



National Audit Office

DEPARTMENTAL OVERVIEW

The performance of
HM Revenue & Customs 2012-13

NOVEMBER 2013

Our vision is to help the nation spend wisely.

Our public audit perspective helps Parliament hold government to account and improve public services.

The National Audit Office scrutinises public spending for Parliament and is independent of government. The Comptroller and Auditor General (C&AG), Amyas Morse, is an Officer of the House of Commons and leads the NAO, which employs some 860 staff. The C&AG certifies the accounts of all government departments and many other public sector bodies. He has statutory authority to examine and report to Parliament on whether departments and the bodies they fund have used their resources efficiently, effectively, and with economy. Our studies evaluate the value for money of public spending, nationally and locally. Our recommendations and reports on good practice help government improve public services, and our work led to audited savings of almost £1.2 billion in 2012.

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Introduction

Aim and scope of this briefing

1 The primary purpose of this report is to provide the Treasury Select Committee with a summary of HM Revenue & Customs' activity and performance since September 2012, based primarily on published sources, including the Department's own accounts and the work of the National Audit Office (NAO).

2 Part One of the report focuses on HM Revenue & Customs' (the Department's) activity over the past year. Part Two concentrates on NAO analyses of that activity. Part Three takes the form of a case study, looking in greater detail at the Tax Assurance Commissioner's Report, published for the first time in 2013.

3 The content of the report has been shared with the Department to ensure that the evidence presented is factually accurate.

Part One

About the Department

The Department's responsibilities

1.1 HM Revenue & Customs (HMRC) is the principal revenue-collecting department of the UK. Its purpose is to make sure that money is available to fund the UK's public services, by collecting UK taxes. In 2012-13, HMRC collected £475.6 billion in revenue, £1.4 billion (0.3 per cent) more than in 2011-12. Income tax and National Insurance contributions and VAT accounted for 74 per cent of tax collected (**Figure 1**).

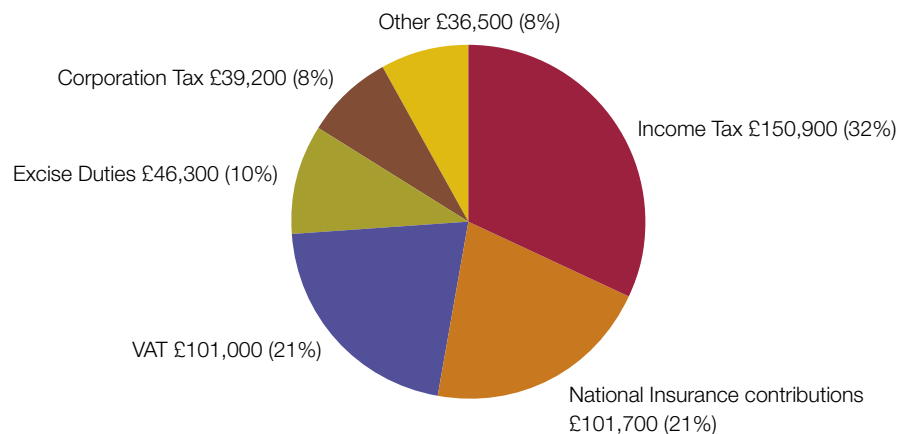
1.2 HMRC also helps families, individuals and companies with targeted financial support. In 2012-13 the Department spent:

- £30.1 billion on tax credits; and
- £12.2 billion on child benefit.

1.3 In addition, HMRC enforces the national minimum wage; collects student loans; collects and manages the bank levy; and supervises compliance with money laundering regulations for organisations in finance sectors that do not have a supervisory body.

Figure 1

Analysis of taxes collected 2012-13 (£m)



Source: HM Revenue & Customs, *Annual Report and Accounts 2012-13*

How the Department is organised

1.4 The Chief Executive of HMRC, Lin Homer, is responsible for HMRC's day-to-day business. She is both the Permanent Secretary and accounting officer and is accountable to Parliament for the Department's expenditure and performance.

1.5 The Tax Assurance Commissioner, Edward Troup, is responsible for shaping tax policy and strategy, for tax professionalism, and for overseeing and providing assurance on large tax settlements. This is a new role, established in August 2012, as a second Permanent Secretary in support of the Chief Executive. The role replaced the position of the Permanent Secretary for Tax who had been the senior tax professional in HMRC. The role of the Tax Assurance Commissioner, and a digest of his inaugural report in 2012-13, is examined in Part Three of this report.

1.6 HMRC is organised into four groups: personal tax; business tax; benefits and credits; and enforcement and compliance. The groups are supported by five department-wide corporate services functions (**Figure 2**). The Chief Executive chairs HMRC's executive committee and its membership includes the Tax Assurance Commissioner and the leaders of each of HMRC's groups and functions.

1.7 **Figure 3** on page 8 shows how the composition of HMRC's executive committee has evolved since 2009-10, with the addition of a new Chief Executive, Tax Assurance Commissioner and Chief Digital and Information Officer. The Department's four Directors General have changed in the last two years; three posts were filled in 2012-13, by two external appointments and one on promotion.

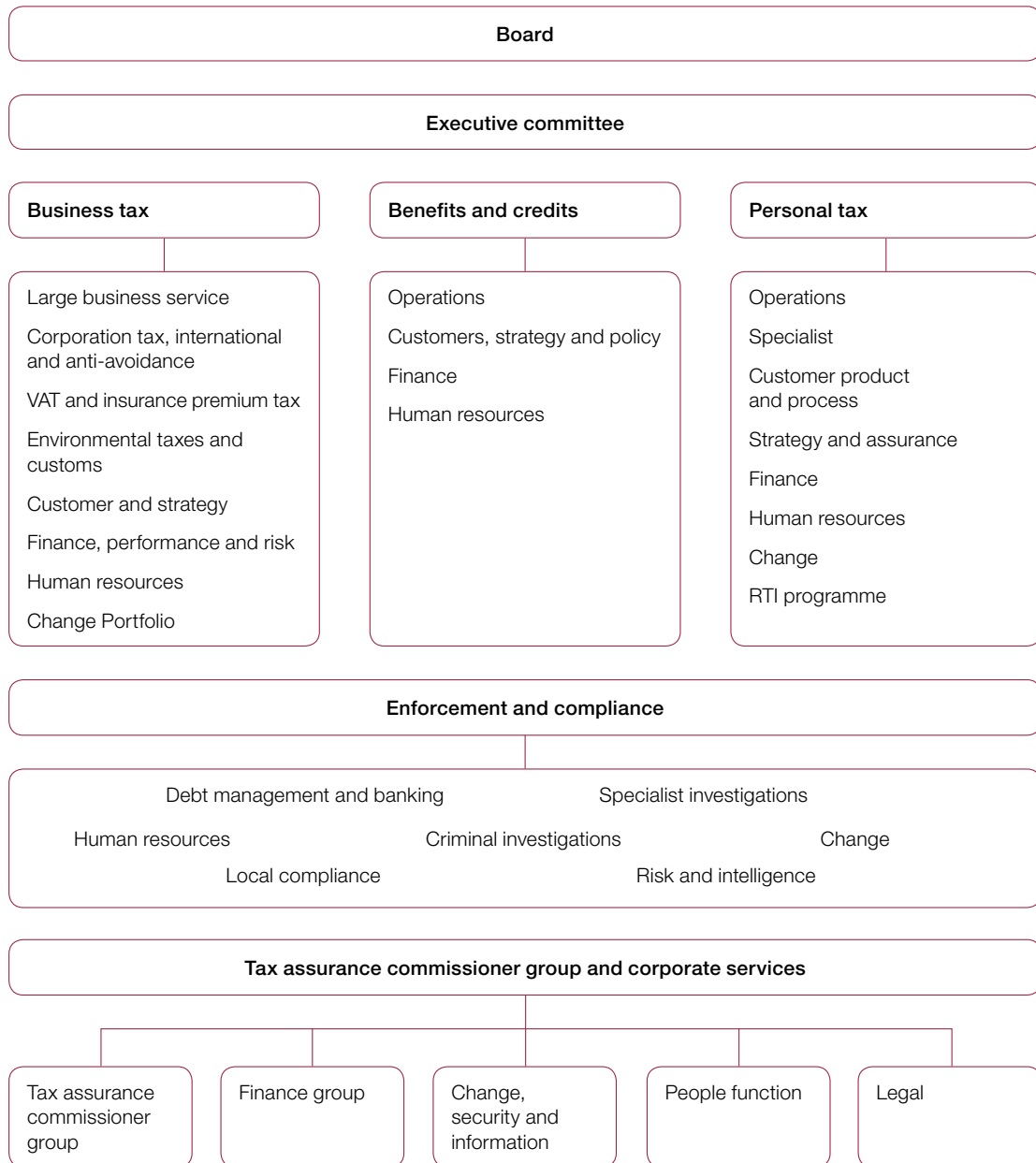
1.8 HMRC's board is chaired by the lead non-executive director, Ian Barlow. In 2012-13, the board comprised six members of the executive committee and seven non-executive members,¹ maintaining comparable numbers of official and non-executive members, in line with HM Treasury guidance on board composition set out in *Managing Public Money*.² Three of the six current non-executive board members were appointed during 2012-13.

1.9 HMRC has one executive agency, the Valuation Office Agency, which provides property valuations and advice to support the administration of taxation and benefits, and to the wider public sector (Appendix One).

¹ By 31 March 2013, HMRC board had six non-executive members, following the departure of Colin Cobain in January 2013.

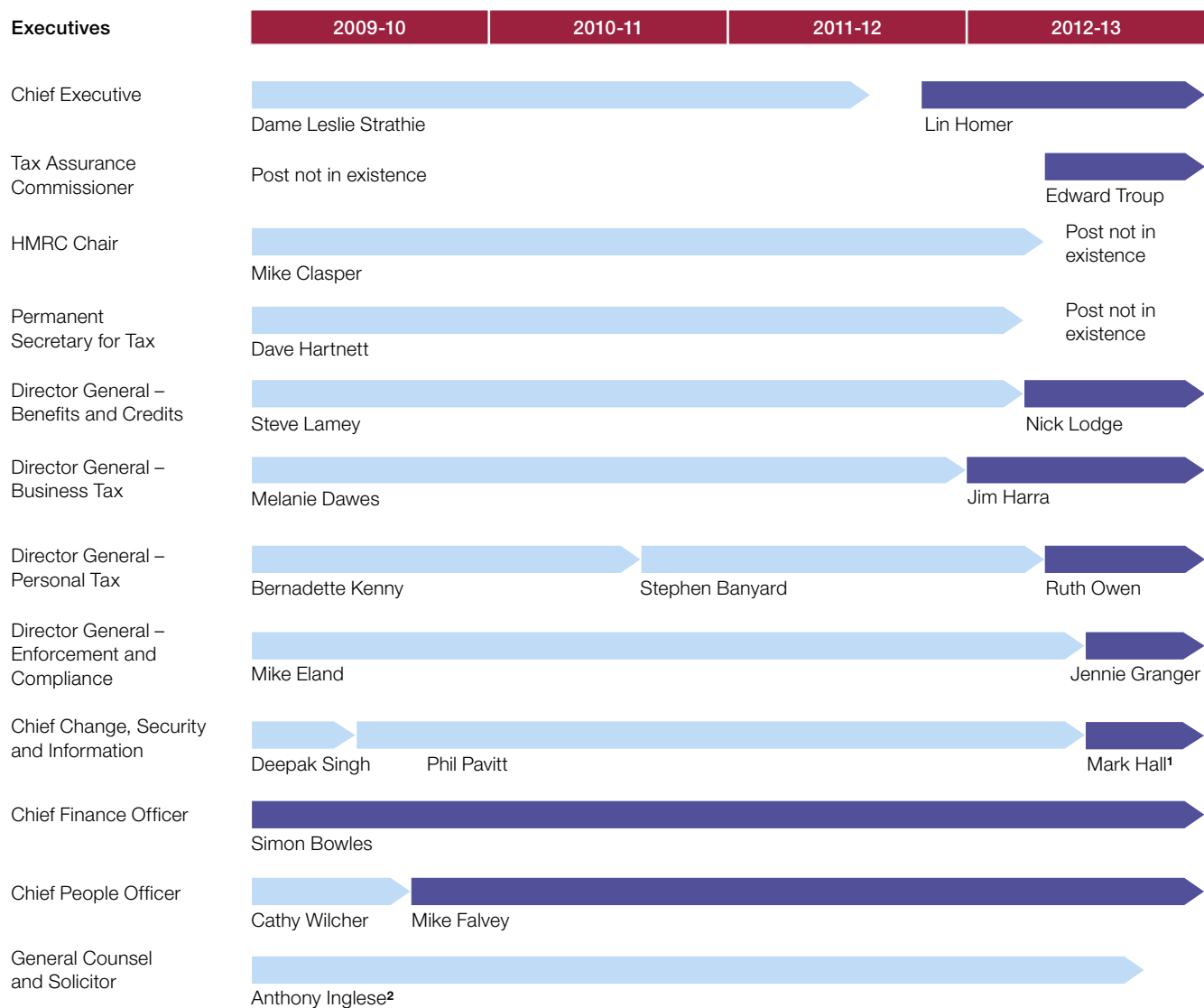
² HM Treasury, *Managing Public Money*, July 2013.

