

A Short Guide to the **HM Revenue & Customs**

July 2015



National Audit Office



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The National Audit Office scrutinises public spending for Parliament and is independent of government. The Comptroller and Auditor General (C&AG), Sir Amyas Morse KCB, is an Officer of the House of Commons and leads the NAO, which employs some 810 people. 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 £1.15 billion in 2014.


This Short Guide summarises what HM Revenue & Customs does, how much it costs, recent and planned changes and what to look out for across its main business areas and services.

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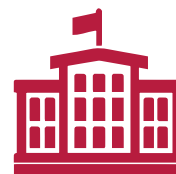
HMRC Transformation Programme

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Snapshot of notable facts in the 2015 Short Guide



£517.7 billion
The amount collected by HMRC in 2014-15



170 offices
HMRC reduced its estate to in 2014-15 – compared with 539 in 2005



£26.6 billion
HMRC estimates it has raised through its enforcement and compliance work in 2014-15 – 11% more than 2013-14



66,900 to 57,100
HMRC reduced its staff (FTE) from April 2011 to March 2015. (HMRC had 97,000 staff in March 2005)



£10.4 billion
we estimate by 2017, HMRC will have spent since 2004 on its **Aspire IT contract**



43%
employee engagement – this is a measure of an employee attachment to their employer; 59% is the civil service average



£29.1 billion
HMRC paid out in personal tax credits in 2014-15

Key facts

HM Revenue & Customs (HMRC) is the UK's principal revenue-collecting department. Its purpose is to ensure that money is available to fund the UK's public services, by collecting UK taxes.

About HM Revenue & Customs 

In 2014-15 HMRC collected £517.7 billion in revenue, an increase of £11.9 billion (2.4%) on 2013-14.

Key trends

Income tax, National Insurance contributions and VAT accounted for 74% of tax collected.

Department spending

HMRC is a non-ministerial Department, responsible for the administration of the tax system. It reports to Parliament on revenue collection. Tax policy is the responsibility of HM Treasury.

Spending reductions

HMRC provides predictions of revenues to Parliament in Budgets and Autumn Statements, and reports to Parliament on revenues collected in its Trust Statement, published in its Annual Report and Accounts.

Staff and pay

Staff attitudes and engagement

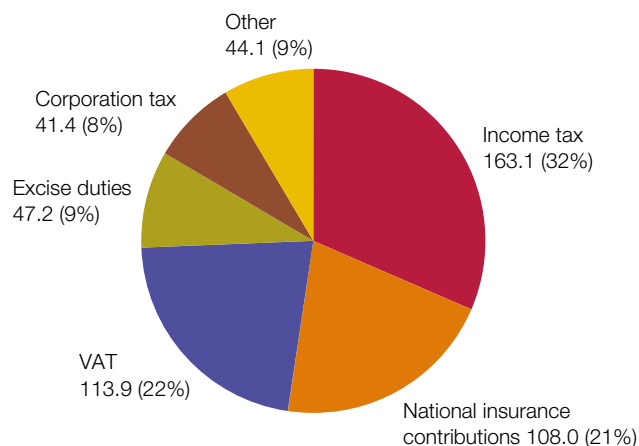
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Main types of revenue collected by HM Revenue & Customs in 2014-15 (£bn)



Note

- 1 Total revenue: £517.7 billion.
- 2 Percentages may not add to 100% due to rounding.

Source: HM Revenue & Customs *Annual Report and Accounts 2014-15*

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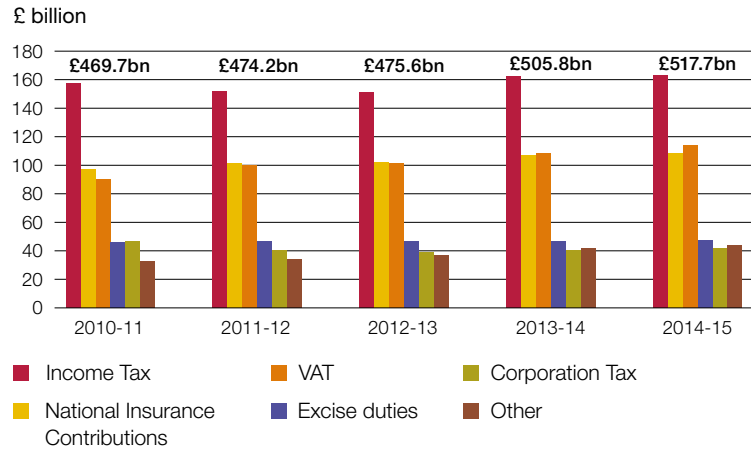
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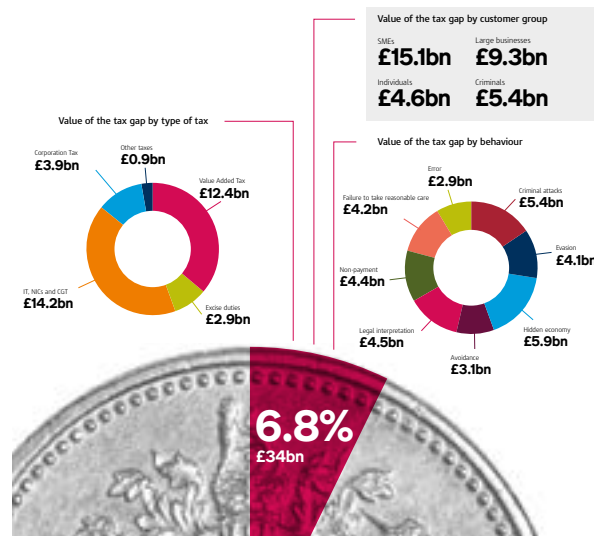
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HMRC Revenue collection 2010 to 2015

