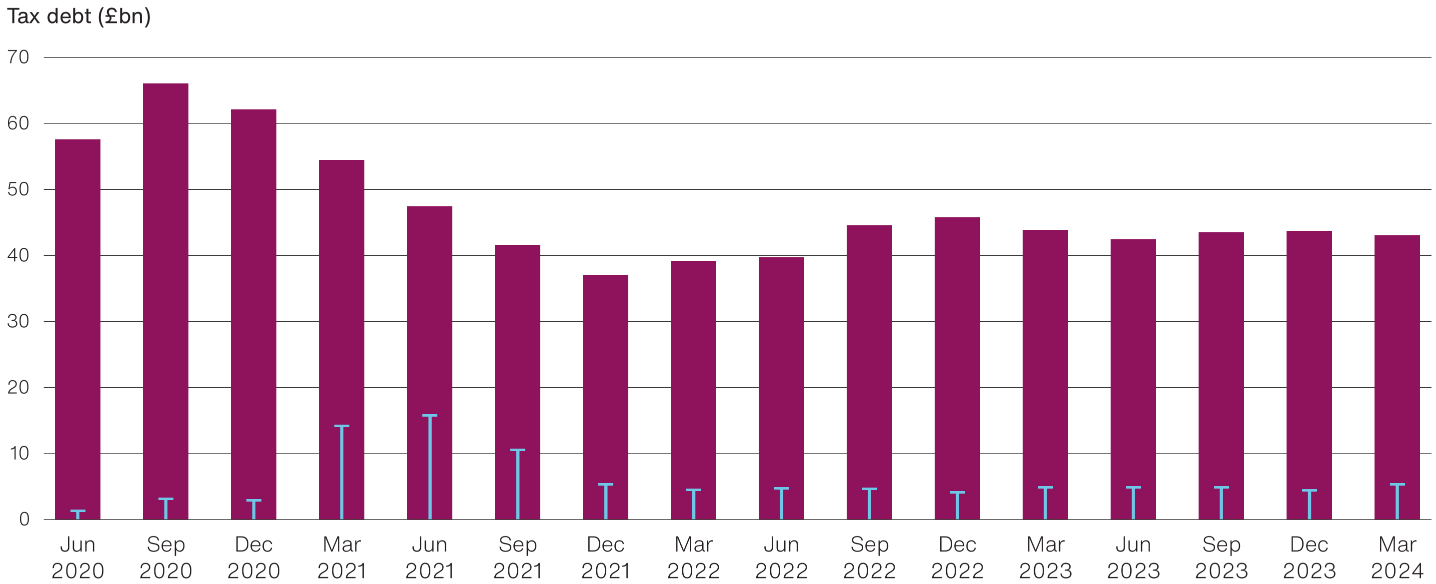
1.7 New taxpayer debt fell 11% in 2023-24, from £116.6 billion in 2022-23 to £103.5 billion in 2023-24, indicating more taxpayers paid their tax on time. HMRC cleared more tax debt than new debt, though the amount of tax debt paid back by taxpayers decreased by 5% from £85.1 billion in 2022-23 to £81.2 billion in 2023-24, indicating the tax debts held by HMRC are getting older on average and becoming less likely to be repaid.

3 In addition to tax debt, HMRC was owed £1.6 billion in tax credits debt at 31 March 2024, down from £2.1 billion at 31 March 2023.

Figure 2

HM Revenue & Customs' (HMRC's) tax debt balance and tax debt within a Time to Pay (TTP) arrangement, June 2020 to March 2024

Between March 2023 and March 2024, HMRC's tax debt balance decreased from £43.9 billion to £43.0 billion



	Jun 2020	Sep 2020	Dec 2020	Mar 2021	Jun 2021	Sep 2021	Dec 2021	Mar 2022	Jun 2022	Sep 2022	Dec 2022	Mar 2023	Jun 2023	Sep 2023	Dec 2023	Mar 2024
Tax debt balance (£bn)	57.6	66.0	62.1	54.5	47.4	41.6	37.0	39.2	39.7	44.6	45.8	43.9	42.4	43.5	43.7	43.0
(of which) tax debt within TTP[2] (£bn)	1.5	3.3	3.1	14.3	16.0	10.7	5.5	4.7	4.9	4.8	4.3	5.1	5.1	5.1	4.6	5.5

Notes

1 Data are as at the end of the month.

2 The tax debt within a Time to Pay (TTP) arrangement is the total value of tax debt for which HMRC has agreed a monthly payment plan with the customer in debt. It is part of the total tax debt balance.

Source: National Audit Office analysis of HM Revenue & Customs data

1.8 HMRC considers that the level of 'managed debt', particularly debt that is within a Time to Pay arrangement, is a good indicator of its debt management performance.[4] The amount within a Time to Pay arrangement increased from £5.1 billion (11.6% of tax debt) at 31 March 2023 to £5.5 billion (12.9%) at 31 March 2024 (Figure 2).[5] HMRC has used additional investment from Spring Budget 2023 to improve its online self-serve time to pay service and expand the service to more tax regimes. Taxpayers can now use the online service to set up payment plans for employers' PAYE (Pay As You Earn) contributions debt and VAT debt, in addition to Income Tax Self Assessment.

1.9 HMRC's debt management function has received significant investment from HM Treasury at recent fiscal events. At Autumn Statement 2023 and Spring Budget 2024, HMRC received a total of £303 million to improve its capacity to manage tax debts. It told us it is using this investment in several ways.

- Improving its ability to segment business taxpayers by purchasing data from credit reference agencies. This follows funding it received in 2022-23 to purchase equivalent data for individual taxpayers. It told us it will not realise any benefits from these improvements until 2024-25.
- Funding its use of debt collection agencies (DCAs). HMRC has improved its return on investment from its use of DCAs in 2023-24, for example, it recovered £38.50 of tax debt per £1 spent on using DCAs in 2023-24 compared with £23.95 in 2022-23. HMRC told us it was able to do this following a new contract with the managing agent which manages its panel of DCAs with a reduced service cost. HMRC said it made process changes, for example placing some debts with DCAs at an earlier stage, which enabled HMRC, through its managing agent, to increase the volume of debt it places with DCAs and pay lower commission rates.
- Increasing the number of staff in its debt management function. It told us the funding it received in the Spring Budget 2024 will allow it to increase its debt management workforce by around 700 full-time equivalent (FTE) staff in 2024-25. It previously received investment of £62 million at Spring Statement 2022 for additional debt management staff, although the average number of FTE staff employed in 2023-24 was actually around 100 lower than in 2022-23.

4 The tax debt within a Time to Pay arrangement is the total value of tax debt for which HMRC has agreed a monthly payment plan with the customer in debt. It is part of the total tax debt balance.

5 In addition to debt within a Time to Pay arrangement, managed debt also includes debt that HMRC considers has reached the end of its processes for pursuing and may be considered for remission. These debts comprised £1.0 billion at 31 March 2024 (March 2023: £2.3 billion). The total managed debt balance reduced from £7.4 billion (16.9% of tax debt) at 31 March 2023 to £6.6 billion (15.2%) at 31 March 2024. The numbers presented here do not sum due to rounding.