Figure 2
How the Department is organised



Source: HM Revenue & Customs

Figure 3
Membership of HM Revenue & Customs Executive Committee 2009-10 to 2012-13



- Member of the board at 31 March 2013
- No longer a member of the board at 31 March 2013

Notes

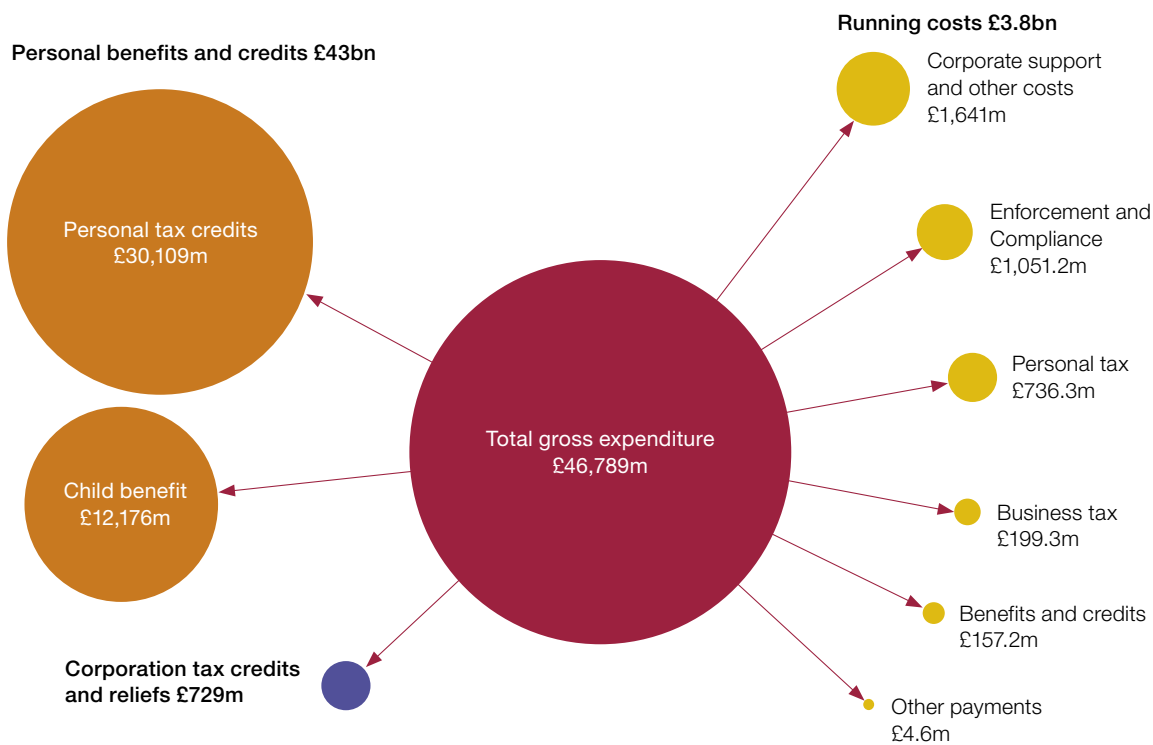
- 1 Mark Dearnley took the role of Chief Digital and Information Officer in October 2013.
- 2 Anthony Inglese stood down and left the Executive Committee on 31 December 2012.
- 3 William Hague joined as Chief People Officer on 23 September 2013.

Source: National Audit Office analysis of HM Revenue & Customs *Annual Report and Accounts* from 2009-10 to 2012-13

Where the Department spends its money

1.10 In 2012-13, HMRC spent £46.8 billion. This included expenditure on personal and corporation tax credits and child benefits totalling £43.0 billion, as well as gross running costs of £3.8 billion. The Department employed an average of 65,040 full-time equivalent staff at a cost of £2.2 billion.³ A breakdown of expenditure by main business segments is presented in **Figure 4**.

Figure 4
Where the Department spent its money in 2012-13



Source: National Audit Office analysis of HM Revenue & Customs *Annual Report and Accounts 2012-13*

³ This is the average number of full-time equivalent staff in HMRC during 2012-13, excluding 3,480 Valuation Office Agency staff.

The Department's performance commitments

1.11 The Department is in the third year of a four-year change programme which is designed to deliver its commitments as part of the 2010 Comprehensive Spending Review, including:

- delivering efficiency savings of 25 per cent by 2014-15;⁴
- reinvesting £917 million of savings into tackling tax evasion and avoidance to bring in additional tax revenue of £7 billion a year by 2014-15; and
- stabilising and improving the customer experience.

Delivering efficiency savings

1.12 To support the cost reduction required by 2014-15, HMRC has planned to reduce staff numbers by 10,000; redeploy, retrain or recruit an additional 9,000 staff into high-value enforcement and compliance work; rationalise its estate; and reorganise corporate services.

1.13 Since it was created in 2005, HMRC has saved £1.7 billion, reducing its permanent headcount from some 95,000 full-time equivalents to 64,500 at the end of 2011-12.⁵ In 2012-13, HMRC reported that it had delivered £245 million of efficiency savings, having delivered £296 million of savings in 2011-12. Savings reported in 2012-13 were generated by reducing the net number of full-time equivalent staff by 2,406, and rationalising its estate by vacating 11 buildings and giving up space in a further six.⁶

Increasing tax revenues

1.14 The Department reported that it raised £20.7 billion in tax revenues from compliance activities in 2012-13, comprising £8.9 billion in cash collected and £11.8 billion revenue protected. This was £2 billion above the Department's target for the year and 11 per cent higher than the previous year. In the Autumn Statement 2012 HMRC increased the amount of additional tax revenue it has committed to deliver in 2014-15 from £20.7 billion to £23.5 billion (**Figure 5**).

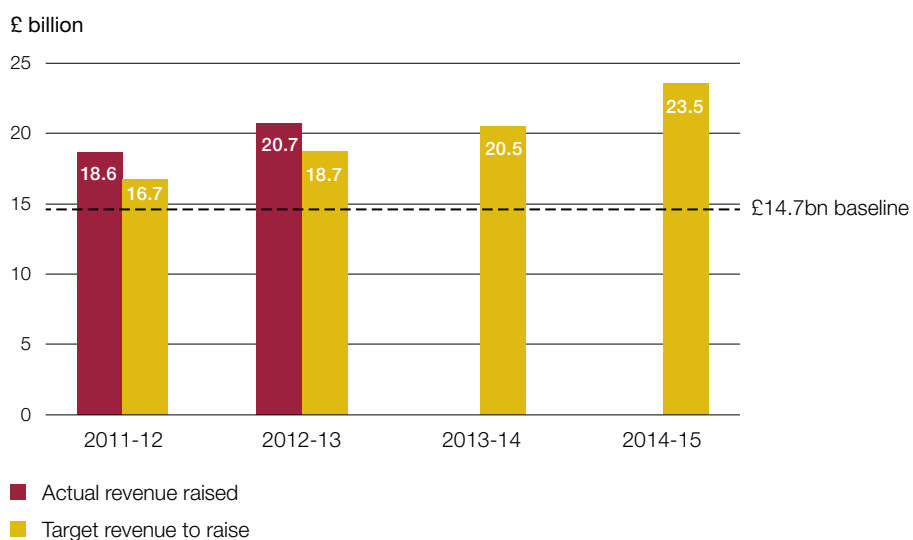
4 Comptroller and Auditor General, *HM Revenue & Customs: Progress on reducing costs*, Session 2012-13, HC 889, National Audit Office, February 2013.

5 See footnote 4.

6 HM Revenue & Customs, *Annual Report and Accounts 2012-13*, HC 10, July 2013.

Figure 5

Progress delivering additional tax revenues as reported by HMRC (£bn)

The Department exceeded its compliance revenue targets in 2011-12 and 2012-13**Note**

1 The figures presented are as reported in 2013 by the Department and are unaudited. The £14.7 billion baseline is an estimate of the additional revenues HMRC were raising at the start of the Spending Review 2010 period, recalculated in line with the revised evidence-based approach to assessing additional compliance intervention revenue, introduced in 2012-13.

Source: National Audit Office collation of HM Revenue & Customs published compliance revenue figures

Stabilising and improving customer service

1.15 In 2010-11, HMRC's customer service levels dropped sharply when problems with the new National Insurance and PAYE System (NPS), which combined pay and tax details, increased customer queries. HMRC has significantly improved its performance in terms of responding to postal communications from its customers and in 2012-13 exceeded its target for responses within 15 working days by five percentage points (**Figure 6** overleaf). The Department remains below its target to answer 90 per cent of customers' calls. It answered an average of 75 per cent of customers' telephone calls during 2012-13 but reported that the average over the second half of the year was over 90 per cent, the level it set out to achieve by 2015.

Figure 6

HM Revenue & Customs' performance against customer service targets in 2011-12 and 2012-13

	Target by 2015¹	2012-13²	2011-12²
Percentage of post cleared within 15 working days of receipt	80%	85%	65.5%
Percentage of post cleared within 40 working days of receipt	95%	97.1%	92.3%
Percentage of post cleared within 15 working days of receipt passing HMRC quality standards	90%	91.7%	91.8%
Percentage of post cleared within 40 working days of receipt passing HMRC quality standards	90%	91.8%	91.8%
Percentage of call attempts handled by HMRC contact centres	90%	75.2%	74.4%
Percentage of return transactions carried out online (12 months to quarter end e-returns, Self-Assessment, PAYE, VAT, Corporation Tax and Stamp Duty Land Tax)	n/a	92.8%	90.2%
Increase/decrease in cost for customers dealing with us (compared to March 2010)	n/a	-£2.7m	+£54.2m
Increase/decrease in cost for business customers dealing with us (compared to March 2010)	n/a	+£28.4m	+£53.7m
Customers find us straightforward to deal with – all customers rolling annual score out of 100 (margin for error in brackets)	75.8 n/a	73.0 (±2.6)	72.8 (±2.4)

Notes

- 1 HM Revenue & Customs Annual Report and Accounts 2012-13.
- 2 HM Revenue & Customs Business Plan 2012–15.
- 3 Performance elements with an 'n/a' target for 2015 did not have targets set.