Tax revenues are gradually increasing

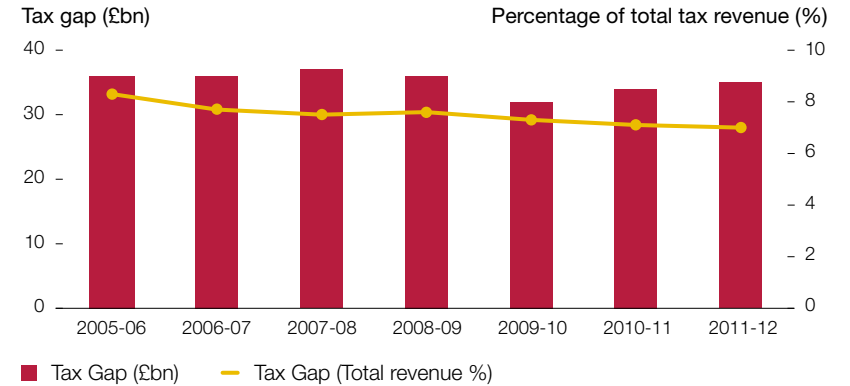


HMRC's latest estimate for the total tax theoretically collectable was £504 billion for 2012-13, of which it estimated £34 billion was not collected (the 'tax gap')



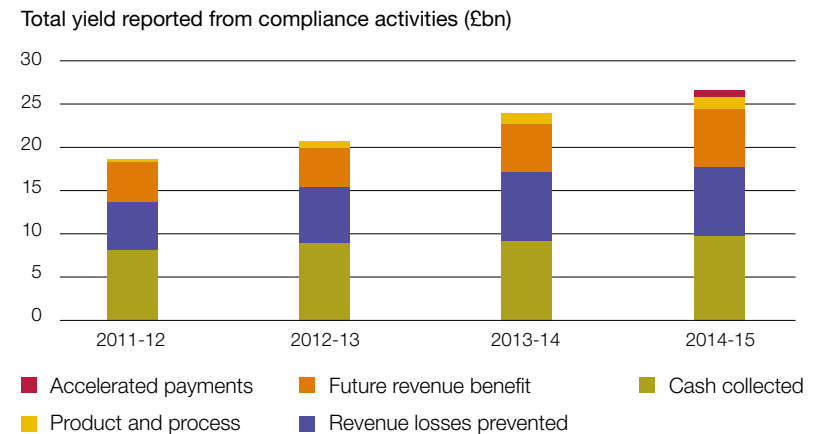
Tax gap long-term trend

HMRC sets out that the tax gap trend over time is downwards, but it rose slightly in 2012-13



Components of compliance yield 2011-12 to 2014-15

HMRC has increased over the past 4 years its estimated compliance yield (the extra revenue it estimates it generates from its compliance work)



Key facts

HMRC also helps families, individuals and companies with targeted financial support. In 2014-15, HMRC spent:

- £29.1 billion on personal tax credits;
- £11.6 billion on child benefit; and
- £2.0 billion on corporation tax credits and reliefs.

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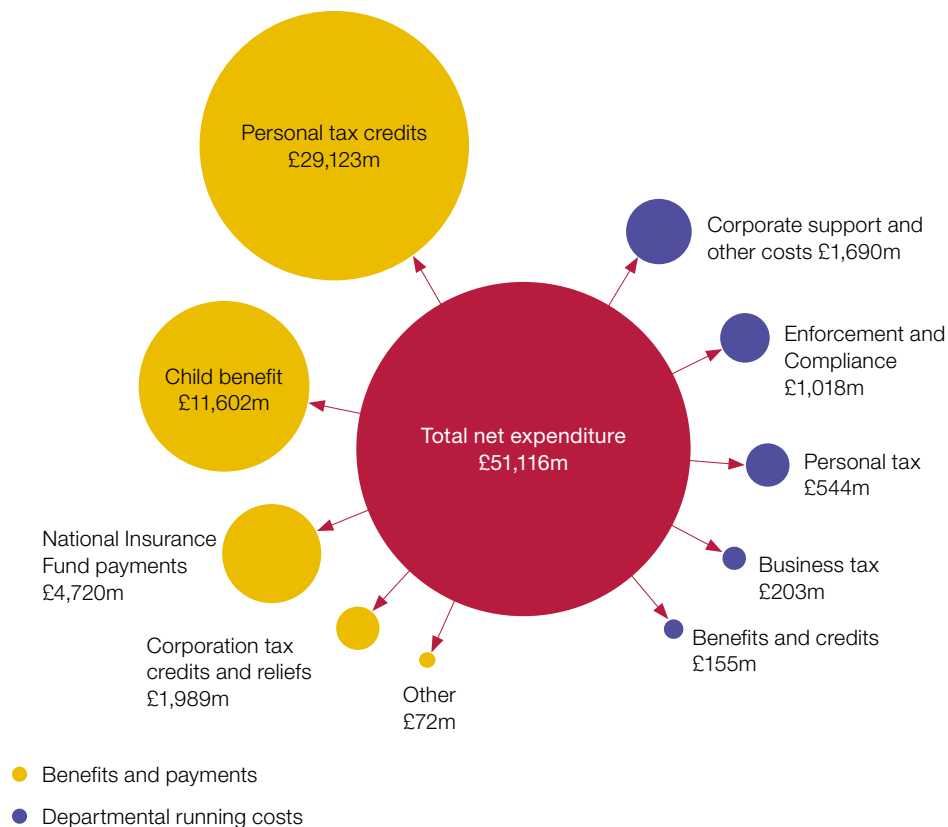
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It also paid over £4.7 billion to the National Insurance Fund.