Impairments

1.10 There is a risk that some of the receivables balance will not be collected. 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'. The amount that HMRC has estimated that it may not be able to collect increased from 32.0% of receivables (£19.2 billion) in 2022-23 to 45.4% of receivables (£27.6 billion) in 2023-24. For 2023-24, HMRC says it has improved the accuracy of its impairment estimate by fully impairing those debts it considers unlikely to be collectable as well as increasing the impairment rate of some debts. It says the combined effect of this and an increase in older debts, which HMRC has a lower chance of collecting, has driven the increase in the impairment.[6]

Losses

1.11 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 by 50% between 2022-23 and 2023-24, from £3.8 billion to £5.6 billion, with nearly half (£2.6 billion) relating to VAT debt. There are two forms of revenue losses: write-offs of £5.0 billion during 2023-24 (£3.2 billion in 2022-23) and remissions of £0.6 billion in 2023-24 (£0.6 billion in 2022-23). 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 by 10% in 2023-24, with 2023 seeing the highest annual number of insolvencies since 1993. The increase in write-offs in 2023-24 reflects a combination of rising corporate insolvencies and HMRC processing a large volume of write-offs from earlier years.

6 HMRC's approach to calculating the impairment is set out in Note 4.3 of the Trust Statement.

Tax compliance

Tax gap

1.12 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".[7] 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.

1.13 On 20 June 2024 HMRC published its latest estimates for the tax gap. It has estimated that the tax gap for 2022-23 – the latest year for which data are available – was 4.8% of total theoretical tax liabilities, or £39.8 billion against total theoretical liabilities of £823.8 billion. HMRC's estimate of total theoretical liabilities is difficult to reconcile with total tax revenues for 2022-23 of £814 billion, which is just £9.8 billion less than its estimate of total theoretical liabilities. We reported last year that the difference between HMRC's estimate of total theoretical liabilities and revenue was just £8.2 billion. HMRC acknowledges that its figures are uncertain and that it may revise these figures in later years as it gets more data. In its latest publication, it revised upward its estimate of the tax gap for 2021-22 to 5.2% of total theoretical tax liabilities (£38.1 billion) from the previously reported 4.8% of total theoretical tax liabilities (£35.8 billion), mainly because it incorporated more recent data from its enquiries with taxpayers and updated data on consumer spending into its estimates. HMRC also revised its estimate of total theoretical liabilities for 2021-22 from £739.3 billion to £738.7 billion. HMRC estimates the tax gap has remained relatively stable over the longer-term, being at or below 5.5% since 2016-17.

7 HM Revenue & Customs' *Measuring tax gaps 2024* edition is available at: www.gov.uk/government/statistics/measuring-tax-gaps

1.14 The tax gap split by different types of tax is shown in **Figure 3**. HMRC revised up its VAT tax gap estimate for 2021-22 due to updated data on consumer expenditure from the Office for National Statistics. It also revised up its estimate for personal income taxes, driven by an upwards revision to its tax gap for Self Assessment business taxpayers. HMRC told us it revised this estimate using more recent data from its random enquiry programmes. In monetary terms, the Corporation Tax gap increased the most in 2022-23 and is now as large as the tax gap for personal income taxes (£13.7 billion). Despite the large increase in monetary terms, the Corporation Tax gap fell as a proportion of theoretical liabilities, as it did for all types of taxes shown in Figure 3. By customer group, the proportion of the tax gap made up by small businesses has increased every year since 2017-18, from 37% to 60% of the tax gap in 2022-23. The most prevalent form of non-compliance was taxpayers failing to take reasonable care, which accounted for £12.0 billion (30%) of the total tax gap in 2022-23, up from £9.1 billion (25%) in 2019-20.

Compliance activities and compliance yield

1.15 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.

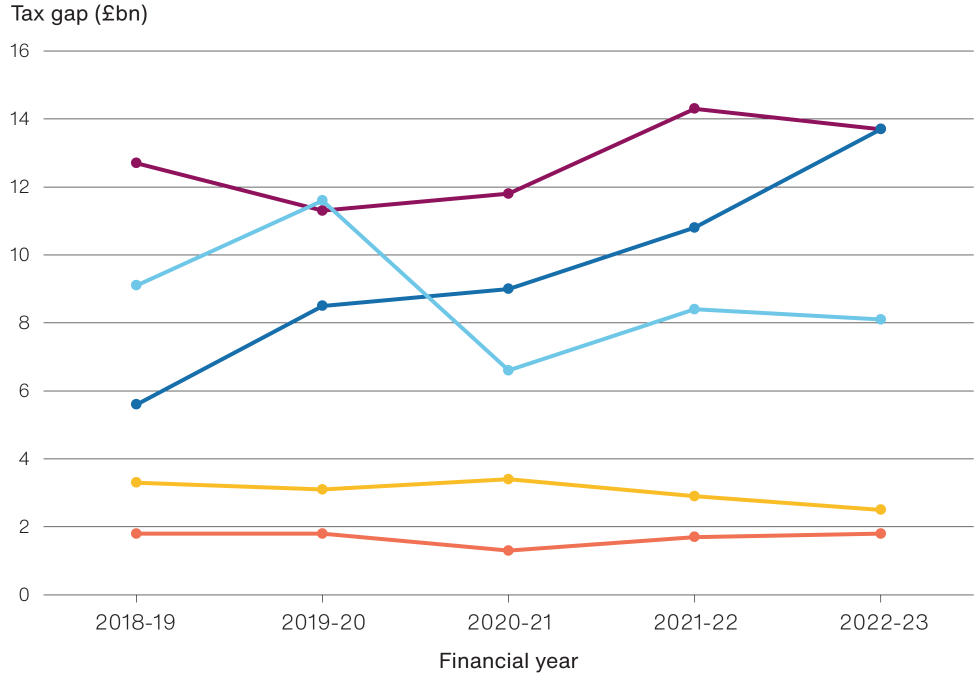
1.16 The aim of HMRC's compliance work is for everyone to pay the right tax that is legally due, no matter who they are. It considers that its role is to help people to pay the right tax through well-designed systems (preventing non-compliance), to provide education (promoting compliance), and to step 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.

1.17 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 2023-24 was £41.8 billion, a 23% increase compared with 2022-23 (£34.0 billion), and higher than the average over the past five years (2019-20 to 2023-24) of £34.8 billion. Compliance yield for 2023-24 was higher than the target of £40.5 billion. HMRC's compliance yield target for 2024-25 is £45.4 billion.

Figure 3

HM Revenue & Customs' (HMRC's) estimates of tax gap by types of tax, 2018-19 to 2022-23

HMRC's estimates indicate that the tax gap in 2022-23 reduced to 4.8% of total theoretical tax liabilities, with the Corporation Tax gap becoming as large as the tax gap from personal income taxes



	2018-19	2019-20	2020-21	2021-22	2022-23
Personal income taxes (Income Tax, National Insurance Contributions, Capital Gains Tax) (£bn)	12.7	11.3	11.8	14.3	13.7
Corporation Tax (£bn)	5.6	8.5	9.0	10.8	13.7
Value Added Tax (VAT) (£bn)	9.1	11.6	6.6	8.4	8.1
Excise duty (£bn)	3.3	3.1	3.4	2.9	2.5
Other taxes[4] (£bn)	1.8	1.8	1.3	1.7	1.8
Total tax gap (£bn)	**32.4**	**36.3**	**32.0**	**38.1**	**39.8**
Total tax gap as a percentage of total theoretical liabilities (%)	5.0	5.5	5.0	5.2	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 values presented are in nominal terms.

4 'Other taxes' includes stamp duties, Inheritance Tax, Landfill Tax, and other taxes, levies and duties.

Source: National Audit Office presentation of HM Revenue & Customs data

1.18 HMRC's compliance yield in 2023-24 represents 5.0% of total revenues. This is higher than the proportion seen in both 2021-22 and 2022-23 (4.2%) and broadly consistent with the five-year average of 5.2% achieved between 2015-16 and 2019-20 before the pandemic (**Figure 4**).

