National Audit Office

Report by the Comptroller and Auditor General

HM Revenue & Customs 2023-24 Accounts

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Issued under Section 2 of the Exchequer and Audit Departments Act 1921

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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.

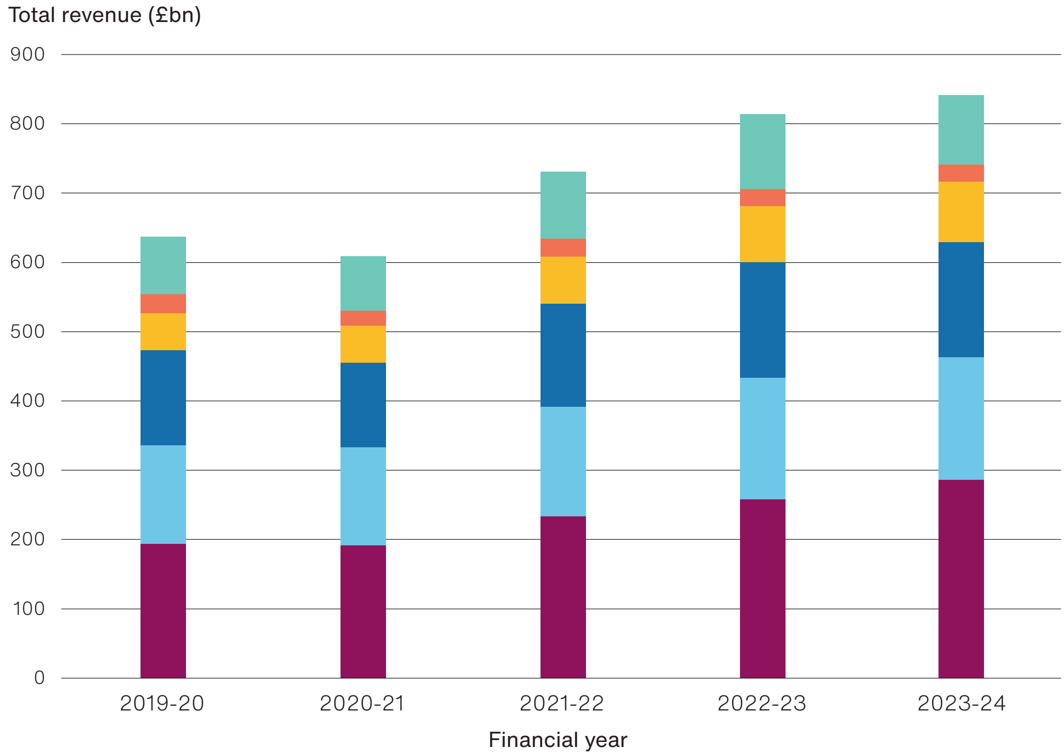
1.3 In March 2024, the Office for Budget Responsibility (OBR) forecast that public sector receipts in 2023-24 would increase by 7.1% (£73 billion) compared with 2022-23.[2] This forecast is not directly comparable with the growth rate in revenue of 3.6% reported in the Trust Statement as public sector 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.

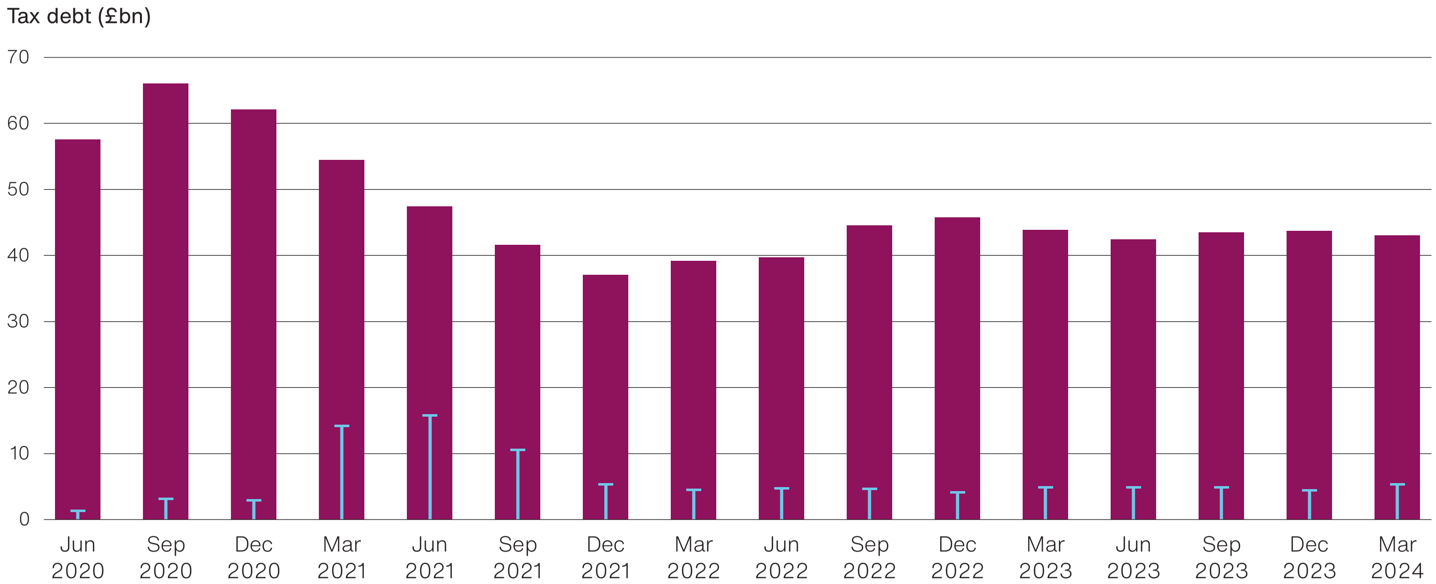
1.7 New taxpayer debt fell 11% in 2023-24, from £116.6 billion in 2022-23 to £103.5 billion in 2023-24, indicating more taxpayers paid their tax on time. HMRC cleared more tax debt than new debt, though the amount of tax debt paid back by taxpayers decreased by 5% from £85.1 billion in 2022-23 to £81.2 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.