A further £3.1 billion was spent on the running costs of its various divisions managing different types of tax collection and benefit payment.

HMRC's spending is reported to Parliament in its Resource Accounts, published in its Annual Report and Accounts.

Where the Department spent its money in 2014-15



Notes

- 1 Data from Note 2 to the 2014-15 HMRC Resource Accounts.
- 2 Running costs of different HMRC groups are reported gross.
- 3 Other includes other tax reliefs and payments, and remaining reconciling items.

Source: National Audit Office analysis of HM Revenue & Customs *Annual Report and Accounts 2014-15*

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HMRC made efficiency savings over the last Parliament, and reinvested the surplus to further its compliance work.

HMRC's strategic objectives since 2010 have been to maximise revenue, make sustainable cost savings and improve customer service. Its key commitments were to:

- reduce its administration budget by 33%;
- reduce its spending by 25%; and
- generate additional revenue of £7 billion per year by 2014-15. HMRC reinvested £917 million from the required cost savings over the four years to combat tax avoidance, evasion and fraud.

Savings in running costs are being achieved by HMRC moving more of its services onto digital platforms, reducing staff and estates.

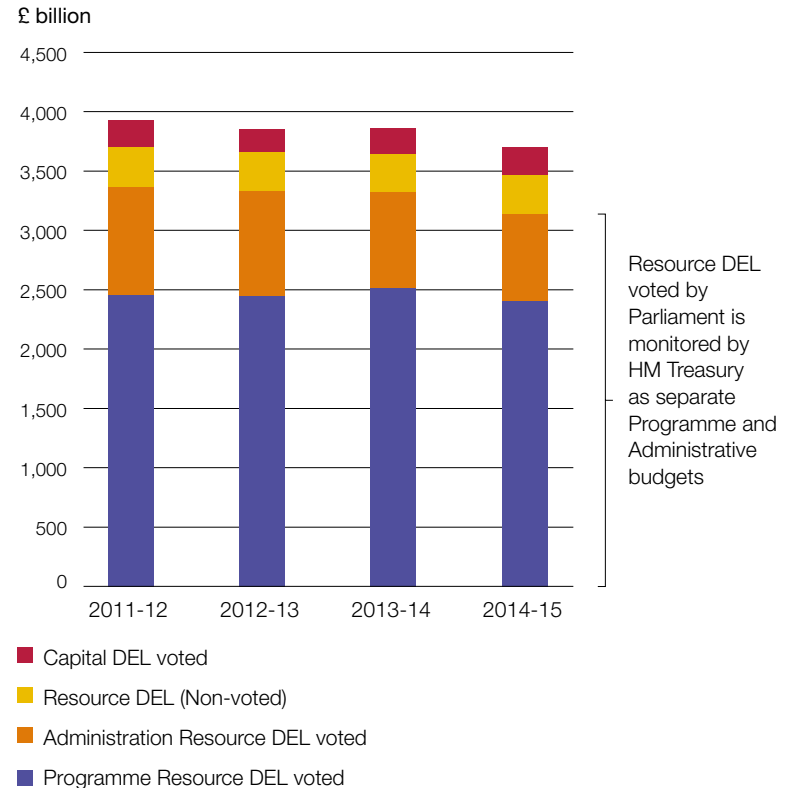
When it was created in 2005, HMRC's estate covered 600 offices. By October 2014, HMRC operated from 180 offices in 125 locations, and has made the largest reduction to the government's estate in each of the last four years, including a reduction of 60,000m² in 2013-14.

The outturn on HMRC's running costs (administrative and programme costs) has declined over the past 4 years from £3.4 billion to £3.1 billion, with HMRC total delegated expenditure limit declining from £3.9 billion to £3.7 billion.

The outturn on administration budget has reduced by 20% (from £912 million to £725 million) with the programme budget remaining roughly constant (£2.4 billion).

In Spending Round 2013, HMRC was expected to deliver a further £130 million of efficiency savings in 2015-16. HMRC is planning to deliver a total of £205 million of efficiency savings in 2015-16.