Source: *HM Revenue & Customs Annual Report and Accounts 2012-13 and HM Revenue & Customs Business Plan 2012–15*

Policy and delivery: major developments in 2012-13

Developments in tackling tax evasion and avoidance

1.16 On 6 October 2011, the UK and Swiss governments signed an agreement to tackle offshore tax evasion. The agreement aims to settle the past tax liabilities of UK individuals who hold assets in Swiss bank accounts through a one-off payment covering their liabilities. During 2012-13, the Swiss authorities made an up front payment of 500 million Swiss francs – equivalent to £342 million – in anticipation of future payments expected under the agreement.⁷ Disclosure facilities aimed at tackling tax evasion have been agreed with the relevant authorities in the Isle of Man,⁸ Guernsey⁹ and Jersey¹⁰ in the 2012-13 financial year, and came into force on 6 April 2013.

1.17 Following the G20 summit in Moscow in July 2012, the collected Finance Ministers endorsed an OECD Action Plan on Base Erosion and Profit Shifting, designed to address weaknesses in current rules.¹¹ It will do this by developing guidelines covering the digital economy and standards to prevent double non-taxation and by promoting closer international cooperation. Stronger rules on controlled foreign companies will allow countries to tax profits that have been placed in offshore subsidiaries. HMRC will advise on the necessary changes to UK tax policy in order to support the Action Plan as it is implemented.

1.18 In November 2012, HMRC launched a national publicity campaign aimed at changing the behaviour of people who break, or are tempted to break, the rules on tax. The Department aims to deter tax evasion of around £100 million as a result of this publicity by 2015.¹²

Other Developments

1.19 In January 2013, HMRC implemented a new tax charge for those with income over £50,000 and who receive, or whose partner receives, child benefit. The charge increases in proportion to income until, at incomes above £60,000, it fully offsets the child benefit received. Individuals may either opt out of receiving child benefit, or choose to have the tax charge collected through the income tax self-assessment process.¹³

⁷ Comptroller and Auditor General, 'Report by the Comptroller and Auditor General' in *HM Revenue & Customs, Annual Report and Accounts 2012-13*, HC 10, July 2013.

⁸ *Memorandum of Understanding between the Government of the Isle of Man and Her Majesty's Revenue and Customs of the United Kingdom of Great Britain and Northern Ireland relating to cooperation in tax matters*. Available at: www.hmrc.gov.uk/offshoredisclosure/isleofman-memorandum.pdf, February 2013.

⁹ *Memorandum of Understanding between the Government of Guernsey and Her Majesty's Revenue and Customs of the United Kingdom of Great Britain and Northern Ireland relating to cooperation in tax matters*. Available at: www.hmrc.gov.uk/budget2013/mou-guernsey.pdf, March 2013.

¹⁰ *Memorandum of Understanding between the Government of Jersey and Her Majesty's Revenue and Customs of the United Kingdom of Great Britain and Northern Ireland relating to cooperation in tax matters*. Available at: www.hmrc.gov.uk/budget2013/mou-jersey.pdf, March 2013.

¹¹ OECD, *Action Plan on Base Erosion and Profit Shifting*, 2013.

¹² HM Revenue & Customs, Issue briefing, *New campaign against tax evasion*, November 2012.

¹³ See footnote 7.

The Department's digital strategy

1.20 By December 2012, each government department was required to produce a digital strategy, an indication of the central part that digital communications now play in government business. Digital communications are particularly important for HMRC. Over a third of all transactions with government are with HMRC and out of those transactions, 85 per cent are digital.¹⁴

1.21 Any new services will be designed to ensure that they are straightforward and convenient to use, so that the majority of people who can use digital services choose to do so ('digital by default'). HMRC will also ensure that taxpayers who cannot use digital services are not excluded.

1.22 The Department's digital strategy describes its plans to transform its services to 'digital by default' and the 22 actions HMRC will undertake to deliver that strategy. The Department's 2013-14 Business Plan sets out its additional investment of £200 million in new digital services to be delivered between 2013 and 2015. It estimates that introducing these services will reduce costs by between £160 million to £220 million a year, provided an additional 29 million transactions can be moved online.

1.23 The Department has identified four service transformations that are leading examples of its digital strategy (**Figure 7**).

1.24 Mark Dearnley joined HMRC in October 2013 as Chief Digital and Information Officer, with responsibilities including overseeing the Department's digitalisation programme and accelerating the planned delivery of online services for all taxpayers.¹⁵ HMRC has also established a new directorate, HMRC Digital, which will become the home of the digital skills and experience required to support the strategic changes envisaged by the Department.¹⁶

¹⁴ HM Revenue & Customs, *HMRC Digital Strategy*, December 2012.

¹⁵ Press Release, HM Revenue & Customs, 1 August 2013.

¹⁶ See footnote 14.

Figure 7

The Department's exemplar service transformations

Description	HMRC benefits	Delivery approach
<p>PAYE Online</p> <p>This new online service enables taxpayers to notify HMRC of changes in circumstances that may affect their tax. The system will also provide people with guidance and information on their tax codes.</p>	<p>The system will significantly reduce the 25 million contacts from customers that HMRC currently receives to clarify personal circumstances.</p>	<p>The system has been trialled with a number of customers between January and April 2013. Further testing will continue during 2013-14 with information on company cars and medical benefits. A methodology for verifying taxpayer identity will also be implemented during 2013-14. The system will be extended during 2014-15 to enable taxpayers to view their PAYE statements online.</p>
<p>Digital Self Assessment</p> <p>Digital Self Assessment, formerly named Paperless Self Assessment, will transform the online filing system to a complete digital service. It enables taxpayers to interact online with HMRC in a way that suits them.</p>	<p>The service aims to eliminate 20 million paper notifications and 750,000 phone calls from the self-assessment system.</p>	<p>Early changes will be implemented in 2013-14 by directing customers to electronic communications. Further changes will be made in 2014-15 with full implementation during 2015.</p>
<p>Tax for my Business</p> <p>This new service will enable small businesses to undertake a number of different transactions with HMRC in a single place. This will include a personalised 'Homepage' and links to their online transactions.</p>	<p>There are around 4.8 million small and medium-sized enterprises and HMRC anticipates that the new system will reduce HMRC's telephone and postal costs.</p>	<p>The Tax for My Business is being developed using methods that involve customers with the design of the new service.</p>
<p>Agent Online Self Service</p> <p>Currently agents such as accountants and tax advisers do not have a single registration facility for online tools to undertake transactions with HMRC online. This new service will address these problems by providing a unique agent reference and giving access to new agent authorisation processes.</p>	<p>The system will reduce costs for both the agents and HMRC due to a reduction in paper communications and phone calls. The systems will also help better protect agent and taxpayer information and reduce errors.</p>	<p>Specifications for this new online service have progressed during 2013. Initial service delivery is anticipated for 2014-15.</p>

Source: HM Revenue & Customs, *HMRC Digital Strategy*, December 2012

Independent assessments of the Department's performance

The Work of the Adjudicator's Office in 2012-13

1.25 The Adjudicator's Office (the Adjudicator) considers complaints about HMRC, the Valuation Office Agency and the Insolvency Service. These may concern mistakes, unreasonable delays, poor advice, inappropriate staff behaviour and the use of discretion.

1.26 In 2012-13, the Adjudicator received 2,600 new referrals about HMRC compared to 1,600 in 2011-12. The Adjudicator attributed this increase to a 107 per cent rise in referrals about PAYE and a 33 per cent rise in referrals about Tax Credits.

1.27 The Adjudicator's 2013 Annual Report notes a number of areas of systemic failure at HMRC resulting in poor complaints handling, including a range of cases where specific customer needs have not been recognised or addressed. The report also found that HMRC had shown willingness to learn from complaints and had established a team dedicated to customer quality.¹⁷

1.28 In 2012-13, the Adjudicator upheld, either wholly or in part, over 60 per cent of complaints against HMRC, resulting in the Department paying out almost £1.2 million in redress (**Figure 8**). There were a total of 25 complaints about the Insolvency Service and Valuation Office Agency of which only three were upheld.

Figure 8

Outcomes of complaints against HMRC submitted to the Adjudicator's Office in 2012-13

Subject Matter	Complaints received	Substantially upheld	Partially upheld	Not upheld	Withdrawn or reconsidered	Redress paid (£m)
Taxation	525	94 (18%)	195 (37%)	222 (42%)	14 (3%)	0.35
Benefits and credits	829	227 (27%)	302 (36%)	284 (34%)	16 (2%)	0.84
Total HMRC	1,354	321 (24%)	497 (37%)	506 (37%)	30 (2%)	1.19

Note

1 Due to rounding, percentages may not sum to 100 per cent.

Source: Adjudicator's Office, *Annual Report 2013*

Reporting by the Major Projects Authority in 2012-13

1.29 The Major Projects Authority is responsible for improving the performance of major government projects. It maintains government's major projects portfolio, provides assurance over projects at key stages and reports publicly on the portfolio each year. It has reported on nine of HMRC's major projects in May 2013, with a combined whole life cost of £1.22 billion. Six of these nine projects were rated as 'Amber/Green' or 'Green', two were rated 'Amber' and one was rated 'Amber/Red'. (**Figure 9** overleaf).

1.30 The Major Projects Authority rated HMRC's 'One Click' programme as Amber/Red due to changes to the delivery timetable for, and increased costs to implement, the delivery of the VAT registration transformation and iForms projects. It rated two projects as Amber: Wider Coverage, due to concerns about governance; and Real Time Information, due to cost increases and challenges ahead to migrate all employers on to the system.

Staff attitudes

1.31 The government has conducted its Civil Service People Survey annually for the past four years. The most recent survey was carried out during October 2012, with detailed results available from February 2013. We summarise here the views of the Department's staff on a number of key issues, and compare them to benchmarks for the civil service as a whole. Detailed results for all departments are reproduced in Appendix Two.

1.32 In 2012, HMRC achieved an overall employee engagement index of 41 per cent, the third lowest in the civil service and 17 percentage points below the civil service average. The overall employee engagement index has increased slightly from 40 per cent in the previous year, with small improvements having been made across seven of the nine themes. The employee engagement index measures how committed employees are to their organisation's goals and values, motivated to contribute to organisational success and able at the same time to enhance their own sense of well-being (**Figure 10** on page 19).