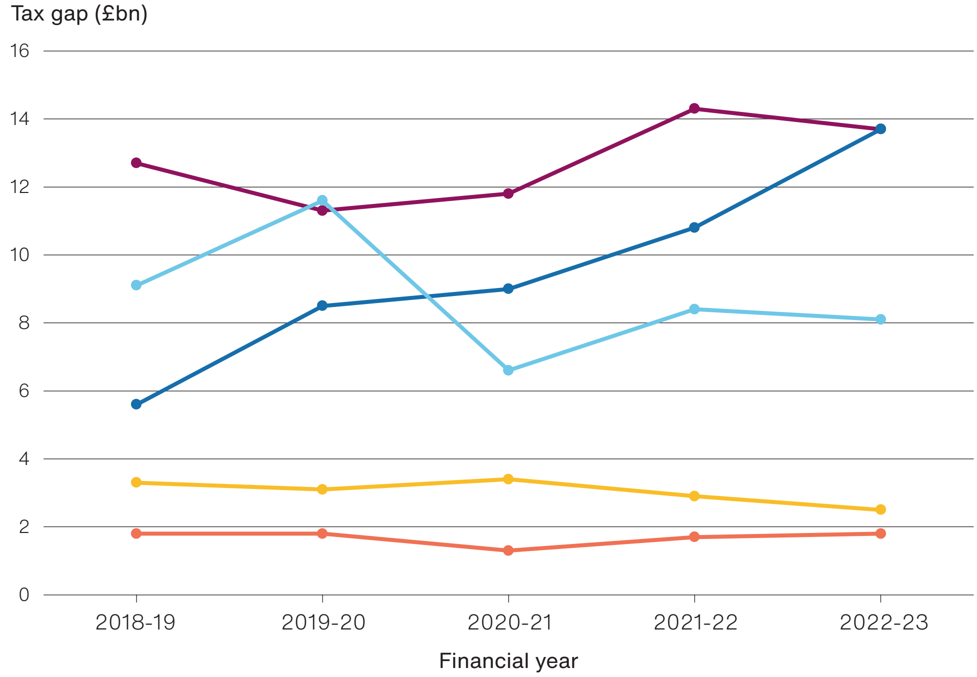
1.16 The aim of HMRC's compliance work is for everyone to pay the right tax that is legally due, no matter who they are. It considers that its role is to help people to pay the right tax through well-designed systems (preventing non-compliance), to provide education (promoting compliance), and to step 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.