Reduction in HMRC running costs



Spending Review 2010



15%
cuts (25% efficiencies generating £900m extra investment)

Spending Round 2013



£130m efficiencies in 2015-16

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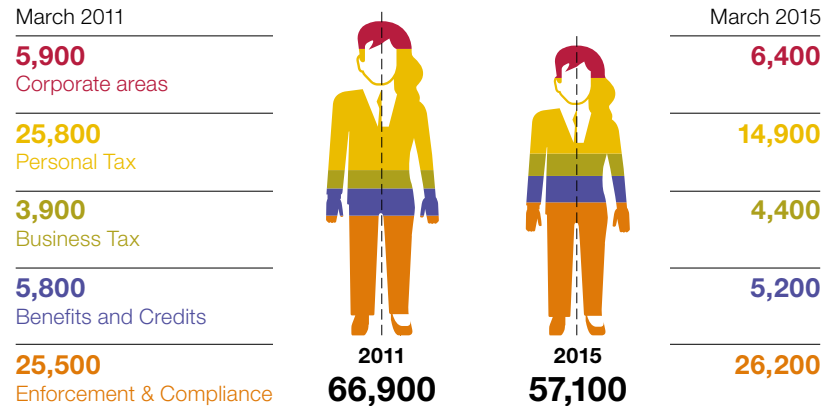
HMRC has reduced its full-time equivalent staff from 66,900 in March 2011 to 57,100 in March 2015. Further reductions are planned. The majority of reductions achieved to date have been in the personal tax group, part of a planned change to move staff away from processing roles, to more work in enforcement and compliance.

Many of HMRC staff (44%) are aged 50 or over, and 74% are aged 40 or over. Over 50% of HMRC's workforce is female. 17% declare themselves as having a disability.

HMRC's pay ratio – the ratio between the highest paid member of staff and its median salary fell slightly in 2014-15, from 8.7 in 2013-14 to 8.5 in 2014-15.

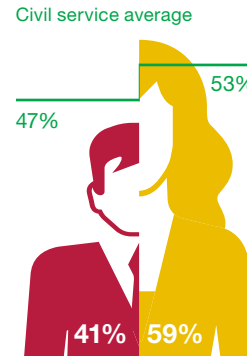
This ratio is almost double that of HM Treasury (4.7), and greater than HMRC's only executive agency, the Valuation Office Agency (5.8). This is because HMRC has much lower levels of median pay, £23,805 in HMRC compared to £38,919 in HM Treasury (2013-14), and £26,798 in VOA.

HMRC Staff numbers (FTE) 2011 and 2015

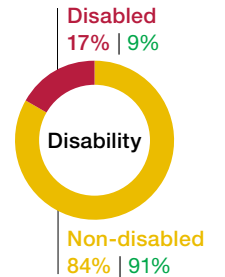
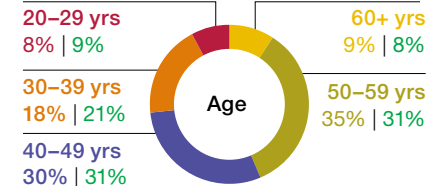


Workforce in HMRC

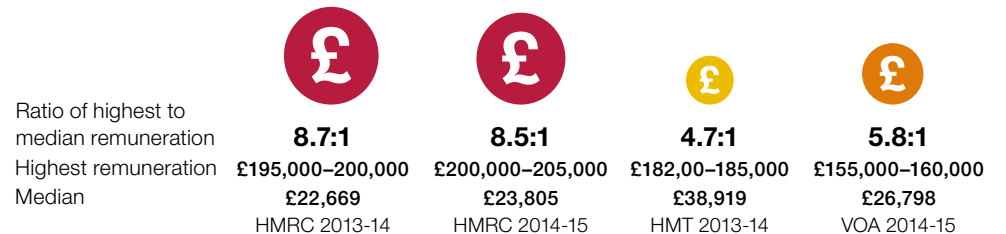
Gender



Civil service average



Pay median of directors



Source: Diversity Report – HM Revenue & Customs, HM Treasury and Valuation Office Agency

Key facts

The main measure from the People Survey is the employee engagement index, which measures an employee's emotional response to working for their organisation.

About HM Revenue & Customs

HMRC scored 43% for employee engagement in 2014, a marked improvement on its performance at the beginning of the Parliament (34% in 2010), though still the lowest out of all the civil service departments and below the civil service average for employee engagement (59%).

Key trends

Department spending

Spending reductions

Staff and pay

The government has conducted its Civil Service People Survey annually for the past five years. The most recent survey was carried out during October 2014.

Staff attitudes and engagement



Over the previous four years, HMRC's scores had improved for 8 out of the 9 themes. In 2013, it surpassed the civil service average in the 'my team' theme for the first time. However, HMRC's scores declined slightly in 2014, with the largest drop in satisfaction with pay & benefits (down 5 points to 20% satisfaction rate). Pay satisfaction across the whole civil service declined from 29% to 28% at the same time.

Major programmes and developments

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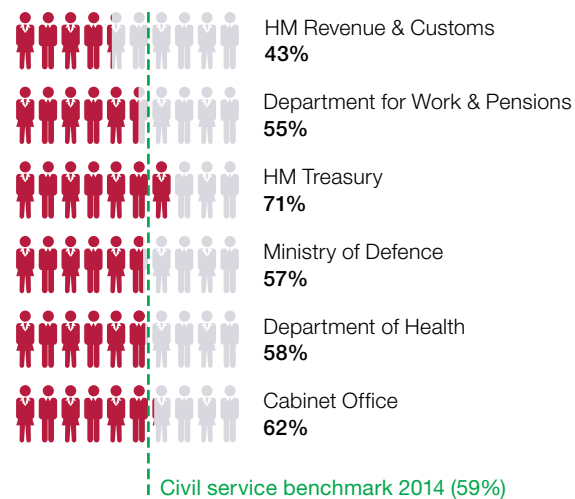
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Attitudes of staff in 2014 compared with 2013 – HMRC



Engagement index 2014 across government



Sources: Civil Service People Survey 2013 and 2014

Key facts

The Major Projects Authority (MPA) reports annually on HMRC's project management. Comparison of the assessments in its latest published data – its 2015 annual report with those in its 2014 annual report (showing the position of HMRC's projects in the Government Major Projects Portfolio at September 2014 and September 2013 respectively) – show an increasing level of confidence in HMRC's project delivery.