Figure 9
Government Major Projects Portfolio data for HMRC 2013

Project	Description	RAG rating (Red/Amber/ Green)	Budgeted whole life cost (£m)
Wider Coverage Project	The Wider Coverage Programme aims to use Spending Review 2010 reinvestment to increase the capacity and capability of trained tax professionals and operational people engaged in tax compliance work, and widen the range of approaches and interventions they use. The outcome will be more resource-focused on tackling risks in the 'rule breakers' and 'potential rule breakers' segments using new and innovative ways to settle those risks.	●	552.59
Real Time Information	Real Time Information is the next stage of improving Pay As You Earn through the use of real time information. It will deliver a series of projects designed to improve the efficiency and effectiveness of the Pay As You Earn system. This will underpin the introduction of the Universal Credit regime by the Department for Work & Pensions.	●	241.10
One Click	One Click brings many tax services that businesses need together in one place, online. It focuses on key events in a business' lifecycle, with information for pre-start-ups, a single place to register for business taxes, and a self-serve facility to view and update details online.	●	113.18
Organised Crime	The Organised Crime Project contributes to HMRC's Customer-Centric Strategy. The key aim is to prevent, disrupt and reduce deliberate, systematic and large scale attacks by organised criminal groups, estimated to cost HMRC between £5 billion and £7 billion annually.	●	82.73
Expanding the use of Debt Collection Agencies	This project provides additional debt collection capability and capacity to allow more debts to be tackled quicker and more effectively.	●	70.68
Open Cases Programme	Clearance programme to ensure the 2012 target of clearing 17.9 million legacy open cases on the Pay As You Earn system is met.	●	57.28
Debt Management and Banking Staff Reinvestment	Investment in Debt Management and Banking staff to maintain the resource deployed on debt collection.	●	56.41
Volume Crime	The Volume Crime project aims to change HMRC's approach to tackling fraud in the 'Rule Breakers' customer group, increasing the number of criminal investigations and subsequent prosecutions in this group.	●	42.04
Electronic Exchange of Social Security Information (EESSI) Programme	Aims to introduce a means of communicating electronically with other European Union member states in respect of the Social Security affairs of migrant workers.	●	5.29

Note

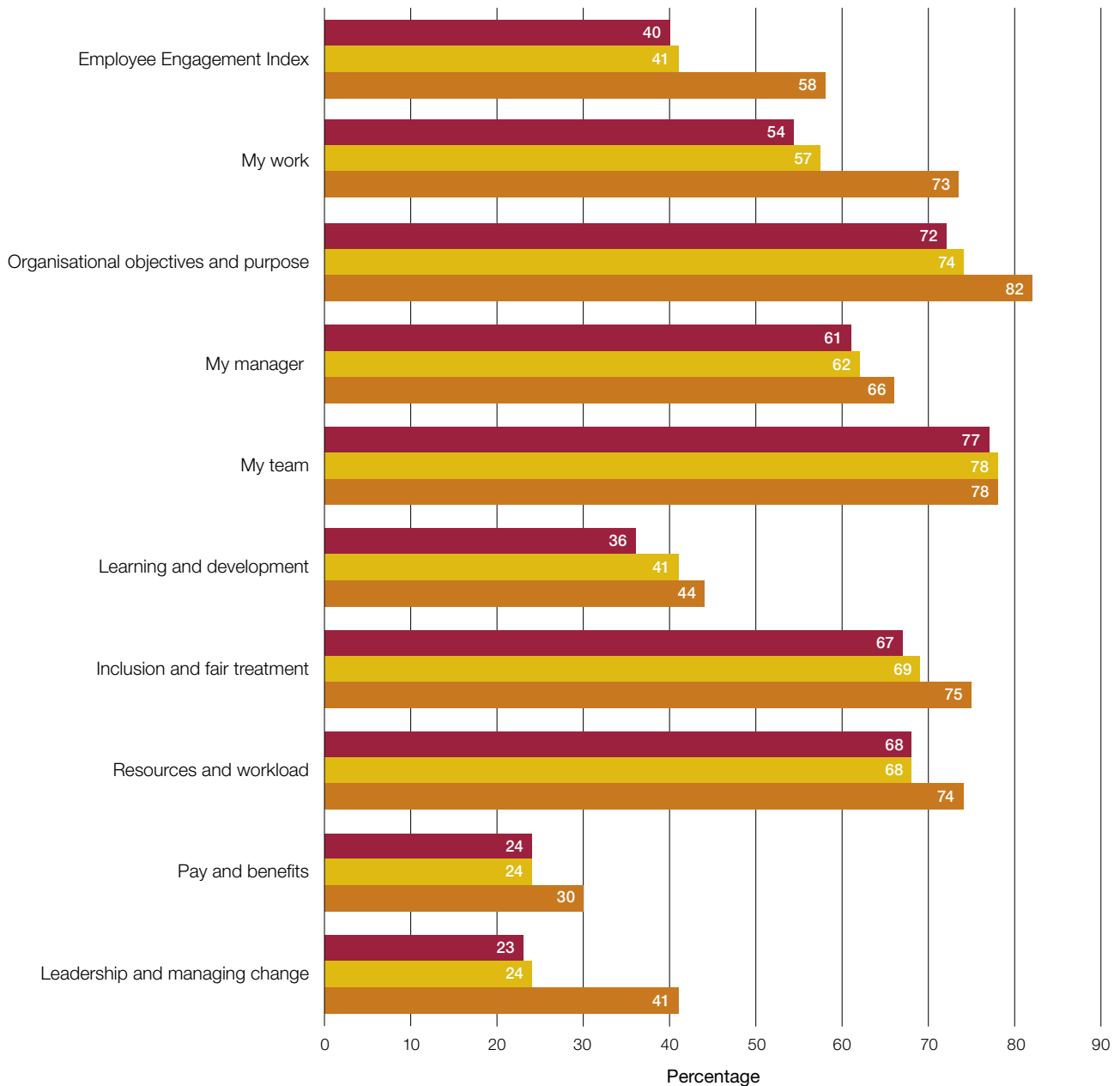
1 Projects are displayed in order of highest to lowest lifetime budget.

Source: Government Major Projects Portfolio data for HM Revenue & Customs May 2013

Figure 10

Civil Service People Survey: Comparing the HMRC 2011 and 2012 results to the civil service average

HMRC achieved an overall employee engagement index that is 17 percentage points below the civil service average



- HM Revenue & Customs 2011
- HM Revenue & Customs 2012
- 2012 Civil Service Average

Source: National Audit Office analysis of the results of the 2012 Civil Service People survey

Part Two

Recent NAO work on the Department

Our audit of the Department's accounts

2.1 The NAO's financial audits of government departments and associated bodies are primarily conducted to allow the Comptroller and Auditor General (C&AG) to form an opinion on the truth and fairness of the public accounts. The C&AG also forms an opinion on regularity – that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and that the financial transactions recorded in the financial statements conform to the authorities which govern them.

2.2 In the course of these audits, the NAO learns a great deal about government bodies' financial management and sometimes this leads to further targeted pieces of work which examine particular issues. In this section, we look at the outcome of our most recent financial audit of HM Revenue & Customs.

2.3 The Department publishes an Annual Report and Accounts which combines two sets of accounts: the Resource Accounts, which comprise HMRC's running costs and other spending; and the Trust Statement, which records the revenue collected by the Department, the publication also contains the Report by the C&AG on HM Revenue & Customs 2012-13 Accounts (paragraphs 2.13 to 2.18).

The Resource Accounts

2.4 The Resource Accounts detail the expenditure that the Department incurs each year in order to fulfil its duties as a tax collecting body. The Resource Accounts also report expenditure on benefits and tax credits, mostly on Personal Tax Credits and Child Benefit.¹⁸

2.5 The C&AG qualified his regularity opinion on the Resource Accounts in 2012-13 due to the probability that there were material levels of error and fraud in personal tax credits payments made. The Resource Accounts have been qualified on this basis since 2011-12 when reporting responsibility for tax credits transferred from the Trust Statement. Previously the Trust Statement had received a qualified opinion for the same reason. A summary of the Department's work to reduce the level of error and fraud in tax credits is at paragraphs 2.30 to 2.35.

¹⁸ HM Revenue & Customs, *Annual Report and Accounts 2012-13*, HC 10, July 2013.

2.6 The Resource Accounts record debts relating to personal tax credits that should be repaid of £4.8 billion. The Department does not expect to recover all of the debt and has made a provision of £3.3 billion for the portion it does not expect to recover. Tax credit debts arise when claimants' awards are assessed at the end of the year, and the amount a claimant received was higher than the amount to which they were entitled. Personal tax credits awards are paid on a provisional basis throughout the year.

The Trust Statement

2.7 The Trust Statement records the collection and allocation of taxes, duties, and revenue income collected during the financial year in question. The Trust Statement received an unqualified true and fair opinion and an unqualified regularity opinion from the C&AG in 2012-13.¹⁹

2.8 The Trust Statement records provisions for the probable results of ongoing legal cases relating to tax disputes between HMRC and taxpayers. At 31 March 2013, such legal provisions stood at £4.2 billion. These disputes are addressed and resolved in line with HMRC's Litigation and Settlement Strategy.²⁰

2.9 The Trust Statement also records a separate provision of £3.8 billion for the Petroleum Revenue Tax and Corporation Tax expected to be foregone in relation to oil field decommissioning. Under UK tax law, companies are allowed to offset losses that arise from the decommissioning of infrastructure associated with UK oil and gas fields against Petroleum Revenue Tax due indefinitely. It is also possible for companies to offset losses arising against profits in prescribed accounting periods. When companies choose to exercise these options to offset losses against taxes due it results in a lower than expected tax revenue in the period of decommissioning for the Exchequer.

The Governance Statement

2.10 Every central government body produces a Governance Statement that is included in its annual report and accounts. The Governance Statement is designed to give the reader a clear understanding of the dynamics of the organisation in question and its control structure, recording the stewardship of the organisation, providing a sense of how vulnerable the organisation's performance is or might be and of how successfully the organisation has coped with the challenges it faces. The Accounting Officer is personally responsible for the Governance Statement.²¹

¹⁹ See footnote 18.

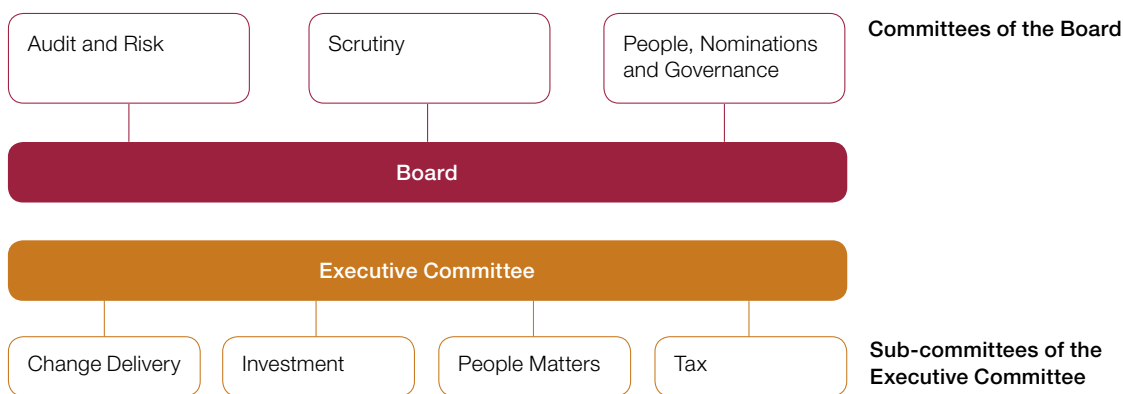
²⁰ HM Revenue & Customs, *Litigation and Settlement Strategy*. Available at: www.hmrc.gov.uk/practitioners/lss.pdf.

²¹ HM Treasury, *Managing Public Money*, July 2013.

2.11 We work with departments to improve the quality and transparency of the Governance Statements included in their published accounts. We aim to ensure the process by which the Statement is produced is robust and that the Statement complies with HM Treasury guidance.

2.12 The 2012-13 Governance Statement reported the restructuring of HMRC’s board and supporting committees. The restructuring aimed to maximise the board’s value to HMRC and to align its composition and function with best practice, as set out in *Managing Public Money*.²² This included the appointment of three non-executives, the appointment of a lead non-executive chair, the establishment of the Scrutiny Committee, and expanding the remit of the People Committee to become the People, Nominations and Governance Committee (**Figure 11**).