Figure 4

Compliance yield compared with total revenues, 2015-16 to 2023-24

Compliance yield increased as a proportion of total revenues in 2023-24 to 5.0%, more in line with historical levels than in 2021-22 and 2022-23

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Compliance yield (£bn)	26.6	28.9	30.3	34.1	36.9	30.5	30.8	34.0	41.8
Compliance yield (total revenues (%))	5.0	5.0	5.0	5.4	5.8	5.0	4.2	4.2	5.0

Notes

1 Compliance yield is defined by HM Revenue & Customs 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.

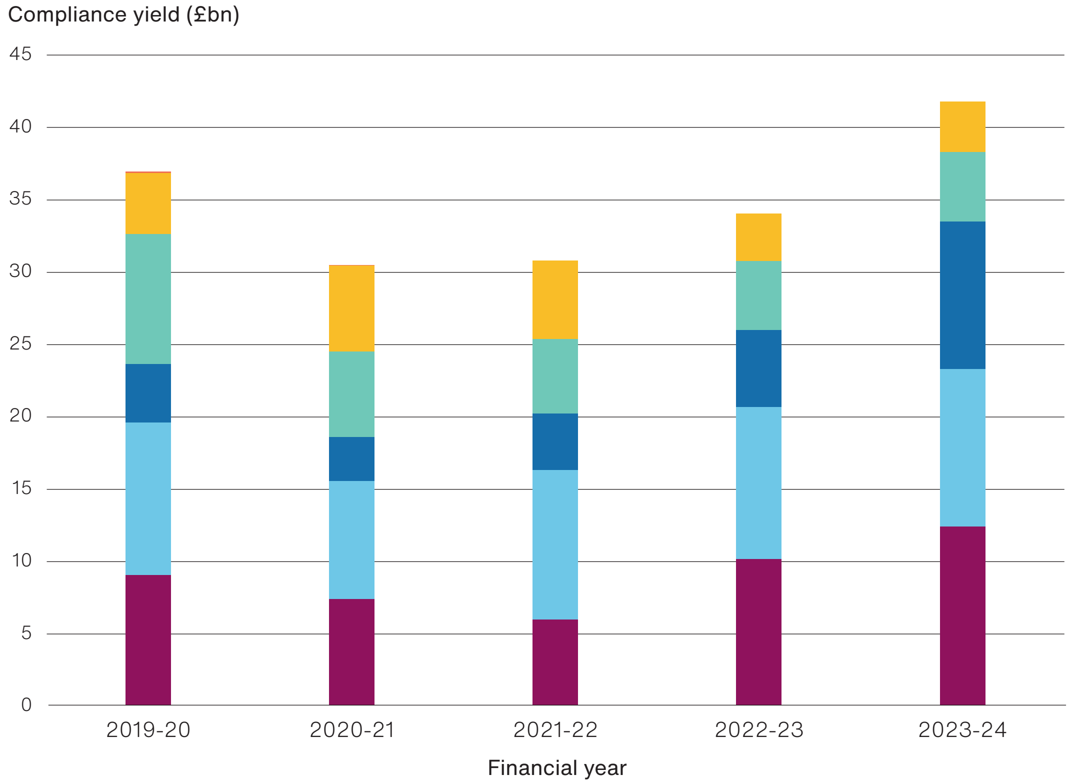
3 The figures include two unusual and exceptionally large yield settlements in 2018-19 and 2019-20.

Source: National Audit Office analysis of HM Revenue & Customs data

1.19 Compliance yield increased in 2023-24 for all five of the categories that HMRC uses to analyse its performance, with a particularly large increase in upstream operational yield (**Figure 5** on pages R21 and R22). HMRC explained that the changes were due to a variety of factors, including better-than-expected yield from legislative changes to off-payroll working rules and the maturity of HMRC's upstream compliance projects. HMRC also recruited 4,200 FTE compliance staff in 2021-22, who have now completed their initial training and continued to develop in 2023-24 towards full productivity.

Figure 5
Compliance yield performance by category, 2019-20 to 2023-24

Compliance yield reported by HM Revenue & Customs (HMRC) increased by 22.8% in 2023-24



	2019-20	2020-21	2021-22	2022-23	2023-24
Cash expected (£bn)	9.0	7.4	6.0	10.1	12.4
Revenue loss prevented (£bn)	10.6	8.2	10.3	10.6	10.9
Upstream operational yield (£bn)	4.1	3.1	3.9	5.3	10.2
Future revenue benefit (£bn)	9.0	5.9	5.2	4.7	4.8
Upstream product and process yield (£bn)	4.2	5.9	5.4	3.3	3.5
Accelerated payments (£bn)	0.1	0.0	–	–	–
Total compliance yield (£bn)	**36.9**	**30.5**	**30.8**	**34.0**	**41.8**
Percentage change from previous year (%)	–	-17.6	1.1	10.5	22.8

Figure 5 *continued*
Compliance yield performance by category, 2019-20 to 2023-24

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.
- 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 that 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 do not sum due to rounding.

4 The figures include an unusual and exceptionally large settlement in 2019-20 which was 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

1.20 HMRC's compliance strategy is to focus increasingly on upstream work, 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. In 2022-23, HMRC set an aspiration that upstream work will contribute at least 25% of its total compliance yield target by 2024-25. In 2023-24, 34% of HMRC's compliance yield target was from HMRC's upstream activities, up from 24% in 2022-23. In our 2022 report *Managing tax compliance following the pandemic*,[8] we recommended that HMRC make further improvements to its quality assurance processes for upstream yield. In response, HMRC reviewed a sample of 30 cases and identified issues relating to the retention of evidence to support its calculations of upstream yield. This finding was also reported by HMRC's internal audit function in May 2024, which also found that HMRC's governance and processes for upstream yield were operating broadly effectively. HMRC told us it is has begun working to address these concerns, and will conduct a follow-up review in 2024-25.

8 Comptroller and Auditor General, *Managing tax compliance following the pandemic*, Session 2022-23, HC 957, National Audit Office, December 2022.

1.21 In 2023-24, HMRC opened 311,000 compliance cases (2022-23: 299,000) and closed 320,000 (2022-23: 280,000). This represents a reduction of 51,000 (14%) cases opened and 31,000 (9%) 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 the number of cases opened or closed to be the key measure of compliance performance.

1.22 HMRC's criminal investigations resulted in 344 prosecutions in 2023-24 (2022-23: 240), lower than the 691 prosecutions in 2019-20, before the COVID-19 pandemic. HMRC told us this reflects continued delays in the criminal justice system as well as its strategy to increasingly focus its criminal investigations on the most serious cases. HMRC says it conducts criminal investigations and seeks prosecutions if it is in the public interest, particularly where behaviour is very serious, or prosecution will act as a deterrent. HMRC does not set a target for prosecutions.

1.23 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 also to address tax compliance risks among wealthy taxpayers. The government forecast that this investment would yield an additional £725 million between 2023-24 and 2027-28. In 2023-24, HMRC collected £69.2 million in additional yield from this investment, deploying 175 more staff.

Customer service performance

1.24 HMRC measures its customer service performance using seven priority metrics (**Figure 6** overleaf). In 2023-24, HM Treasury set target levels for five of these metrics. HMRC missed them all and performance declined from 2022-23 levels in four of them. It received 36.7 million calls from customers in 2023-24, 4% less than in 2022-23, but answered just 66.4% of customers' attempts to speak to an adviser, down from 71.1% in 2022-23 and against a target of 85%. It improved its performance in handling correspondence within 15 working days and has diverted resources to reduce its backlog of unhandled correspondence.