About HM Revenue & Customs

These 8 projects are only a subset of the many projects HMRC is managing:

Key trends



Red/Amber/Green rating	2014	2015
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Department spending

Debt Management and Banking staff reinvestment: Increases the resource deployed on debt collection by approximately 900 staff over the proposed Spending Review 2010.		
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Latest cost: £56 million

Spending reductions

Expanding the use of debt collection agencies: Investment to extend the use of debt collection agencies.		
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Latest cost: £69 million

Staff and pay

Organised Crime: Will deploy approximately 500 staff across new and established interventions to target organised criminals including joint working with the Border Force, the Crown Prosecution Service and expanding the Fiscal Crime Liaison Officer Network.		
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Latest cost: £75 million

Staff attitudes and engagement

Tax-Free Childcare: Will provide 20 per cent of working families' childcare costs, subject to an annual limit of £2,000 contribution from the Government for each child.	N/A	
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Latest cost: £32 million

Major programmes and developments

Digital Solutions Portfolio: Will deliver new and enhanced online services for individuals, business customers and the agent community.		
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Latest cost: £117 million

Key themes from NAO reports

One Click: One Click brings many Tax services (Corporation Tax, Self-Assessment, VAT and PAYE) that businesses need together in one place, online.		
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Latest cost: £111 million

HMRC Transformation Programme

Real Time Information: Will deliver a series of projects to implement measures designed to improve the efficiency and effectiveness of the PAYE system.		
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Latest cost: £333 million

Appendix

Volume Crime: To significantly increase the resources deployed to criminal investigation to reduce the volume of crime, and increase their productivity.		
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Latest cost: £42 million

Key facts

We published two value for money reports in 2014-15 and reviewed HMRC's response to NAO and PAC's recommendations over the last Parliament in a report entitled: *Increasing the effectiveness of tax collection: a stocktake of progress since 2010* (next slide).

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We reported in July 2014 on HMRC's management of its Aspire contract, through which it has outsourced the majority of its technology projects and services since 2004. HMRC managed its Aspire contract well. We found HMRC has a strong track record in delivering new technology and ensuring the continuity of its tax collection systems. However, our work on how HMRC is managing the phasing out of Aspire revealed serious risks to HMRC's business if it is unable to build sufficient commercial and technical capability before the contract ends in 2017. In January 2015, the Public Accounts Committee concluded that HMRC had made little progress in defining its needs and demonstrated little appreciation of the scale of the challenge it faced. In March 2015, HMRC told the Committee it had by then established direct commercial relationships with the major companies who were previously part of the Aspire consortium, which was facilitating some early transition work and greater control over its ICT costs. However, it had yet to receive formal sign-off of its business case for replacing Aspire.

Our report on HMRC's administration of tax reliefs (November 2014) found that some types of relief require proactive management, in particular those which seek to deliver specific policy objectives. We found that tax reliefs perform a wide range of functions, but share many common features and carry similar risks. We identified some good practice in the administration of tax reliefs, such as the specialist unit set up to administer patent box relief which is developing new ways to monitor risk and respond quickly to deviations in the relief's use. But we also found inconsistency and fragmentation, with insufficient sharing of information about the risks, costs and benefits of reliefs. We recommended that HMRC should identify what level of administration is appropriate for each type of tax relief and develop a range of techniques that it applies to each tax relief in a way that is proportionate to risk.

Increasing the effectiveness of tax collection: a stocktake of progress since 2010

In February 2015, we published a review of HMRC's response to recommendations made by the NAO and the Committee of Public Accounts over the last Parliament. We found that the vast majority of recommendations made had been accepted and implemented, concluding that HMRC engages strongly with the accountability process and takes a robust approach to implementing those recommendations it has accepted.

The stocktake discussed progress in five areas:

- **Settling large tax disputes:** HMRC has responded effectively to criticism about the way it governs large tax disputes. The appointment of a Tax Assurance Commissioner, and the publication of his annual reports, have improved the transparency in how HMRC deals with large tax disputes.
- **Tackling marketed tax avoidance:** HMRC has sought and obtained new powers and implemented new measures appropriately to tackle some of the root causes of abuse of the tax system.
- **Issues of international tax:** HMRC has played an active role in international cooperation and to improve transparency and address concerns on the exploitation of international tax rules by multinational companies, though there remains a great deal to do.
- **Improving the administration of personal tax:** HMRC responded with rigour to the problems it experienced in the administration of personal tax, when it introduced its new National Insurance and PAYE service, which had resulted in a large backlog of cases and delays. HMRC learnt from this experience when it implemented its Real Time Information system, employing extensive piloting and testing and relaxing the rules for small businesses.
- **Improving customer experience:** HMRC had improved its customer service from a low point in 2010, but customers are still not getting a good service. HMRC recognises that its customer service performance over the last Parliament was unacceptable, and that while it had made improvements, it had still fallen short of the standards people should expect.