Figure 11
HMRC’s governance structure



Source: HM Revenue & Customs, *Annual Report and Accounts 2012-13*

22 See footnote 21.

Report by the Comptroller and Auditor General on HM Revenue & Customs 2012-13 Accounts

2.13 This report presents the findings and overall conclusion of our work in 2012-13 to assess the adequacy of the systems to assess and collect taxes. It draws on the results of our audit of HMRC's accounts and on our value-for-money reports and reports published under the C&AG's Section 2 powers.²³

2.14 We found that HMRC had made good progress in reducing costs and had met its revenue targets, but that it had much further to go to raise customer service standards to acceptable levels. We concluded that HMRC had framed adequate regulations and procedures to secure an effective check on the assessment, collection and proper allocation of revenue, and that they are duly being carried out. This assurance is subject to the observations on specific aspects of the administration of taxes detailed in the report, and our other reports to Parliament.

2.15 The report also covers the Department's progress in stabilising and operating the PAYE service and in delivery of Real Time Information, also known as RTI. It also looks at the Department's performance in tackling VAT fraud (summarised below) and tax credit fraud and error (summarised in paragraphs 2.30 to 2.35).

PAYE and Real Time Information

2.16 We have previously reported on the difficulties HMRC faced in operating PAYE after introducing its National Insurance and PAYE Service (NPS). This year we reported that the Department had now met its target to operate a normal PAYE service by March 2013. It cost less to stabilise the PAYE service than HMRC had expected. Up to 31 March 2013, stabilisation had cost £78.9 million against an estimated £80.9 million.²⁴

2.17 The Department successfully piloted its new PAYE reporting system, Real Time Information, in 2012-13. The system requires employers and pension schemes to report employees' income tax and National Insurance deductions when they are paid rather than at year end. We found that there had been some limitations to the scope of the pilot which meant that some of the system's functions had not been fully tested. We recommended that HMRC urgently address financial system design issues and adopt measures to address the lack of technical resilience and disaster recovery.²⁵

²³ Section 2 powers are granted under section 2 of the Exchequer and Audit Departments Act 1921, which requires the C&AG to examine the accounts of HMRC "to ascertain that adequate regulations and procedure have been framed to secure an effective check on the assessment, collection and proper allocation of revenue, and that they are being duly carried out".

²⁴ Comptroller and Auditor General, *'Report by the Comptroller and Auditor General' in HM Revenue & Customs, Annual Report and Accounts 2012-13*, HC 10, July 2013.

²⁵ See footnote 24.

Tackling VAT Fraud

2.18 HMRC estimated the tax gap for VAT in 2010-11 as £9.6 billion (30 per cent of the total estimated tax gap of £32 billion). We found that HMRC had made good use of intelligence to respond to the risks of VAT fraud. For instance, it has implemented an online VAT registration system, although it is too early to determine whether this has delivered the projected reduction in revenue losses. HMRC's interventions and wider cooperation have helped reduce significantly the VAT losses from missing trader intra-community fraud. However, it has yet to produce a comprehensive plan to react to the emerging threats to the VAT system posed by online trading.

2.19 In our report, we recommended that HMRC should:

- establish whether its online VAT registration system was delivering the expected reduction in revenue losses;
- consider the costs and benefits of enhanced real-time risk profiling of VAT payment returns; and
- increase the urgency with which it was responding to fraud risks posed by internet-based traders.

Our audits of the Department's effectiveness and value for money

2.20 The NAO's work to test the effectiveness and value for money of government spending in 2012-13 included a number of projects which focused on HM Revenue & Customs. Our principal findings and recommendations, and the actions taken by HMRC since, are summarised below. Recommendations made by the Committee of Public Accounts after taking evidence on our reports are also summarised here. Our reports are grouped below by HMRC's strategic objectives.

Delivering Efficiency Savings

HM Revenue & Customs: Progress on reducing costs (February 2013)

2.21 In our most recent report on HMRC's cost reduction programme we found that in 2011-12, the first year of the programme, it had saved one third of the total needed by 2014-15 and had maintained performance in key strategic areas, improving its value for money. It had reduced its costs by £296 million – 19 per cent more than target – but we noted that further reductions would be challenging. HMRC is moving from making tactical efficiency savings and quick wins towards a more strategic approach to managing its resources.

2.22 The NAO recommended that HMRC continue to strengthen its management and governance of savings that did not come from defined cost reduction projects, and that it should reconcile the savings it makes back to the changes in administrative expenditure it reports in its annual accounts.²⁶

Increasing Tax Revenue

Tax avoidance – tackling marketed avoidance schemes (November 2012)

2.23 In 2010-11, HMRC estimated the difference between the tax that it collected and the tax it should collect to be £32 billion, of which £5 billion was due to people and organisations “using the tax law to get a tax advantage that Parliament never intended”. We found that HMRC had made some important headway in reducing opportunities for avoidance, by closing legal loopholes, but that the large number of users of avoidance schemes still posed a significant challenge. There was little evidence of HMRC making progress in preventing some promoters from selling highly contrived schemes. We recommended that the Department increase its efforts to understand and influence the market of promoters and users of avoidance schemes and that it improve its management information to direct its anti-avoidance efforts better.²⁷

2.24 The Committee of Public Accounts took evidence on the report in December 2012 and recommended that the Department strengthen its efforts to tackle avoidance and set out how it would evaluate the effectiveness of anti-avoidance activity.²⁸ The Department will share the findings of its review of its anti-avoidance strategy with the Committee in March 2015.²⁹

Stabilising and Improving Customer Experience

HM Revenue & Customs: Customer service performance (December 2012)

2.25 We examined HMRC’s performance in meeting its customer service standards and its plans to improve the experience customers have when they deal with HMRC. We focused on HMRC’s performance in handling telephone calls as this was where HMRC had faced the greatest challenges in the past. We also examined HMRC’s plans to sustain and improve customer service as it cuts customer-facing staff, and its strategy to improve the customer experience beyond 2015.

26 Comptroller and Auditor General, *HM Revenue & Customs: Progress on reducing costs*, Session 2012-13, HC 889, National Audit Office, February 2013.

27 Comptroller and Auditor General, *Tax avoidance: tackling marketed avoidance schemes*, Session 2012-13, HC 730, National Audit Office, November 2012.

28 HC Committee of Public Accounts, *Tax avoidance: tackling marketed avoidance schemes*, Twenty-ninth Report of Session 2012-13, HC 788, February 2013.

29 HM Treasury, *Treasury Minutes: Government Responses on the Twenty-Fourth and the Twenty-Sixth to the Thirty-Fifth Reports from the Committee of Public Accounts*, Session 2012-13, Cm 8613, May 2013.

2.26 Our report concluded that while HMRC had improved its customer service, overall performance still represented poor value for money for customers. We recognised that HMRC had restored customer service levels from a low point in 2010 and had committed to making further improvements. Its future plans were ambitious given past performance and the difficult decisions it has to make to meet spending review commitments to reduce costs and increase tax revenues. We recommended that HMRC develop a longer-term customer service strategy.³⁰

2.27 Since our report and the Committee of Public Accounts hearing, HMRC has committed to making improvements to customer service, such as:

- providing alternative 03 numbers in addition to the existing 0845 helplines, which will significantly reduce the cost of calling HMRC for the majority of customers; and
- offering a call-back service, increasing online self-service and revising performance targets.

2.28 By July 2013, the Department had provided alternative 03 numbers for 15 of its 0845 numbers, set itself new targets, and begun a call-back service trial.³¹ HMRC achieved its performance targets for the 2012-13 period, answering 75 per cent of calls and responding to 85 per cent of post within 15 days.

2.29 The Department gave evidence to the Committee in October 2013 that it had introduced cheaper 03 numbers as an alternative to all of its 0845 numbers.³²

Other value-for-money reports

Tackling tax credits error and fraud (February 2013)

2.30 We set out to assess HMRC's progress in reducing error and fraud in tax credits payments, the material level of which is the cause of the qualified audit opinion on the Department's Resource Accounts. The Department had previously committed to reduce error and fraud to no more than 5 per cent of the value of finalised entitlements by March 2011. The error and fraud figure reported in June 2012 was 8.1 per cent. We examined why the Department did not achieve its target.³³

30 Comptroller and Auditor General, *HM Revenue & Customs: Customer service performance*, Session 2012-13, HC 795, National Audit Office, December 2012.

31 Comptroller and Auditor General, *Cross-government: Charges for customer telephone lines*, Session 2013-14, HC 541, National Audit Office, July 2013, part 1, page 15.

32 Public Accounts Committee, *Uncorrected Transcript of Oral Evidence: HMRC Standard Report – Part 1*, Wednesday 16 October 2013, Question 260. Online: www.parliament.uk/documents/commons-committees/public-accounts/Uncorrected%20transcript%20HMRC%20accounts.pdf

33 Comptroller and Auditor General, *HM Revenue & Customs: Tackling tax credits error and fraud*, Session 2012-13, HC 891, National Audit Office, February 2013.

2.31 Our main findings were:

- HMRC had achieved notable reductions in the level of error and fraud in three of six risk categories. Reductions in error and fraud as a result of targeted HMRC interventions had been seen in the 'childcare' and 'income' categories and a significant reduction had been seen in the 'disability' category. Little progress on reducing error and fraud had been made in two risk categories, known as 'undeclared partner' and 'work and hours' (**Figure 12** overleaf);
- HMRC had made progress since 2011 in the way it responds to risk, through better targeting of work to correct claims in the system and better use of data analysis, including use of data held by other parties;
- error and fraud prevented as a result of HMRC interventions had increased from £253 million in 2008-09 to £480 million in 2010-11. This was achieved by changing how interventions were performed, shifting the focus away from full compliance enquiries towards conducting checks targeted at specific risks on a larger number of claims;
- the Department had greatly overestimated the impact it believed its interventions would achieve – it estimated an impact of £1.4 billion but we found the actual figure to be closer to £480 million; and
- HMRC was yet to develop a detailed picture of how tax credits claimants behave. HMRC has focused on identifying areas of risk and how error and fraud enters the system. It has begun to draw together this data analysis with its research on claimant behaviour to develop new insights, but this work is at an early stage. It has not built an analysis to help it predict when claims are likely to go wrong so it can intervene to keep them correct.