1.25 HMRC changed its performance metrics for telephone engagement in 2021-22 to move away from call waiting times, although it still reports these data which show average waiting times where a call is answered of 23:14 minutes in 2023-24, up from 16:24 minutes in 2022-23. Call waiting times have increased every year since 2018-19, when the average was 5:14 minutes. These times exclude calls where customers end the call before an adviser answers (5.0 million in 2023-24), and calls where HMRC cuts off the customer if they have been waiting 70 minutes (55,922 in 2023-24, up from 6,875 in 2022-23).

Figure 6

HM Revenue & Customs' (HMRC's) performance for seven key customer service measures, 2021-22 to 2023-24[1]

HMRC did not meet any of its customer service targets in 2023-24

Measure	2021-22	2022-23	2023-24	Target for 2023-24[2]
Net Easy (ease of dealing with HMRC)[3]	65.5	59.8	59.2	70.0
Customer satisfaction[4]	82.0%	79.2%	78.6%	80.0%
Telephony adviser attempts handled[5]	77.3%	71.1%	66.4%	85.0%
Customer correspondence cleared within 15 working days of receipt[6]	45.5%	72.7%	76.3%	80.0%
Customer correspondence cleared within 40 working days of receipt[6]	64.1%	89.4%	88.9%	95.0%
Webchat adviser attempts handled[7,8]	92.9%	94.7%	95.9%	–
Once and Done (whether a customer achieved all they wanted during the contact)[8,9]	–	84.4%	84.0%	–

Notes

1 This figure covers those measures listed as priorities in HMRC's published quarterly performance updates, plus the 40 working day customer correspondence measure which HM Treasury set a target for.

2 HMRC had the same annual targets for 2022-23 and 2023-24. For 2021-22, it assessed its performance against quarterly performance expectations rather than annual targets.

3 An exit survey based on a self-selecting sample of customers of telephone, webchat and digital services. The survey question is: "How easy was it for you to do what you needed to do today?" The scores represent the total of positive responses minus the total of negative responses. The score that can be achieved ranges from -100 to 100.

4 A survey-based measure of the percentage of HMRC customers who responded that they were either 'satisfied' or 'very satisfied' with the service. This is based on a self-selecting sample of customers of telephone, webchat and digital services.

5 The proportion of callers who got through to an adviser after hearing automated messages and choosing the option to speak to an adviser.

6 Correspondence (including post in the post and iForms) requiring a response to the customer cleared within 15 and 40 working days divided by total correspondence requiring a response to the customer. The day of receipt is counted as day zero. iForms can be filled in and filed online.

7 The proportion of customers taking up a webchat offer that successfully got through to a webchat adviser.

8 HMRC identified 'webchat adviser attempts handled' and 'Once and Done' as priority measures for 2022-23 and 2023-24, but targets were not set.

9 A survey-based measure of the percentage of customers who responded 'yes' when asked whether they were able to achieve what they needed to on the day they interacted with HMRC. This is based on a self-selecting sample of customers of telephone, webchat and digital services. This measure was new for 2022-23.

Source: National Audit Office presentation of HM Revenue & Customs data

1.26 HMRC agreed under the 2021 Spending Review to make annual efficiency savings of £75 million in customer service by 2024-25. This was doubled to £149 million following the government's efficiency and savings review in 2022-23 to help manage pressures on public spending from higher inflation. HMRC has found it difficult to achieve its customer service efficiency targets and, by 2023-24, was £27 million short of its revised targets. Longer call-handling times, IT outages and inflation have all contributed to the challenge. To support telephone and correspondence performance in 2023-24, HMRC used an additional £36 million to pay for extra temporary customer service staff, an average of around 1,000 additional staff across the year. This additional £36 million of funding was made up of £20 million transferred from HMRC's transformation budget, and £16 million that HM Treasury provided in June 2023, primarily to maintain helpline opening hours.

1.27 To help achieve savings and tackle correspondence processing backlogs, in 2023-24, HMRC closed or reduced the queries it handles on four customer service helplines, including closing the Self Assessment helpline for three months and thereby releasing 350 staff. During these closures, customers could speak to HMRC via the telephone for technical support in using its digital services or if they qualified for extra support, for instance, if they had sensory disabilities or mental health conditions. HMRC considered the changes were successful and had not negatively affected the submission of tax returns or the payment of taxes due. However, its evaluation of the changes did not consider stakeholder views or adequately assess the impacts of the changes on customers.

1.28 In March 2024, HMRC announced further closures and restrictions it would make in 2024-25 but reversed this decision just one day after announcing the changes to the public, following criticism from stakeholders. It said it recognised it needed to do more to ensure it met all taxpayers' needs as HMRC shifts more customers to online self-service in the longer term. In May 2024, HM Treasury announced £51 million additional funding to cover approximately 1,500 temporary staff for 2024-25 to bring HMRC's customer service to target levels. HMRC expects that, in the second half of 2024-25, it will meet its published targets of 85% of telephone calls to HMRC advisers being answered and 80% of correspondence handled within 15 working days. HMRC said it will assess its requirements for future funding based on its performance in 2024-25, longer-term planning and implementation of its customer service strategy.

1.29 HMRC's customer service strategy is designed to put in place a 'digital-first' service approach, reserving its adviser-led channels for customers who need extra support or assistance with complex queries. HMRC's digital services get the highest customer satisfaction scores of its channels, with 83.1% of customers surveyed in 2023-24 reporting they were 'satisfied' or 'very satisfied' after using a digital service, in line with 2022-23. In May 2024, we published a report on HMRC's customer service, which concluded that this strategy makes sense in many ways but has not yet made enough of a difference to customer contact levels. HMRC's digital services do not currently allow customers to resolve more complex queries, and HMRC needs to do more to support customers to use and keep using digital services. We said that, to achieve value for money, HMRC must provide a timely and effective service for customers needing help with their tax or benefits, even as it attempts to reduce costs.[9]

9 Comptroller and Auditor General, *HMRC: Customer service*, Session 2023-24, HC 726, National Audit Office, May 2024.

Part Two

Corporation Tax research and development reliefs

2.1 This Part sets out the reasons and context for the qualified opinion for Corporation Tax research and development (R&D) reliefs, including an overview of HM Revenue & Customs' (HMRC's) estimate for 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. In 2023-24, there were 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 provided an extra deduction from companies' taxable income for research and development expenditure. Both schemes allowed loss-making companies to receive a tax credit paid by HMRC. The research and development relief schemes are complex and have proved attractive to those seeking to abuse them, opening up opportunities for fraud.

2.3 HMRC operates the research and development reliefs as part of its administration of 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 4.1.4 to the Resource Accounts records Corporation Tax research and development reliefs expenditure of £9.4 billion in 2023-24 (£10.2 billion in 2022-23). Of this, £4.9 billion (£3.7 billion in 2022-23) relates to the RDEC scheme and £4.5 billion (£6.5 billion in 2022-23) to the SME scheme. The proportion of estimated expenditure claimed through the RDEC scheme has increased from 36% to 52%. Legislative changes effective from April 2023 increased the rate of the RDEC scheme and decreased the rate of the SME scheme and made them more similar. For more information, see paragraph 2.19.

Qualification of the Comptroller and Auditor General's (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 principal estimate of error and fraud and the estimate it has most confidence in is based on a sample of random enquiries into claims made in 2021-22. This is due to the time lag between claimants incurring the qualifying expenditure and submitting their returns, as well as the time it takes HMRC to open and close its enquiries. HMRC considers that claims made in 2021-22 represent the most accurate and complete population. To provide a current year estimate of error and fraud in 2023-24 for financial reporting purposes, HMRC has projected the results of its sample of random enquiries on claims made in 2021-22 to current year expenditure, accounting for changes in patterns of R&D expenditure between 2021-22 and 2023-24, which produced an estimate of £1,045 million. It further adjusted this estimate for changes in the compliance environment since those claims were made to estimate error and fraud of £601 million, a reduction of £444 million.