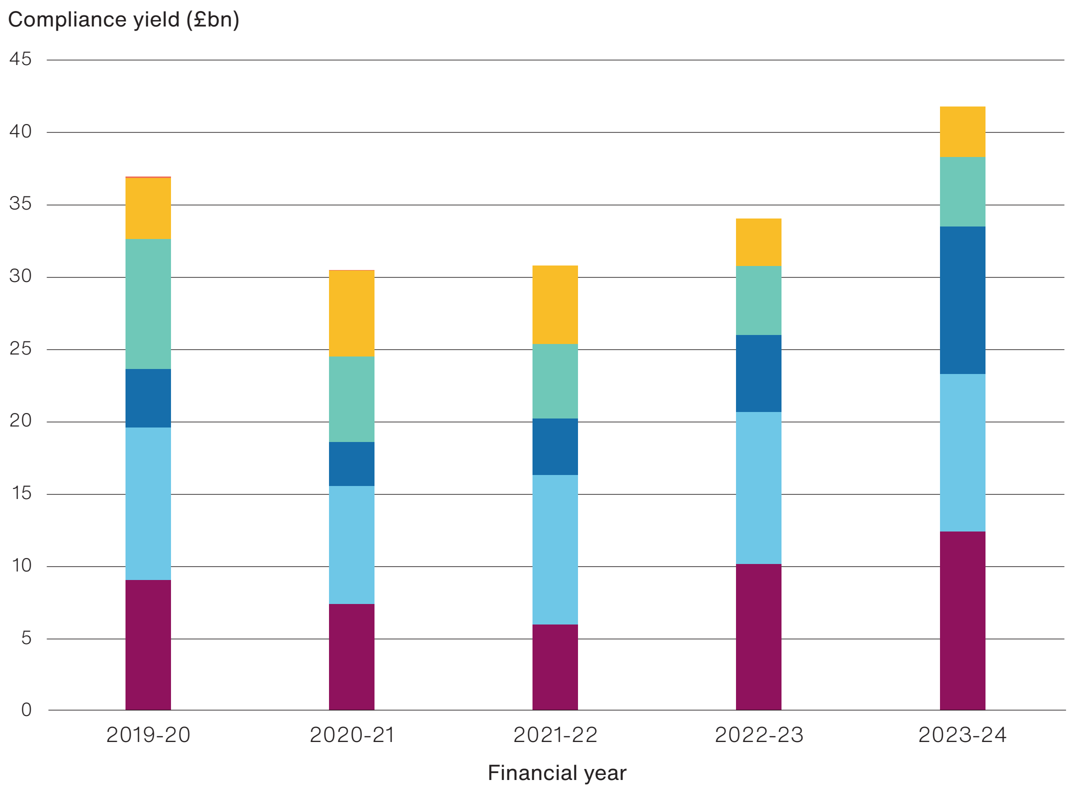
3 The figures include two unusual and exceptionally large yield settlements in 2018-19 and 2019-20.

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).

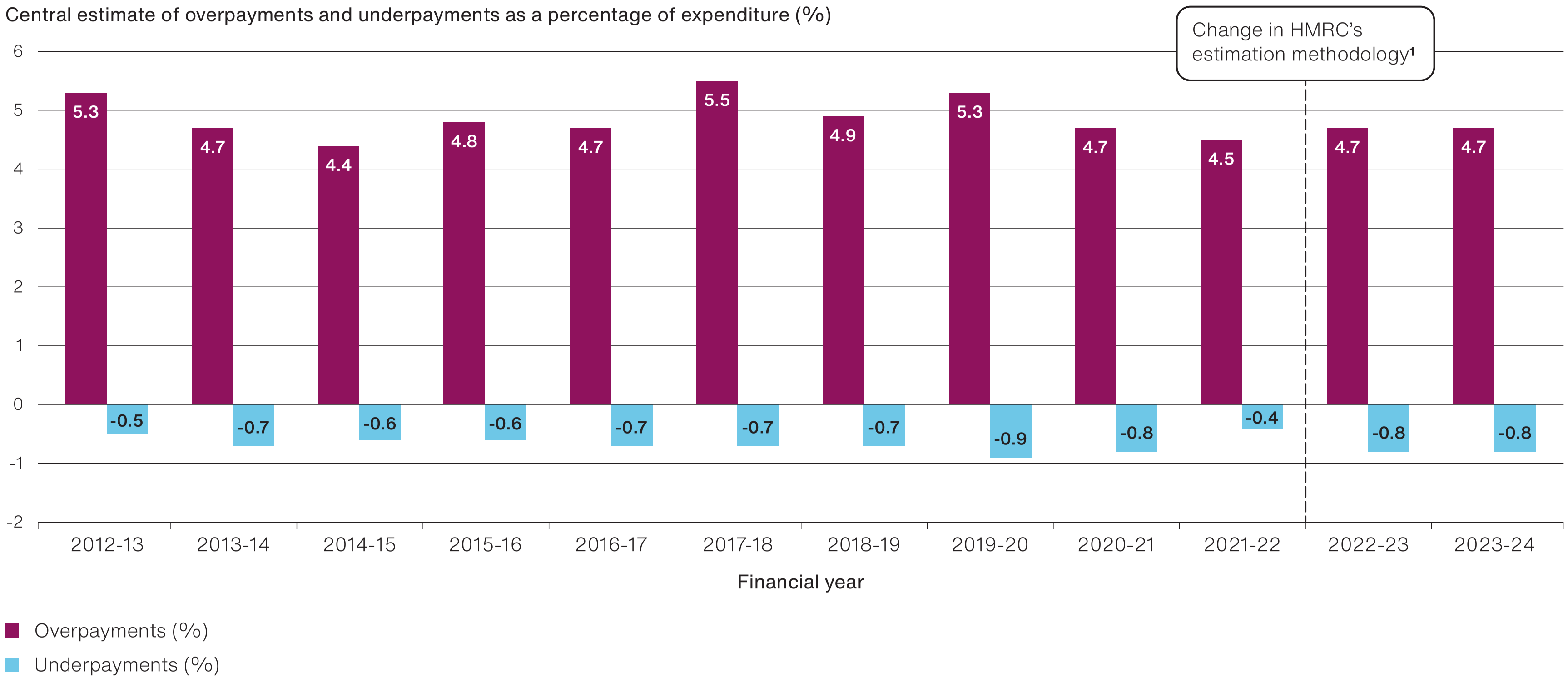
3.10 In forming his opinion on the regularity of tax credits expenditure, the C&AG has considered whether the error and fraud rates, calculated based on previous periods' random enquiry programmes applied to 2023-24 tax credits expenditure, provides appropriate evidence that tax credits error and fraud 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