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HMRC's Transformation Programme

What is involved?

In 2014, HMRC announced an integrated transformation programme. This is HMRC's third major transformation programme since it was established, and follows the Departmental Change Programme in 2006 and Change Programme in 2011.

The 2014 programme focused on the following principles:

- **Changing HMRC's customer service:** HMRC is moving to a 'once and done' approach for its customer service. Its aim is to resolve issues across all parts of the organisation first time through a 'whole Department' approach and an increased use of Digital Technology. It will also continue to help those customers who have difficulty using Digital Technology.
- **Personalised service:** HMRC's customers will have their own Digital Tax Account, personalised for them. All the data HMRC holds about that customer will be used to automatically calculate what they owe. The customer will be able to pay what they owe across all their taxes and their entitlements in a single transaction.
- **Developing new digital services:** HMRC is already responsible for more than two-thirds of all government online transactions. It is increasing its digital presence through Personalised Digital Tax Accounts, increased presence on social media and through the use of Webinars, and online Videos.
- **Increased focus on helping people to get their tax right:** Developing its 'promote, prevent, respond' approach – focused on helping all customers understand what they need to do, using data and analytics better to identify risks, and making it harder for the dishonest minority to cheat.
- **Transforming the shape of HMRC:** HMRC is continuing to change its size and shape, bringing its people together in regional centres, and reducing its numbers of staff and offices.

See: www.gov.uk/government/uploads/system/uploads/attachment_data/file/450017/BoF_-_Transforming_the_way_HMRC_serves_the_UK_-_2015.pdf

The NAO will provide a series of reports to Parliament on HMRC's progress in delivering its transformation programme.

HMRC's Transformation Programme

HMRC's strategy for change – What to look out for?

HMRC's strategy for change faces three **key challenges**:

- **Managing the high levels of complexity in HMRC's plans, given the scale of the transformation, alongside further cost reductions.** The transformation will be highly complex, with 126 projects currently 'in-flight'. It is more ambitious in scope than HMRC's previous transformation programmes. Managing the sequencing of projects, dependencies between projects and prioritising resources to the most valuable projects will be challenging. Every part of HMRC's business will be affected over the next five years.
- **Managing significant operational change alongside changes to how it procures and manages its digital services.** Digital technology is one of the primary enablers of HMRC's planned transformation by 2020. For the past 11 years HMRC has procured the majority of its IT (including digital) services through the Aspire contract. The Aspire contract ends in 2017. HMRC therefore needs to implement its digital transformation alongside activity to replace the Aspire contract.
- **Designing management information into programmes from the start.** HMRC will need to decide how to measure and record the benefits and outcomes expected from its transformation. HMRC's current customer service measures include the speed of its response to telephone queries. If HMRC is successful in helping customers to get their tax returns right first time, this should reduce demand for telephone contact. A key challenge will be for HMRC to establish what its current services cost, and develop how it measures the impact of any changes on its customers. This includes developing leading indicators for major risks within programmes. HMRC recognises that it will need to change the measures it uses to prioritise investments, measure progress and evaluate whether its transformed services are more cost-effective. It is developing a new set of performance measures for 2016.

Personal Tax

What is involved?

HMRC's Personal Tax Group is responsible for managing the collection of income tax, National Insurance contributions, capital gains tax, inheritance tax and student loan recoveries.

In 2014-15, £280.6 billion was paid in personal taxes by around 30 million taxpayers.

For the first half of the last Parliament, there was a slight decrease in the amount of income tax collected, which then rose in 2013-14 and 2014-15. National Insurance contributions have gradually risen, reflecting an increase in National Insurance rates.

Staff and Resources

The cost of running the Personal Tax Group has been declining, from £680.2 million in 2013-14 to £543.7 million in 2014-15.

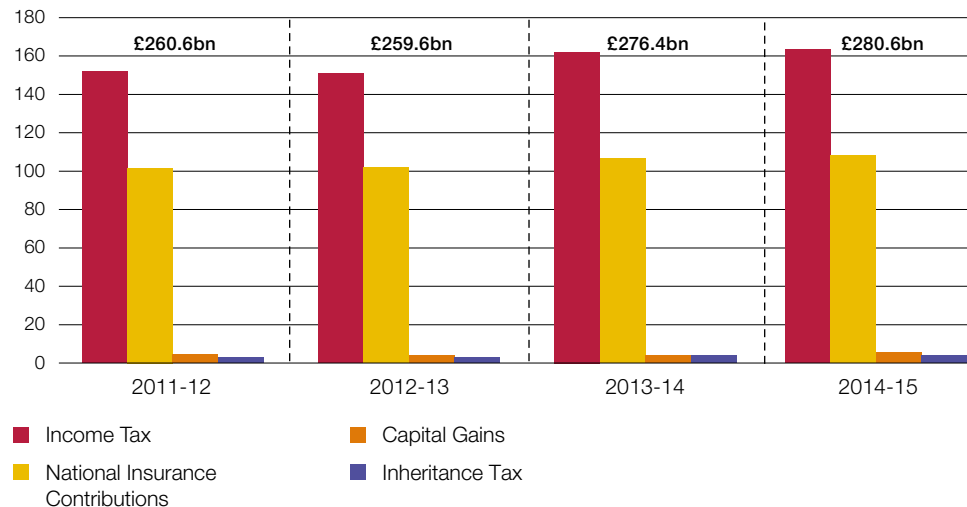
Most of the staff reductions in HMRC have come from personal tax, where staffing has almost halved from 26,900 FTE in March 2012 to 14,900 in March 2015.