2.7 HMRC's latest estimate for 2023-24 indicates that the level of error and fraud present within Corporation Tax research and development reliefs was £0.6 billion, or 7.8% of related expenditure in 2023-24 (**Figure 7**). For the reasons set out in paragraph 2.6 HMRC says this estimate should be viewed as illustrative only. Further details are provided in paragraphs 2.10 to 2.14.

2.8 Of the £0.6 billion of error and fraud that HMRC has estimated for 2023-24, £0.5 billion relates to the SME scheme (14.6% of SME expenditure) and £0.1 billion relates to the RDEC scheme (2.8% of RDEC expenditure). HMRC's estimate for 2023-24 takes into account changes in patterns of expenditure in the current year, which are partly driven by the change in relief rates. It also includes an assumption that recent compliance interventions and new claim requirements will have reduced error and fraud by £444 million, but it will not know the actual impact of these interventions until it has completed and evaluated its random enquiries on 2023-24 returns. This will be reported in the 2025-26 annual report and accounts.

2.9 In the Comptroller and Auditor General's (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 7

Estimated value and rate of error and fraud in small and medium-sized enterprise (SME) and Research and Development expenditure credit (RDEC) relief schemes, 2020-21 to 2023-24

The rate of error and fraud in the schemes remains significant; the SME scheme still shows the highest rate, estimated by HM Revenue & Customs (HMRC) at 14.6% in 2023-24

		Final estimates based on HMRC's Mandatory Random Enquiry Programmes (MREPs)[1]		Projected estimates based on MREPs[2]	
		2020-21	2021-22	2022-23	2023-24
Value of error and fraud (£mn)	SME scheme	1,038	1,203	1,003	475
	RDEC scheme	90	134	48	125
	Overall	**1,127**	**1,337**	**1,051**	**601**
Rate of error and fraud (%)	SME scheme	24.4	25.8	19.5	14.6
	RDEC scheme	3.6	4.6	1.7	2.8
	Overall	**16.7**	**17.6**	**13.3**	**7.8**

Notes

1 HMRC has estimated the value of error and fraud in 2020-21 and 2021-22 through the results of a sample of claims submitted in those financial years as part of its Mandatory Random Enquiry Programmes (MREPs). These claims relate primarily to expenditure incurred by claimants in the two years prior to the claim. As these are based on MREPs, HMRC assesses these estimates as its most statistically robust estimates.

2 HMRC has also produced estimates for 2022-23 and 2023-24 based on the MREP results from 2020-21 and 2021-22, respectively, and an assumption about the impact of recent compliance interventions.

3 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.

4 Numbers may not sum due to rounding.

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.

2.11 Following recommendations from our previous audits, HMRC's estimates of error and fraud were calculated using the results of a Mandatory Random Enquiry Programme (MREP) for the first time in 2022-23. This was a significant change in methodology, the estimate having previously been based on an analysis of compliance case reviews where HMRC had assessed the claims as being at risk of error or fraud. The change in methodology highlighted significantly higher levels of error and fraud than previously reported by HMRC, particularly in respect of the SME scheme. We consider that the current MREP approach represents good practice in the measurement of error and fraud and provides a more realistic assessment of the levels of error and fraud that have always been present in the schemes.

2.12 In 2023-24, the results of a second MREP have been used in HMRC's estimates. This involved inspection of a random sample of claims filed in 2021-22, relating predominantly to expenditure incurred by claimants in 2019-20 and 2020-21. These were the most recent claims available to HMRC at the time it commenced its work.

2.13 HMRC has used information from the first MREP to revise its sampling approach, moving from an entirely random sample of 500 claims to a stratified random sample of 400 claims, targeted at those claims that HMRC assess represent the highest risk of error and fraud. Stratified sampling involves the division of a population into sub-groups based on particular characteristics and the selection of samples from each sub-group (or stratum). HMRC's strata are based on the type of relief claimed and the size of claims. HMRC does not consider that this methodological change has had a material impact on the estimate.

2.14 In addition to its 2023-24 estimate, HMRC has also produced a revised estimate for 2021-22, which indicates that error and fraud in Corporation Tax research and development reliefs was £1.3 billion, or 17.6% of related expenditure; £1.2 billion of this relates to the SME scheme. This compares with HMRC's original 2021-22 estimate of £0.5 billion (£0.4 billion SME), or 4.9% of related expenditure, which was the final estimate to be produced before it introduced the MREP. 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 current year random enquiry programme to 2021-22 expenditure produces the most statistically robust estimate of error and fraud possible at this time. The 2021-22 and 2020-21 estimates are materially consistent. HMRC estimates that, in 2021-22, error and fraud in Corporation Tax research and development reliefs could have been as high as £1.8 billion (23.2%) or as low as £1.0 billion (13.8%). Its central estimate for error and fraud on the SME scheme was 25.8%, which is among the highest reported across all government spending programmes, including those administered in response to the COVID-19 pandemic.

2.15 The implementation of an MREP represents good practice in the measurement of error and fraud. The key features of HMRC's approach to its estimates included the following.

- HMRC's compliance team selected 404 SME scheme claims filed in 2021-22. Of these, HMRC had closed 387 investigations at the time it produced the estimate, a closure rate of more than 95%. HMRC estimated the yield from the remaining 17 open cases and included this in its overall estimate.
- HMRC evaluated the error and fraud identified from its review of the sampled claims to estimate the value of error and fraud for 2021-22 and an associated error and fraud rate.

- HMRC applied a 'non-detection multiplier' to the results to estimate any error or fraud that caseworkers may have missed during their reviews.
- HMRC applied the error and fraud rates calculated through its MREP of claims filed in 2021-22 to 2023-24 expenditure to estimate the value of error and fraud in 2023-24. HMRC's lower estimate for the rate of error and fraud in 2023-24 reflects the compliance interventions and new claim requirements that HMRC has introduced to tackle error and fraud (paragraph 2.8). These compliance interventions are discussed in more detail in paragraphs 2.18 to 2.21.

2.16 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.

2.17 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 the following.

- Based on our audit work, we are satisfied that HMRC's approach to measuring error and fraud in the SME scheme is reasonable.
- Of the 387 claims that HMRC reviewed, 200 (52%) 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. This rate is consistent with HMRC's first MREP which also identified error or fraud in 50% of the sampled claims.
- We observed a more consistent approach than in 2022-23 in referring technically complex software-related cases to internal experts within HMRC's Chief Digital Information Officer (CDIO) function, though this decision remains at the discretion of the individual caseworker and is not required by HMRC guidance to caseworkers.
- In one instance, non-compliance was suspected in a case as HMRC did not receive any contact from the taxpayer or agent. A referral was made to HMRC's Fraud Investigation Service, and the agent is currently being investigated. HMRC told us that the introduction of mandatory electronic filing from 8 August 2023, which requires additional information for all claims, including information on agents, has increased its ability to identify suspicious claims at source.

- HMRC completes its own quality assurance (QA) on a random sample of MREP cases to address the risk of non-detection of case yield. We sampled 10 of these QA cases and in one instance identified that HMRC's own review did not initially identify the error with case yield which had been incorrectly recorded.
- 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. This could mean that HMRC has understated the level of error and fraud in the RDEC scheme. HMRC told us it is reviewing the Large Business methodology to consider any improvement that can be made. The non-detection adjustment is made to RDEC claimed by SMEs which were evaluated through the MREP.
- In six of the 56 cases that we sampled, we found HMRC had initially used the incorrect yield figure in its estimate (2022-23: three of the 60 cases sampled).