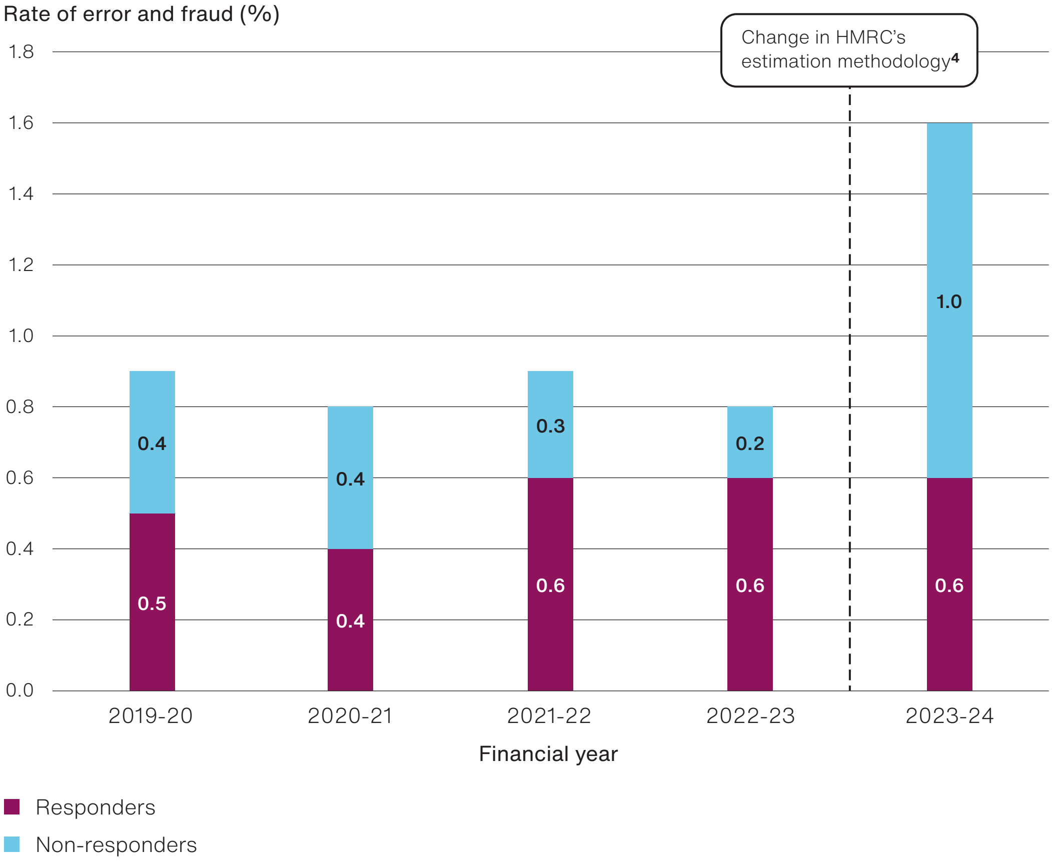
3.20 HMRC's central estimate of the rate of error and fraud in Child Benefit expenditure has ranged between 0.8% and 0.9% in the period 2019-20 to 2022-23. HMRC estimates the rate of error and fraud to be 1.6% in 2023-24 which was determined using a new methodology (**Figure 9**). Due to the change in 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.