This reduction reflects HMRC's move towards digital services in Personal Tax.

Many of the additional staff in Enforcement and Compliance were redeployed from Personal Tax.

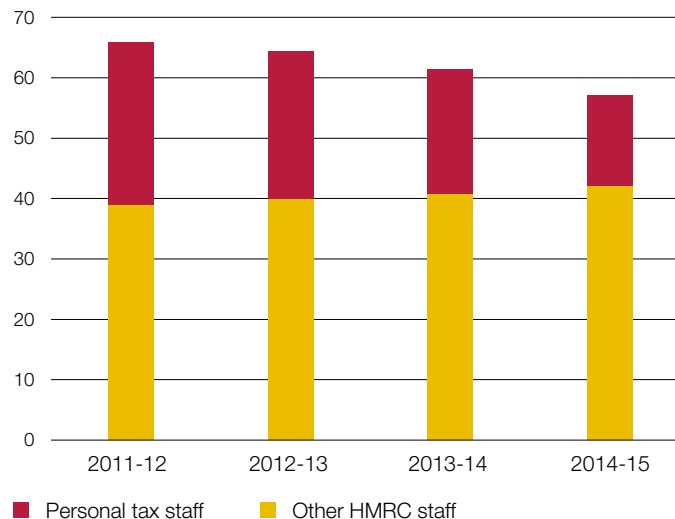
Trends in Personal Taxes 2011-12 to 2014-15

The amount of personal tax collected by HMRC (£bn)



HMRC Staffing 2011-12 to 2014-15

Significant staff reductions have occurred in personal tax (thousands)



Personal Tax

Future developments

Digital Strategy

HMRC's digital strategy aims to maximise revenue collected through tax, improve the customer experience and minimise costs, by designing digital services that:

- are easy to use, convenient and personalised for individuals, businesses and agents;
- are tailored to the needs of the different groups to promote digital take-up and voluntary payment;
- use existing data to help customers avoid errors through the pre-population of forms; and
- provide assistance in using or accessing services for those who need it.

HMRC is currently digitalising different tax streams, including inheritance tax in 2015-16. HMRC's customers will have their own Digital Tax Account, personalised for them, removing the need for Self-Assessment returns.

Key focus on RTI

In 2013-14, HMRC introduced its Real Time Information system (RTI) to collect more timely PAYE data, requiring employers to submit information to HMRC when they pay employees.

RTI allows HMRC to track changes in income and employment during the year. Over time, this will help keep people on the correct tax code when their employment changes.

RTI also allows HMRC to identify PAYE debt during the year rather than at end-of-year, and take steps to collect it at an earlier stage. HMRC is also using RTI data to reduce fraud and error associated with personal tax credits, and plans to use it to prevent error and fraud in Universal Credit.

As at 31 March 2014, 1.6 million employer schemes (94%) were filing through RTI, comprising 47.7 million employees (more than 99% of PAYE employees).

The RTI Programme successfully completed in June 2015. HMRC has a high level vision for how PAYE will operate with RTI in the future, but still needs to detail how it will make better use of RTI data received from employers.



Personal Tax

What to look out for?

Changes to Customer Services

In 2014-15 HMRC answered only 72.5% (79% in 2013-14) of telephone calls attempted (revised target = 80%), and handled only 70% (83% in 2013-14) of post within 15 working days (target = 80%). These standards are lower than industry standards. Customer services are not yet where HMRC wants them to be.

Since 2010, HMRC has made improvements to customer services while making efficiency savings, through more flexible use of staff resources to cope with varying workloads.

HMRC is working to improve its customer understanding and service through digitisation, and by:

- building its understanding of customers and managing the impact on them of changes to services;
- seeking customer feedback on changes, and involving end users in the design of new services;
- understanding how service levels influence compliance and tax yield; and
- making better use of data to segment its customer base, and offer differentiated services for customers.

The NAO intends to report in 2015-16 on HMRC's plans to improve customer services.

Business Tax

What is involved?

The Business Tax Group collects VAT, Corporation Tax, alcohol and tobacco duties, hydrocarbon oil duties, stamp duty and a number of other taxes.

HMRC collected business taxes amounting to £237.1 billion in 2014-15, the largest portion of which was VAT.