Developments in tackling error and fraud

2.18 In response to recommendations made by the Committee of Public Accounts in February 2022, January 2023 and February 2024, HMRC has taken a number of actions to tackle abuse of Corporation Tax research and development reliefs, including:

- increasing the volume of compliance enquiries into claims for research and development reliefs;
- requiring companies to make all claims digitally, with more detail and endorsed by a named senior officer. HMRC implemented a digital submission form from 1 April 2023 on a voluntary basis, which became mandatory for all claims from 8 August 2023; all claims from this date will be supported by an additional information form (AIF) which will include more information about the claim, including agent information;
- completing further analysis to understand the reasons for the growing cost of research and development reliefs, including sectoral analysis of the number and average value of claims;
- introducing and further developing its MREP, randomly checking claims to inform its estimates for 2022-23 and future years; and
- increasing its compliance headcount by 400 for the research and development schemes.

2.19 In the Finance Act 2023, the government amended 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, were designed to make the two schemes more similar in terms of the level of support they provide to claimants. The legislation was, in part, a response to the estimated level of error and fraud for the SME scheme being considerably higher than for the RDEC scheme.

2.20 The government made further changes to the research and development reliefs regime in the Finance Act 2024. The RDEC and SME reliefs were merged, with a tax credit offered to all companies for qualifying research and development expenditure at the existing RDEC rate of 20%. To replace an existing provision within the SME relief, an additional scheme was introduced to give more generous relief to 'R&D intensive' SMEs, whose R&D expenditure is at least 30% of total relevant expenditure. These measures took effect in April 2024.

2.21 The impact of action HMRC is taking to tackle abuse of Corporation Tax research and development reliefs will not become clear until 2024-25 and beyond, when the legislative changes and improvements to its compliance processes take effect and HMRC has conducted an evaluation of the impact of these changes. Given what HMRC now knows about the extent of non-compliance in the schemes, it will need to consider whether the steps it is currently taking are adequate and whether it is striking the right balance with its compliance interventions, to avoid deterring valid claims.

Part Three

Benefits and credits

3.1 This part sets out the reasons and context for the qualified opinion for Personal Tax Credits (tax credits) and Child Benefit expenditure, including an overview of HM Revenue & Customs' (HMRC's) estimates for error and fraud, and a change in the approach HMRC has adopted for measuring error and fraud for both expenditure streams.

Personal Tax Credits

3.2 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.

3.3 HMRC bases tax credits awards on initial claimants' income estimates, then finalises them following the end of the fiscal year. Finalising awards relies on claimants providing complete and accurate data, and HMRC calculating awards accurately. Identifying and addressing error and fraud in tax credits remains 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).

3.4 In 2023-24, HMRC spent £7.3 billion on tax credits, representing 18.1% of the total expenditure of £40.3 billion recorded in HMRC's 2023-24 Resource Accounts. As at April 2024 there were 594,000 families claiming tax credits. HMRC expects full migration to Universal Credit by 5 April 2025.

Qualification of the Comptroller and Auditor General's (C&AG's) audit opinion on the regularity of tax credits expenditure

3.5 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.[10]

3.6 In the C&AG's view, the overall estimated 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

3.7 In previous years, HMRC estimated the level of error and fraud in tax credits through investigation of a random sample of cases (2,000 cases based on the last exercise it undertook in 2022-23 in respect of 2021-22 claims).

3.8 For 2023-24, HMRC changed its approach to the estimate, which is now based on applying historic rates of error and fraud to the tax credits expenditure forecast for the 2023-24 financial year. The forecast estimates the final expenditure following tax credits finalisation, which will occur in January 2025 after the self-assessment deadline. HMRC considers that this approach provides a reasonable estimate of error and fraud in 2023-24 tax credits expenditure due to the stable rates of under- and overpayments observed in recent years and the diminishing population of claimants as more people migrate to Universal Credit.

3.9 HMRC estimates that, in 2023-24, error and fraud resulted in overpayments of 4.7%. Error and fraud resulting in underpayments amounted to 0.8%. This equates to overpayments of £365 million (2022-23: £415 million) and underpayments of £60 million (2022-23: £70 million). This downward trend is caused by a reduction in tax credits expenditure, with the rate of error and fraud in overpayments and underpayments consistently estimated at 4.7% and 0.8%, respectively, in both periods (**Figure 8** overleaf).

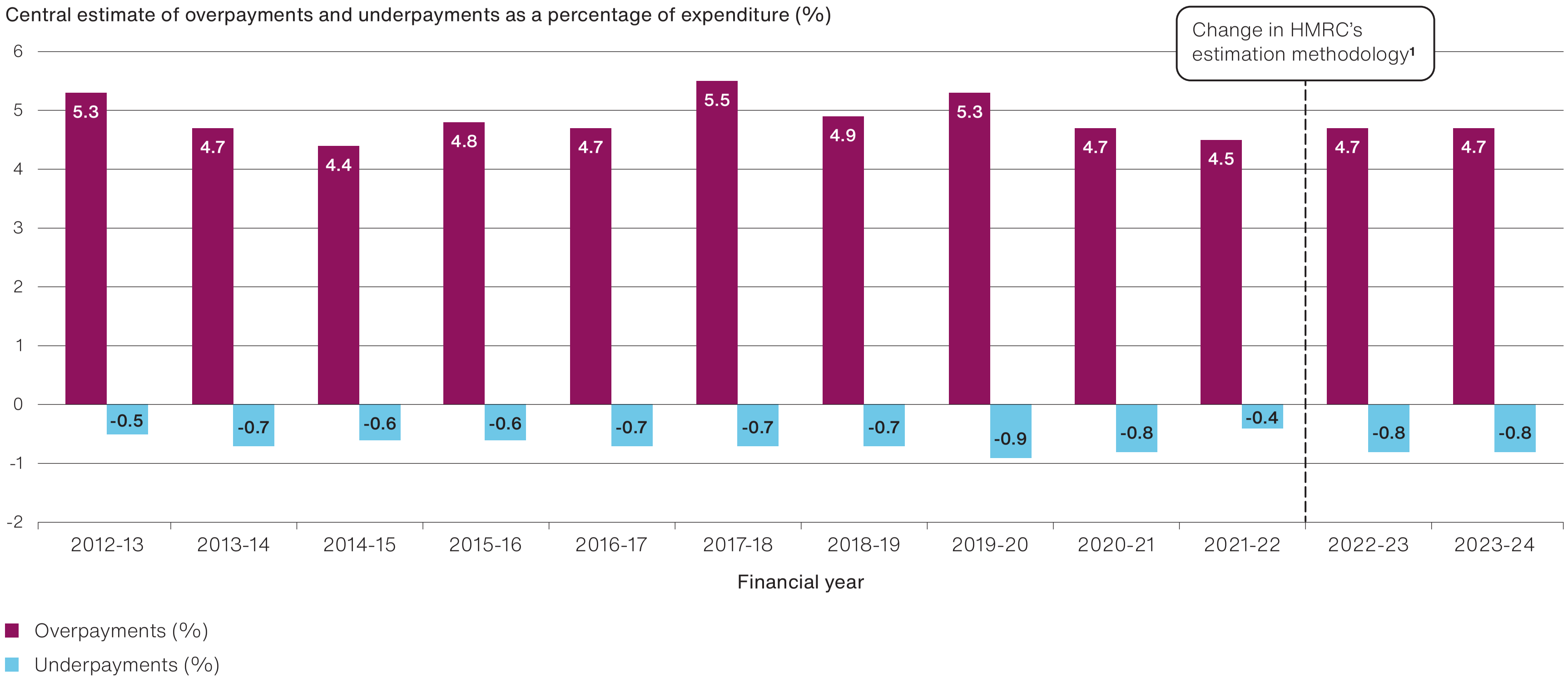
3.10 In forming his opinion on the regularity of tax credits expenditure, the C&AG has considered whether the error and fraud rates, calculated based on previous periods' random enquiry programmes applied to 2023-24 tax credits expenditure, provides appropriate evidence that tax credits error and fraud remains material in 2023-24. HMRC estimates that the error and fraud rate will remain in the range of 4.4% to 5.0% for 2023-24. The C&AG has, therefore, qualified his opinion based on HMRC's estimate of error and fraud for 2023-24.