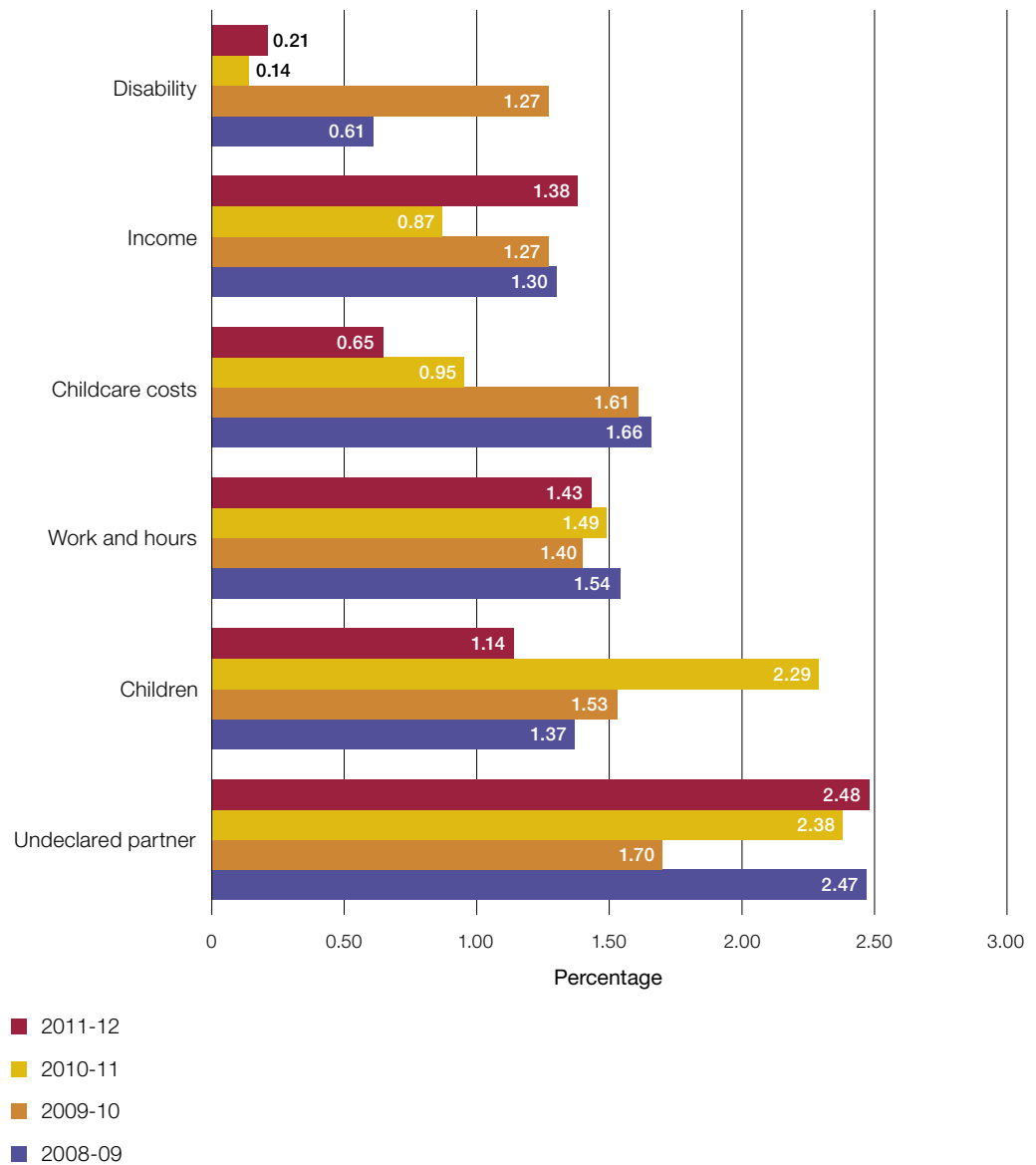
2.32 The NAO recommended that HMRC should:

- establish a plan to tackle error and fraud for each of its categories of risk and evaluate performance against it;
- review and annually update the assumptions it uses to measure the impact of its interventions;
- improve its data analysis and assess how it can make better use of available data and analytical techniques;
- assess how it could better address losses as a result of unreported changes of circumstance; and
- evaluate ways to improve the quality of interventions through the use of third parties.

Figure 12

HMRC error and fraud estimates by risk area for 2008-09 to 2011-12

Error and fraud losses have reduced in 2011-12 in three of the six identified risk areas



Note

1 The values are HMRC's best estimate of the primary reason for an adjustment to awards. HMRC does not publish confidence intervals for these estimates. The figure does not sum to total error and fraud due to rounding.

Source: National Audit Office analysis of HM Revenue & Customs' Child and Working Tax Credits Error and Fraud Statistics

2.33 The Committee of Public Accounts took evidence on the report in March 2013 and recommended that HMRC should:

- agree with HM Treasury a new target for savings from reducing tax credit error and fraud;
- work with the Department for Work & Pensions (DWP) to ensure a consistent approach to measuring error and fraud throughout the welfare system;
- produce a plan setting out the actions it would take to tackle losses occurring due to individuals' changes of circumstances;
- systematically review the guidance and support it provides for claimants and staff with stakeholder groups, including Citizens Advice, and front-line staff, to identify and address the areas where improvements are required;
- review its appeals process to minimise delays and ensure that, when it changes its approach to checking claims, it provides adequate resources for any concomitant increase in appeals volumes; and
- systematically review what internal and external data sources are available, for each of its six risk categories, before Parliament's summer recess and develop a credible plan for reducing error and fraud losses in each category.³⁴

2.34 The government agreed with all but the first of the Committee's recommendations. It disagreed with the first recommendation as the Department has a target for the 2010 spending review period to 2014-15 that it has not achieved. It has already published figures for the losses it now expects to identify and prevent as part of its strategy for tackling tax credits error and fraud over the remainder of the 2010 spending review period in its Departmental Business Plan 2013. The government will consider what targets might be appropriate for the years beyond 2014-15 as more detailed plans for stopping tax credits and the roll-out of the new Universal Credit are developed.³⁵

2.35 Since the publication of this report, the Department has published updated estimated error and fraud rates in tax credits expenditure.³⁶ The Department reported that in 2011-12, error and fraud resulted in overpayments of tax credits of between £1.91 billion and £2.27 billion (6.6 to 7.9 per cent of awards by value). The comparable 2010-11 figure was overpayments of between £2.08 billion and £2.46 billion (7.5 to 8.8 per cent of awards by value).

34 HC Committee of Public Accounts, *HM Revenue & Customs: Tackling tax credits error and fraud*, Fourth Report of Session 2013-14, HC 135, May 2013.

35 HM Treasury, *Treasury Minutes: The Government responses on the First, the Third to the Fifth, the Seventh to the Twelfth, and the Fifteenth and Sixteenth Reports from the Committee of Public Accounts*, Session 2013-14, Cm 8697, September 2013.

36 HM Revenue & Customs, *Child and Working Tax Credits Error and Fraud Statistics 2011-12*, June 2013.

Reports published under the Comptroller and Auditor General's Section 2 powers

Progress in tackling tobacco smuggling (June 2013)

2.36 In June 2013, we published a report reviewing HMRC's renewed strategy for tackling tobacco smuggling. We found the strategy to be logical, incorporating a wide range of complementary measures to tackle tobacco smuggling, but HMRC's approach to deterring and disrupting the distribution of illicit tobacco within the UK was not yet effectively integrated. HMRC's focus on building overseas intelligence is yielding success. HMRC exceeded internal operational targets in 2011-12 but fell short of more stretching targets in 2012-13 and has failed to capitalise on additional reinvestment funding made available under the 2010 spending review settlement. Two years on, HMRC lacks a timely and comprehensive assessment of the impact of its strategy on the scale and nature of tobacco smuggling.³⁷

2.37 We recommended that HMRC should:

- develop its approach to tackling the trade in tobacco products within the UK;
- improve the quality of its key performance information or disclose limitations in any public reporting;
- evaluate the options for improving its methodology for estimating tax losses from tobacco fraud;
- ensure that projected benefits from key initiatives are fully tested before they are announced; and
- establish why legislation has not yet resolved the problem of over-supply of tobacco overseas.

Coverage of HMRC in our wider work

Universal Credit: Early progress (September 2013)

2.38 Universal Credit is a major benefits reform being managed and implemented by the Department for Work & Pensions (DWP). The government is using Universal Credit to try to encourage claimants to start work or to earn more in work, and to simplify the benefit system. HMRC provides the Real Time Information system, which gives DWP information about claimant earnings.

³⁷ Comptroller and Auditor General, *HM Revenue & Customs: Progress in tackling tobacco smuggling*, Session 2013-14, HC 226, National Audit Office, June 2013.

2.39 The report focuses on DWP's progress against its plans for Universal Credit implementation and its management of the programme. We note the importance of the work of HMRC to the programme's success, however all recommendations arising from the report are addressed to DWP.³⁸

HMRC VAT Services – The impact of legacy ICT (August 2013)

2.40 The NAO published a summary report on the risks of legacy ICT systems across government in September 2013.³⁹ Prior to this, in August we published four case studies on legacy ICT systems including one which described HMRC's VAT services.⁴⁰ There are currently around 1.9 million customers registered for VAT, with total VAT receipts of £101 billion in 2012-13.

2.41 Our main findings were:

- HMRC's VAT ICT systems were robust and stable and complied with government security standards;
- HMRC had successfully extended the life of its legacy VAT ICT systems (which date back to the 1970s) through enhancements. These include adding an online registration service, and updating the technology in 2011 to more modern hardware and software solutions;
- HMRC had a very experienced and knowledgeable internal team to support the VAT ICT systems. However, it would become increasingly difficult to source technical skills for the legacy technology and to develop and retain expertise in the unique complexities and characteristics of the VAT ICT systems. HMRC recognised this risk and had embarked on an exercise to recruit a number of mainframe developers and implement succession plans and knowledge transfer activities; and
- the hardware and supporting software, currently provided through Aspire, HMRC's ICT supply contract with Capgemini and Fujitsu, could likely only be supported in future by a small number of large ICT suppliers – due to its scale, age and complexity. This would be an important consideration when the current contract came to an end in 2017.

Data assurance (August 2013)

2.42 We reviewed HMRC data assurance as one of a suite of reports on the data systems that underpin the performance indicators of all central government departments.⁴¹

³⁸ Comptroller and Auditor General, *Department for Work & Pensions: Universal Credit: early progress*, Session 2013-14, HC 621, National Audit Office, September 2013.

³⁹ Comptroller and Auditor General, *Managing the risks of legacy ICT to public service delivery*, Session 2013-14, HC 539, National Audit Office, September 2013.

⁴⁰ National Audit Office, *The HMRC VAT service: the impact of legacy ICT*, August 2013.

⁴¹ National Audit Office, *Data Assurance Summary Reports: HM Revenue & Customs*, August 2013.

2.43 We reviewed data systems underpinning three of the impact indicators in HMRC's Business Plan: HMRC's measures of customer experience and of the cost to customers of dealing with HMRC and three elements of HMRC's estimate of the tax gap for VAT, tobacco and hydrocarbon oils. The tax gap is defined as the difference between the amount of tax paid and the amount that should have been paid, according to the letter and the spirit of the law. We also chose to review three of HMRC's operational performance indicators: reducing low-value contact; the number of call attempts handled; and the efficiency indicator reported to the Change Delivery Committee.

2.44 Our review of data systems found that:

- HMRC's measure of customer experience and its approach to calculating the VAT tax gap are fit for purpose;
- the Department's measure of the number of call attempts handled had some weaknesses which HMRC was addressing; and
- other data systems studied were fit for purpose but could be improved.

2.45 We made two principal recommendations: that HMRC should review periodically whether there was scope to expand the coverage of those indicators that exclude specific customer groups or activities on practical or on cost grounds; and where HMRC relies on data collected by other government departments, it should have current and valid service-level agreements with the supplying departments that set out when data will be provided and how it will be quality assured.

NAO work in progress

Gift Aid Relief

2.46 HMRC administers the reliefs claimed by charities and individuals following a donation. Gift Aid Relief was worth over £1 billion to the charity sector in 2012-13 and reliefs to individuals on Gift Aid donations over £450 million. In this study, scheduled for publication in Autumn 2013, we will examine:

- if HMRC has a clear understanding of the risks of avoidance, fraud and error in claims relating to reliefs from charitable donations;
- if HMRC has developed an effective response to these risks; and
- how the effectiveness of Gift Aid relief is evaluated.