10 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". 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 8

Overpayments and underpayments as a percentage of total tax credits expenditure, 2012-13 to 2023-24

HM Revenue & Customs (HMRC) estimates that overpayments in personal tax credits were 4.7% of total tax credits expenditure in 2022-23 and 2023-24 following a change in estimation methodology



Note

1 HMRC calculated its estimates for 2022-23 and 2023-24 using a new methodology, using a proxy rate based on historic rates of error and fraud in tax credits. Prior to this change, HMRC estimated the level of error and fraud through inspection of a random sample of cases.

Source: National Audit Office analysis of HM Revenue & Customs data

3.11 Given the change in methodology, described above, HMRC no longer reports on the full range of causes of error and fraud via published statistics. For 2021-22, which was the final year of its random enquiry programme, it only reported the error and fraud caused by the misreporting of income (£190 million of overpayments) and working hours (£110 million) by tax credits claimants which contributed to over 60% of overpayments.

Replacement of tax credits by Universal Credit

3.12 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.

3.13 During 2023-24 the number of claimants migrating to Universal Credit was 516,000. HMRC has indicated that it remains on target to complete the transfer of all eligible tax credits claimants to Universal Credit by the end of 2024-25. It expects the remaining 443,000 migrations to occur in the next financial year.

3.14 HMRC's latest forecast suggests there is a still a further £0.5 billion of tax credits debt to transfer to DWP. HMRC transferred £0.3 billion of debt in 2023-24 (2022-23: £0.3 billion).

Child Benefit

3.15 Child Benefit has been administered by HMRC since the department was established in 2005. It is designed to acknowledge the costs of raising a child and provides financial assistance to families. HMRC typically pays Child Benefit every four weeks to claimants who are responsible for a child under the age of 16, or under 20 if they stay in approved full-time non-advanced education (FTNAE).

3.16 Child Benefit is payable regardless of an individual's income. However, in 2023-24, individuals earning over £50,000 were required to pay the High Income Child Benefit Charge (HICBC). Once earning above £60,000, the value of HICBC was equal to the Child Benefit entitlement so no additional financial benefit would be gained from continuing to receive Child Benefit. At Spring Budget 2024 the government increased the HICBC threshold to £60,000, and the value at which the HICBC equals Child Benefit entitlement to £80,000 from 2024-25.

3.17 In 2023-24, HMRC's expenditure on Child Benefit was £12.5 billion (2022-23: £11.6 billion), making it the largest individual benefit paid by HMRC. In August 2023, HMRC estimated that 6.9 million families were in receipt of Child Benefit payments with these families claiming the benefit for 11.9 million children (August 2022, 7.0 million families and 12.2 million children).

Qualification of the C&AG's audit opinion on the regularity of Child Benefit expenditure

3.18 The Child Benefit Act 2005 specifies the eligibility criteria for Child Benefit. Where error and fraud result in HMRC overpaying an individual who is either not entitled to Child Benefit 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.

3.19 In the C&AG's view, the overall estimated value of overpayments due to error and fraud in Child Benefit expenditure is material by reference to the related expenditure, and he has qualified his audit opinion on that basis. This is the first time his opinion has been qualified due to the estimated error and fraud within Child Benefit expenditure.

Estimated level of error and fraud in Child Benefit expenditure

3.20 HMRC's central estimate of the rate of error and fraud in Child Benefit expenditure has ranged between 0.8% and 0.9% in the period 2019-20 to 2022-23. HMRC estimates the rate of error and fraud to be 1.6% in 2023-24 which was determined using a new methodology (**Figure 9**). Due to the change in methodology HMRC has said that it is not possible to meaningfully compare this latest estimate with previous years. For 2023-24, HMRC estimated the level of error and fraud by selecting a random sample for inspection of 2,700 claims across a nine-month period (300 claims from each period). In previous years, HMRC completed a single annual enquiry of 2,700 inspections. HMRC selected the random sample based on its own assessment of risk, which for 2023-24 identified two distinct populations of claimants: those claiming for children in FTNAE and those claiming for children that were not in FTNAE (non-FTNAE).

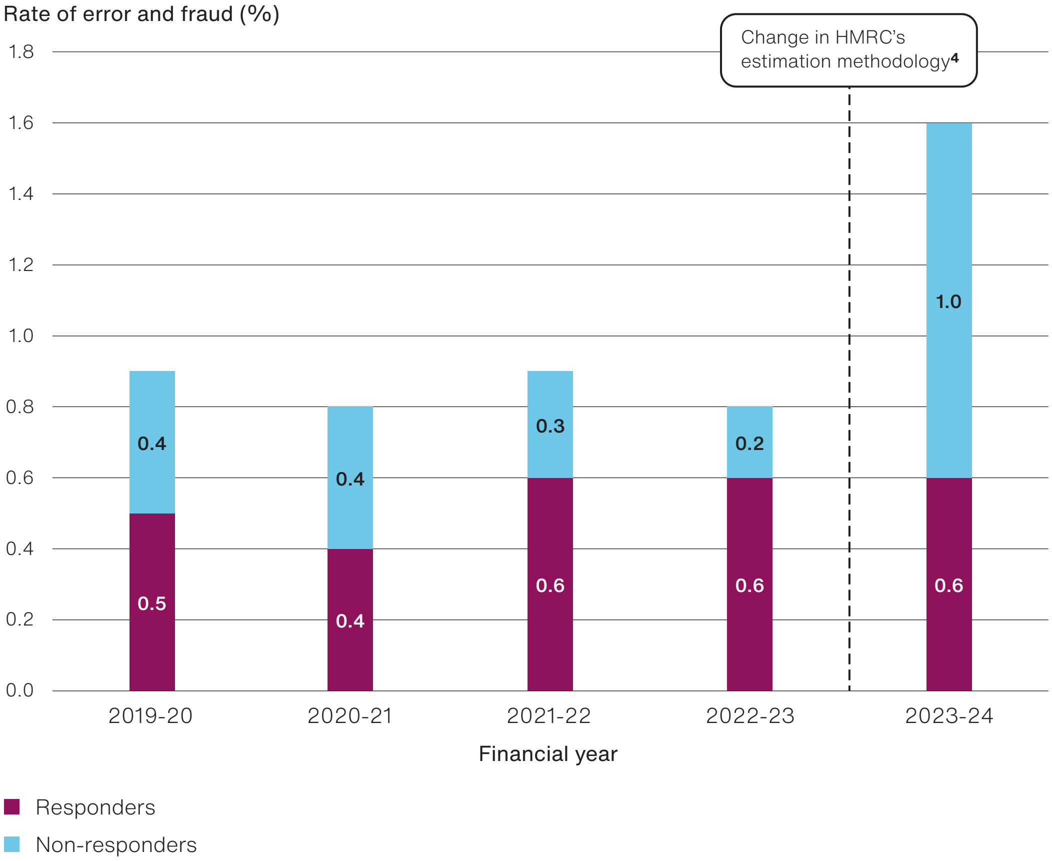
3.21 Once a claim is selected for inspection, HMRC opens an enquiry that gives the claimant a five-week period to provide evidence to support their Child Benefit claim. If a claimant engages with HMRC's enquiry, regardless of the validity of their claim, HMRC classifies them as a 'responder'. If an individual does not respond to HMRC's enquiry, HMRC suspends or terminates their payments and classifies them as a 'non-responder'. HMRC reviews all non-responder cases through a desk-based analysis that uses other information sources available to it to deem whether the claim is compliant or non-compliant.

3.22 Of the 2,700 claims that HMRC selected in 2023-24, 2,368 were responder cases and 332 were non-responders. HMRC judged 36 of the 2,368 responders (1.5%) to be non-compliant based on the evidence provided by claimants. HMRC's desk-based analysis estimated 35 (10.5%) of the 332 non-responder cases were non-compliant.

Figure 9

Rate of error and fraud in Child Benefit payments, 2019-20 to 2023-24

HM Revenue & Customs' (HMRC's) estimate of error and fraud in Child Benefit payments in 2023-24 was 1.6% of expenditure, compared with 0.8% of expenditure in 2022-23



Notes

1 The rate of error and fraud is the value of error and fraud as a percentage of total Child Benefit expenditure.

2 HMRC calculates Child Benefit error and fraud by requesting evidence of eligibility from a sample of claimants. In 2023-24 the sample size was 2,700. HMRC says this sample size leads to a high degree of uncertainty. For 2023-24, HMRC assesses that error and fraud could be as high as 2.0% or as low as 1.2%.

3 Responders are claimants who provided evidence that showed they were ineligible for part of or all of their Child Benefit claim. Non-responders are claimants who did not provide any evidence. For responders, HMRC calculates the rate of error and fraud using the evidence provided. For non-responders, HMRC performs further analysis to calculate the rate of error and fraud.

4 In 2023-24, HMRC changed its methodology for measuring error and fraud, moving from an annual enquiry based on the August National Statistical publication to a monthly enquiry programme, representing good practice in error and fraud measurement. The 2023-24 estimate is therefore not directly comparable with previous estimates.

Source: National Audit Office analysis of HM Revenue & Customs data

3.23 Based on the results of its random enquiries, HMRC estimates that, in 2023-24, the overall level of error and fraud resulting in overpayments of Child Benefit amounted to 1.6% of the associated expenditure, or £200 million (0.8% or £90 million for 2022-23). This error and fraud comprises two distinct categories:

- 0.6% (£75 million) relating to responders that HMRC has found to be ineligible for Child Benefit (0.6% or £65 million for 2022-23); and
- 1.0% (£125 million) relating to non-responders who, based on its further analysis, HMRC believes are not entitled to Child Benefit (0.2% or £25 million for 2022-23).

3.24 HMRC's estimate of the overpayment rate in 2023-24 (1.6%) is in the middle of its forecast range, which estimates that Child Benefit error and fraud could be as high as 2.0% or as low as 1.2%.

3.25 HMRC considers the reason for the significantly higher estimate of error and fraud in non-responder cases to be a result of a change in its estimation methodology for 2023-24. Under its previous methodology, HMRC was only able to predict the period of non-compliance for non-responders by extrapolating the claim from the point of suspension to the end of the tax year, given there was no information available to assess when the claim became non-compliant. HMRC's change from annual to monthly enquiries means that it can now more precisely estimate the duration a claim was non-compliant for.

3.26 While the move to a monthly sample of random inspections represents good practice in fraud and error measurement it does not yet allow HMRC to confirm its view that the increase in error in fraud is driven solely by methodological changes or whether there are other underlying causes. HMRC told us that the absence of any increase in the number of awards resulting from error or fraud supports its view. More data on the new methodology is needed for HMRC to confirm this, together with any improvements to its risk assessment and compliance procedures that may be required as a result.

Causes of error and fraud in Child Benefit

3.27 HMRC has identified a number of causes of error and fraud within Child Benefit expenditure, which it considers mainly relate to individuals not informing it of a change in circumstances. The most common cause identified by HMRC is in respect of claims for FTNAE, which represent 67% of non-compliant cases in the responder population in 2023-24 and 43% of non-compliant cases in the non-responder population. FTNAE issues arise where either a child has left full-time non-advanced education or where children are working more hours than permitted per week, which was 24 hours in 2023-24. HMRC also assesses claims as non-compliant due to household changes, immigration status and, for the non-responder population only, where it can find no trace of an individual. The reasons for non-compliance remain broadly comparable with HMRC's equivalent exercise completed in 2022-23 (**Figure 10**).

Figure 10

Presumed reasons for error and fraud in Child Benefit claims, split by responders and non-responders, 2022-23 and 2023-24

HM Revenue & Customs' (HMRC's) assessment of the reasons for error and fraud in Child Benefit claims in 2023-24 is broadly consistent with its 2022-23 assessment

Reason for error and fraud	Responders		Non-responders	
	2022-23	2023-24	2022-23	2023-24
	(% of error and fraud)	(% of error and fraud)	(% of error and fraud)	(% of error and fraud)
Full-time non-advanced education (FTNAE) issues[1]	73	67	47	43
No trace[2]	–	–	26	31
Household changes[3]	6	14	–	–
Immigration status	9	6	14	20
Claimant/child abroad	5	6	–	–
Young person claiming benefits	3	0	10	6
Other reason[4]	5	8	3	0

Notes

1 'FTNAE issues' refer to claimants continuing to claim for children who have left full-time non-advanced education or are working more than the permitted hours a week, which was 24 hours in 2023-24 and 16 hours in 2022-23.

2 'No trace' refers to claimants who do not have a recorded income on HMRC's systems and are not claiming any benefits.

3 Household changes include, for example, where a child no longer lives with a claimant.

4 'Other reason' includes, for example, where a child is in local authority care, imprisonment or deceased.

5 Percentages may not sum to 100 due to rounding.

Source: National Audit Office analysis of HM Revenue & Customs data

Appendix One

Our evidence base

1 This report presents our factual commentary on HM Revenue & Customs' (HMRC's) performance during 2023-24. We prepared our commentary using evidence collected between April and July 2024.

2 The report covers:

- HMRC's performance against its 2023-24 objective of collecting revenues and managing compliance, the main components of the £843.4 billion raised in 2023-24 and 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 and Child Benefit (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 2023 and 31 March 2024.

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 2024*, published by HMRC in June 2024, as well as *Economic and fiscal outlook*, published by the Office for Budget Responsibility in March 2024.

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.

8 Our reports of particular relevance were:

- *HMRC: customer service* (May 2024);
- *Tax measures to encourage economic growth* (January 2024); and
- *Managing tax compliance following the pandemic* (December 2022).

Interviews

9 We conducted two virtual interviews in May 2024 with representatives from HMRC's business groups responsible for compliance and debt management. These interviews lasted an hour each and we took detailed notes.

10 We undertook these interviews to corroborate the evidence collected from our document review and quantitative analysis, and to understand better:

- HMRC's objectives for 2023-24 and its performance in the year;
- challenges it faced in achieving its objectives in 2023-24, and risks to performance in future years;
- HMRC's plans for maintaining and improving performance in 2024-25; and
- HMRC's views on current issues.

Parts Two and Three

11 Parts Two and Three rely principally on evidence collected as part of our financial audit work on Corporation Tax research and development reliefs, Personal Tax Credits and Child Benefit. This work is done in accordance with International Standards on Auditing (UK) (ISAs UK), applicable law and Practice Note 10 *Audit of Financial Statements of Public Sector Entities in the United Kingdom (2022)*. As part of this work, we reviewed HMRC's error and fraud statistical analysis. We interviewed key staff and reviewed relevant documents.

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& Customs

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