Part Three

Resolving Tax Disputes

3.1 This section of the report explains how, during 2012-13, HMRC changed the governance and assurance framework that underpins its handling of tax disputes. It draws on the first annual report of the Tax Assurance Commissioner, which was published in July 2013.⁴² This report sets out the new arrangements that govern how HMRC handles tax disputes, and HMRC's performance in resolving them in 2011-12.

3.2 HMRC is responsible for collecting the tax due from all taxpayers according to the rules set out by Parliament. A tax dispute is a disagreement between HMRC and a taxpayer about the correct tax position. These disagreements might arise because the law itself is complex or because the way the law applies in a particular set of circumstances is not straightforward.

3.3 In 2011, the NAO and the Committee of Public Accounts identified limitations in the governance arrangements applied to large tax disputes and highlighted specific cases in which existing arrangements were not followed.⁴³ HMRC announced a package of changes in February 2012, which were designed to provide greater assurance by increasing transparency over processes and strengthening the governance around decisions in the largest and most sensitive cases.

Process for resolving tax disputes

3.4 Where a taxpayer disagrees with a decision by HMRC about the amount or timing of tax due, they can ask for a review, make an appeal to an independent tribunal, or take both actions although taxpayers must exhaust HMRC's internal processes before appealing to a tribunal (**Figure 13** overleaf). In 2011-12, taxpayers made 55,800 requests for HMRC to review a decision and there were 10,800 appeals to a tax tribunal.⁴⁴

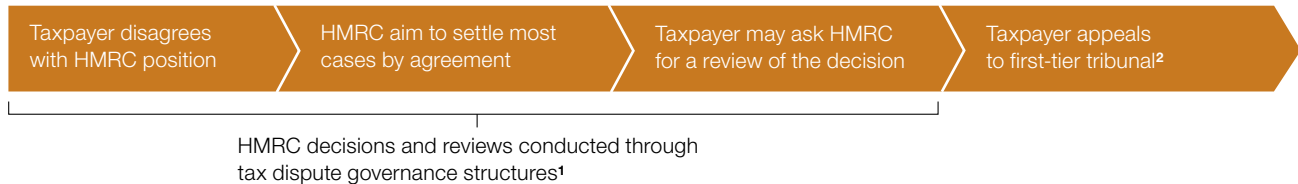
⁴² HM Revenue & Customs, *How we resolve tax disputes: the Tax Assurance Commissioner's annual report 2012-13*, July 2013.

⁴³ Comptroller and Auditor General, *Report by the Comptroller and Auditor General in HM Revenue & Customs, 2010-11 Accounts*, June 2011; and HC Committee of Public Accounts, *HM Revenue & Customs: Annual Report and Accounts 2011-12*, Nineteenth Report of Session 2012-13, HC 716, December 2012.

⁴⁴ HMRC's Reviews and Appeals – 2011-12. Available at: www.hmrc.gov.uk/complaints-appeals/reviews-appeals-2011-12.pdf, accessed 11 September 2013.

Figure 13

Process for resolving tax disputes

**Notes**

- 1 The tax disputes governance structure is laid out in Figure 15 of this report.
- 2 The results of appeals which progress to review and tribunal are examined in paragraphs 3.10 to 3.12.

Source: National Audit Office analysis of HMRC's complaints and appeals process

Changes to the tax dispute resolution governance process in 2012-13

3.5 The Tax Assurance Commissioner's report describes developments during 2012-13 to support HMRC's commitment to provide greater assurance over tax dispute governance processes (**Figure 14**). Edward Troup was appointed as HMRC's first Tax Assurance Commissioner in August 2012. He is responsible for assessing whether proposed tax settlements secure the right amount of tax efficiently and treat taxpayers even-handedly. The Tax Assurance Commissioner is the second Permanent Secretary to the Department.

3.6 In Autumn 2012, HMRC's Internal Audit function undertook a pilot review to determine whether the correct governance processes were followed in around 200 settled cases. HMRC intends that this work will now become an annual review to provide coverage, over time, of all areas in which tax disputes arise.

3.7 The new Tax Disputes Resolution board considers proposals to settle tax disputes in cases where either the total tax under consideration⁴⁵ across all issues is more than £100 million; or where the issues involved are particularly sensitive, and the decision could have a significant impact on HMRC policy, strategy or operations. The board then makes recommendations to a panel of commissioners who take the final decision about resolutions. (**Figure 15** on page 36).

45 Tax under consideration is a theoretical estimate of what the tax liabilities might be if the taxpayer fully accepted alternative tax positions across all identified tax risks. It does not take into account the strength of HMRC's or the taxpayer's arguments concerning these alternative tax positions and does not therefore represent an estimate of the actual expected tax liabilities.

Figure 14

Changes to the tax dispute resolution governance process in 2012-13

Developments in 2012-13¹

Tax assurance commissioner role created.

HMRC has revised its decision-making model for the largest and most sensitive tax cases, a feature of which is a requirement that decisions on sensitive or high-value settlements are made by three Commissioners, at a threshold of tax under consideration in a case of £100 million.

Formation of the Tax Disputes Resolution Board was in September 2012 to assist in the settlement of large tax disputes.

Introduction of a systematic review programme: Internal Audit review the processes followed in settled cases, sampling from all areas of HMRC.

The Audit and Risk Committee has an enhanced role which involves considering the findings from the review of settled cases. The Audit and Risk Committee may recommend follow-up action.

HMRC has published a new code of governance on settling tax disputes,³ to improve transparency about the department's processes.

Tax dispute process pre-2012-13²

No equivalent role in existence.

Two Commissioners required to sign off cases where the tax under consideration is more than £250 million, or where there is potential for adverse national publicity or for questions to be raised in Parliament, or which present a significant departure from previous policy.

No equivalent board in existence, although the High Risk Corporates Programme provided a similar structure for dealing with Business Tax disputes.

No systematic review.

No specific oversight of assurance over settled tax cases.

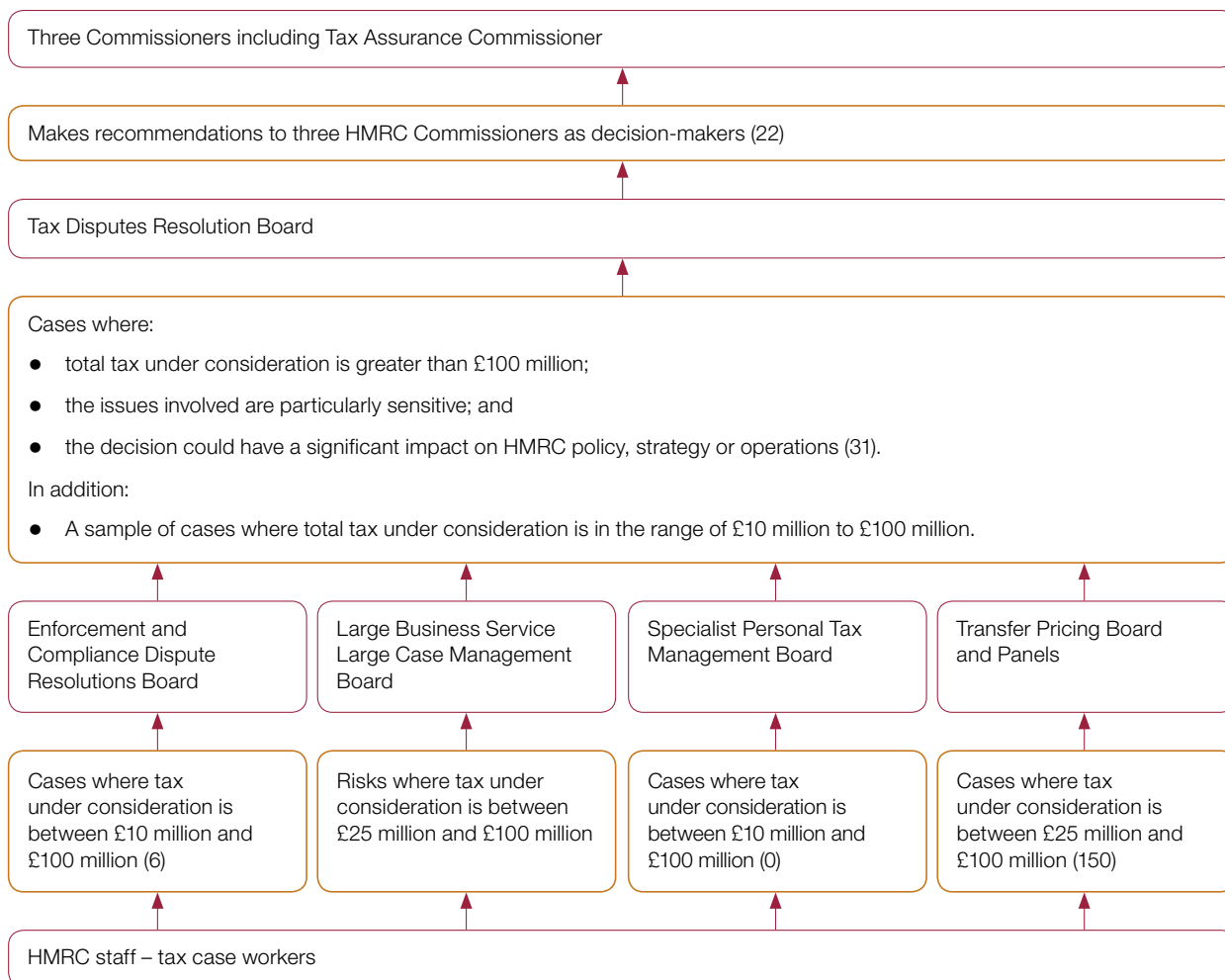
No such code of governance in existence – though, as now, all settlements were required to comply with the Litigation and Settlement Strategy.

Notes

- 1 HM Revenue & Customs, *How we resolve tax disputes: the Tax Assurance Commissioner's annual report 2012-13*, July 2013.
- 2 Comptroller and Auditor General, *'Report by the Comptroller and Auditor General' in HM Revenue & Customs Annual Report and Accounts 2010-11*, June 2011.
- 3 Code of governance for resolving tax disputes, HMRC, November 2012 (online) www.hmrc.gov.uk/adr/resolve-dispute.pdf

Sources: National Audit Office analysis of HM Revenue & Customs, *How we resolve tax disputes: the Tax Assurance Commissioner's annual report 2012-13*, July 2013 and Comptroller and Auditor General, *'Report by the Comptroller and Auditor General' in HM Revenue & Customs Annual Report and Accounts 2010-11*, June 2011

Figure 15
Governance structure for resolving tax disputes



Note

1 Figures in brackets indicate the number of cases that have been escalated through that route in 2012-13.

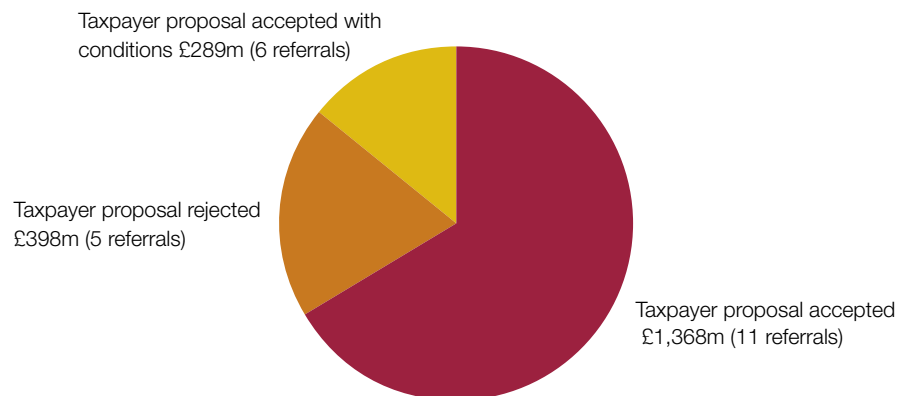
Source: HM Revenue & Customs, *How we resolve Tax Disputes: The Tax Assurance Commissioner's annual report 2012-13*, July 2013 (National Audit Office analysis)

3.8 In 2012-13, the Tax Disputes Resolution Board considered tax cases with a combined value of over £2 billion. The board met seven times to consider 31 cases, of which 22 were subsequently considered by the Commissioners. Eleven cases were accepted for settlement, five were rejected and six were settled with conditions. The outcome of the cases by the value of tax at issue is shown in **Figure 16**.

3.9 Of the 22 cases considered by the Commissioners, 19 related to cases over £100 million, one case was referred twice due to its sensitive nature, and one sampled case had been considered. The low sampled case figure was due to the first tranche of sample cases being selected by HMRC late in 2012-13.

Figure 16

Outcome of cases referred under the new Commissioner arrangements based on tax at issue in 2012-13



Note

1 Tax at issue is the amount of tax relating to decisions reached.

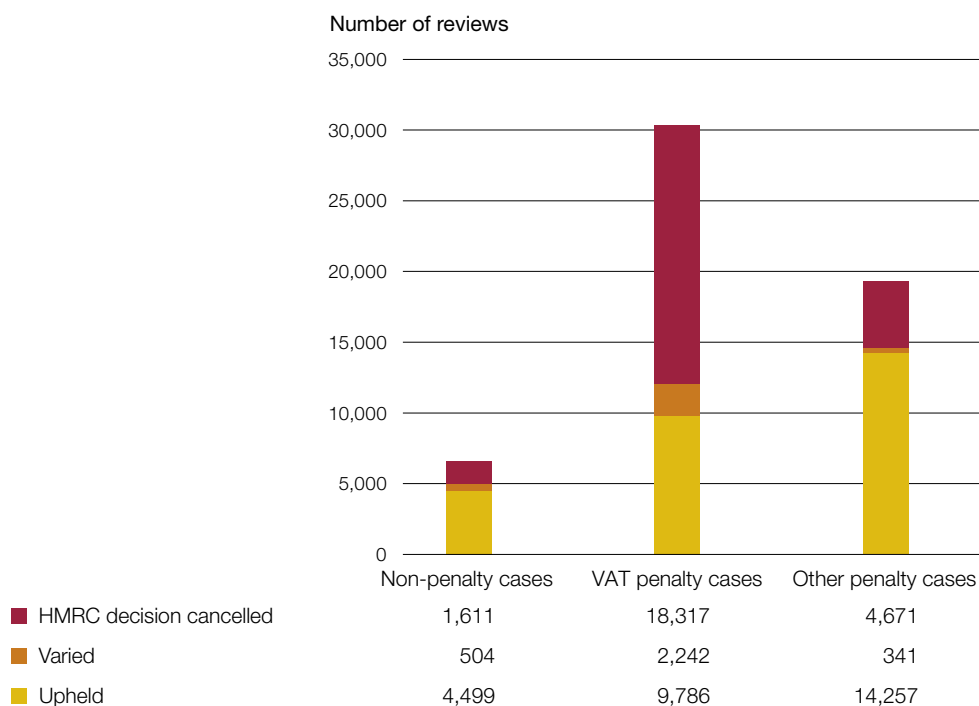
Source: HM Revenue & Customs, *How we resolve Tax Disputes: The Tax Assurance Commissioner's annual report 2012-13*, July 2013

HMRC's performance in resolving tax disputes at review and tribunal stages

3.10 The most recent data available concerning HMRC's performance in resolving tax disputes covers 2011-12, a period before the role of Tax Assurance Commissioner was created. HMRC published the Review and Appeal statistics for 2011-12 in March 2013;⁴⁶ the corresponding figures for 2012-13 have not yet been published. In 2011-12, HMRC closed 56,200 reviews, of which over half (54 per cent) related to VAT penalty cases and a third (34 per cent) to other penalty cases (**Figure 17**).

Figure 17

Total number of reviews of HMRC decisions, 2011-12



Note

1 An upheld decision is one where HMRC's original assessment of tax due is not changed in the review process, a varied decision is where the amount of tax originally assessed as due is modified through the review process.

Source: *HMRC's Reviews and Appeals – 2011-12*, available at: www.hmrc.gov.uk/complaints-appeals/reviews-appeals-2011-12.pdf

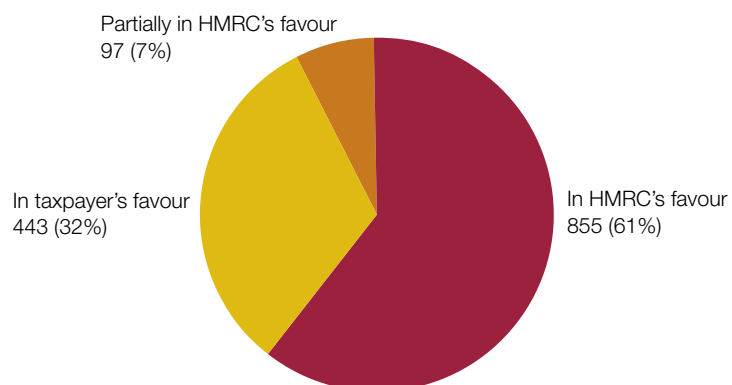
46 HMRC's Reviews and Appeals – 2011-12. Available at: www.hmrc.gov.uk/complaints-appeals/reviews-appeals-2011-12.pdf, accessed 11 September 2013.

3.11 Most of the VAT penalties issued relate to VAT default surcharges that are automatically issued when a return is filed late. If the customer asks for a review, HMRC can consider whether there is a reasonable excuse for missing the deadline, and withdraw the penalty if there is. HMRC reports that the number of appeals represents less than 4 per cent of the total number of surcharges issued, although the percentage upheld is high as HMRC consider whether there is a reasonable excuse for the customer missing the deadline.

3.12 Where an agreement between HMRC and the taxpayer cannot be reached then, as part of the formal appeals process, the taxpayer may appeal to the First-tier Tribunal. Of the 10,800 appeals to the First-tier Tribunal in 2011-12, around 4,300 appeals were closed, either at a formal hearing by the tribunal or without a hearing. **Figure 18** shows a breakdown of the outcomes of the 1,395 cases which proceeded to tribunal.

Figure 18

Outcome of First-tier Tribunal hearings, 2011-12



Source: HM Revenue & Customs' Reviews and Appeals – 2011-12

Appendix One

The Department's sponsored bodies at 1 April 2013

1 HMRC has one Executive Agency, the Valuation Office Agency. The Agency's core purpose is to provide valuations and property advice to support taxation and benefits. The work of the Agency encompasses:⁴⁷

- compiling and maintaining lists of rateable values of the 1.8 million non-domestic properties in England, and the 100,000 in Wales, to support the collection of business rates;
- compiling and maintaining the lists of council tax bandings of some 23 million domestic properties in England, and 1.3 million in Wales, to support the collection of council tax;
- determining local housing allowances across some 150 Broad Rental Market areas for Housing Benefit purposes, and nearly 300,000 Housing Benefit referrals each year and registering some 60,000 Rent Act 1977 fair rents in England;
- delivering a range of statutory and non-statutory valuation and surveying services to central and local government departments and the wider public sector; and
- providing valuation advice to HMRC in connection with capital gains, inheritance tax and other tax compliance work.

⁴⁷ Valuation Office Agency, *Annual Report and Accounts 2012-13*, HC 267, June 2013.

Appendix Two

Results of the Civil Service People Survey 2012

	Civil service overall	Department for Business, Innovation & Skills (excluding agencies)
Question scores (% strongly agree or agree)		
Leadership and managing change		
I feel that the Department as a whole is managed well	43	39
Senior civil servants in the Department are sufficiently visible	48	51
I believe the actions of senior civil servants are consistent with the Department's values	42	40
I believe that the departmental board has a clear vision for the future of the Department	40	41
Overall, I have confidence in the decisions made by the Department's senior civil servants	39	37
I feel that change is managed well in the Department	29	26
When changes are made in the Department they are usually for the better	25	19
The Department keeps me informed about matters that affect me	56	59
I have the opportunity to contribute my views before decisions are made that affect me	36	31
I think it is safe to challenge the way things are done in the Department	40	37
Organisational objectives and purpose		
I have a clear understanding of the Department's purpose	84	81
I have a clear understanding of the Department's objectives	79	74
I understand how my work contributes to the Department's objectives	82	79

Note

1 The score for a question is the percentage of respondents who strongly agree or agree to that question.

Cabinet Office (excluding agencies)																
Department for Communities and Local Government (excluding agencies)																
Department for Culture, Media & Sport (excluding agencies)																
Ministry of Defence (excluding agencies)																
Department for Education																
Department of Energy & Climate Change																
Department for Environment, Food & Rural Affairs (excluding agencies)																
Foreign & Commonwealth Office (excluding agencies)																
Department of Health (excluding agencies)																
HM Revenue & Customs (excluding agencies)																
HM Treasury																
Home Office (excluding agencies)																
Department for International Development																
Ministry of Justice (excluding agencies)																
Department for Transport (excluding agencies)																
Department for Work & Pensions (excluding agencies)																
	38	31	23	19	39	39	29	56	31	21	62	39	63	48	43	29
	47	45	37	26	46	64	42	59	47	33	71	48	71	56	59	30
	40	33	23	24	39	47	34	55	39	27	59	40	62	47	47	29
	29	31	29	22	31	27	22	54	24	24	47	28	64	37	35	30
	40	30	18	16	35	42	29	50	33	19	57	35	58	43	39	23
	28	22	19	11	27	27	19	42	18	17	49	23	44	34	27	24
	22	14	12	9	17	25	14	36	14	14	35	18	32	29	19	20
	57	54	56	41	55	67	56	62	49	40	72	60	69	61	63	46
	34	32	32	20	37	39	31	42	30	20	48	33	50	37	35	23
	41	29	32	30	36	43	37	45	31	29	54	38	44	41	43	33
	73	67	64	80	83	87	74	83	68	75	86	84	94	79	80	79
	63	63	62	72	77	84	70	80	62	72	80	80	92	73	74	77
	73	72	70	76	80	86	75	84	69	75	82	81	91	77	79	78

Appendix Three

Publications by the NAO on the Department since April 2012

Publication date	Report title	HC number	Parliamentary Session
1 August 2013	The HMRC VAT service: the impact of legacy ICT		2013-14
2 July 2013	HM Revenue and Customs: 2012-13 accounts, report by the Comptroller and Auditor General	HC 10	2013-14
6 June 2013	Progress in tackling tobacco smuggling	HC 226	2013-14
14 February 2013	Tackling tax credits error and fraud	HC 891	2012-13
7 February 2013	HM Revenue & Customs: progress on reducing costs	HC 889	2012-13
18 December 2012	HM Revenue & Customs: customer service performance	HC 795	2012-13
21 November 2012	Tax avoidance – tackling marketed avoidance schemes	HC 730	2012-13

Appendix Four

Cross-government reports of relevance to the Department

Publication date	Report title	HC number	Parliamentary Session
11 September 2013	Managing the risks of legacy ICT to public service delivery	HC 539	2013-14
5 September 2013	Department for Work & Pensions: Universal Credit: early progress	HC 621	2013-14

Where to find out more

The National Audit Office website is
www.nao.org.uk

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