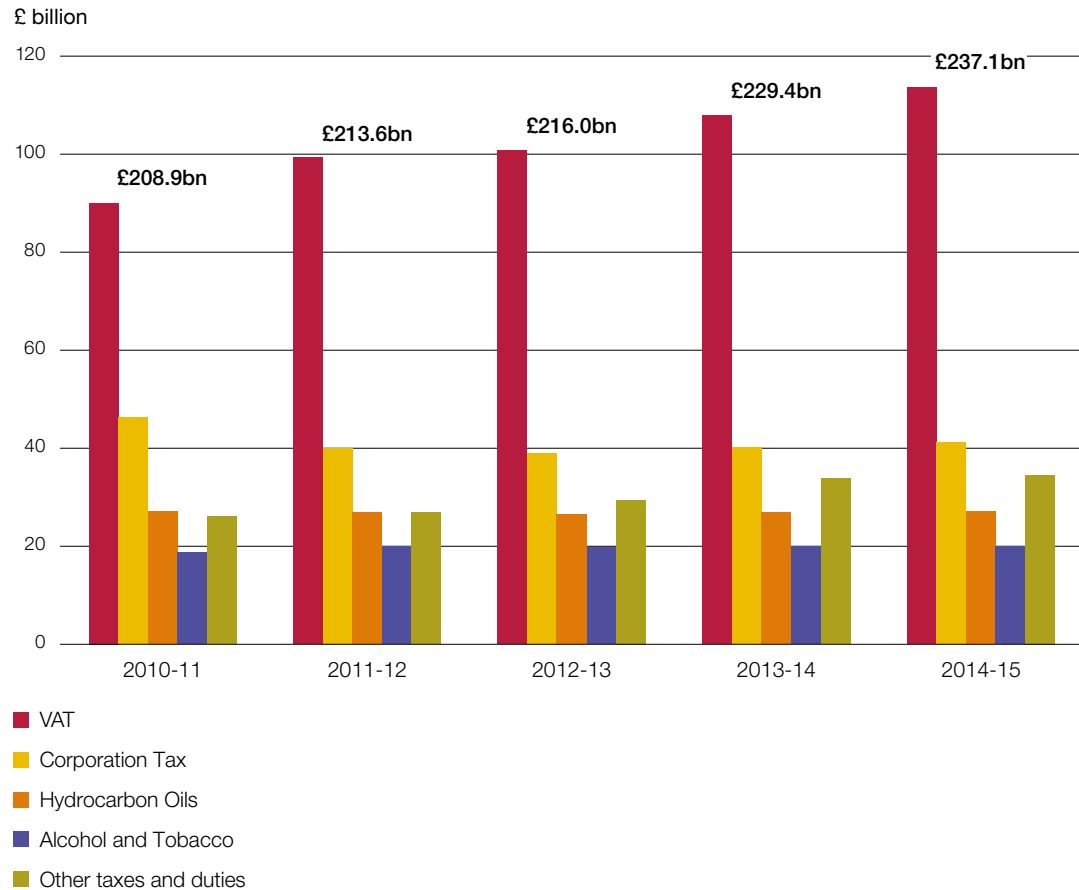
Since 2011, there has been a gradual increase in business tax revenues, primarily as a result of the increases in VAT and additional new taxes such as the bank levy. Corporation tax, hydrocarbon oil duties and alcohol and tobacco duties have largely remained stable or declined over the period.

Staff and Resources

The cost of running the Business Tax Group increased by 29% in 2014-15 to £203.0 million, from £157.6 million in 2013-14.

The number of staff working in the Group increased significantly in 2014-15 to 4,400 FTE (40% increase) to meet additional delivery targets on Large Businesses and Corporation Tax processing. This reversed the reductions of earlier in the Parliament (from 3,700 FTE in March 2012 to 3,200 in March 2014).

Business Tax collected by HMRC 2010-11 to 2014-15



Business Tax

Future developments

Corporate tax roadmap

In 2010, HMRC published and subsequently implemented a corporate tax roadmap to reduce the headline rate of corporation tax. This will be fully implemented from 2015-16.

International Co-ordination and Reform

Multinational Companies can exploit gaps and mismatches in tax rules to move profits from higher taxed countries where they operate to jurisdictions with lower or nil tax rates to avoid taxation.

The Organisation for Economic Co-operation and Development (OECD) has produced an action plan for the reform of the international tax system. The Base Erosion and Profit Sharing project (BEPS), examines the implications of the current rules and what could be done to change them where needed.

In November 2014 the OECD presented reports to the G20 Leaders on the first set of deliverables, which highlighted the need for more coordination and collaboration between tax administrations. The final actions will be put in place by December 2015.

HMRC has played an active role in this international cooperation, and has invested in its capacity to challenge multinationals in these areas, including 'transfer pricing'.



Business Tax

What to look out for?

Managing tax reliefs

Tax reliefs are an important part of the tax system and serve a wide variety of purposes. But they can create opportunities for tax avoidance, and the number of reliefs and the interaction between them adds to the complexity of the tax system. Some involve significant cost to the Exchequer.

Our work established that HMRC does not have a framework or principles to guide the administration of tax reliefs and some require proactive management. We found examples of good practice, but also inconsistency and fragmentation in the way HMRC administers reliefs, with insufficient sharing of information about their risks, costs and benefits.

We recommended that HMRC should develop a methodology for identifying what level of administration is appropriate, taking into account factors such as objective, complexity and risk.

See: *The exchequer departments, Tax reliefs*, Session 2013-14, HC 1256, National Audit Office, April 2014 and *The effective management of tax reliefs*, Session 2014-15, HC 785, National Audit Office, November 2014.

Benefits and Credits

What is involved?

The Benefits and Credits group within HMRC is responsible for paying out two types of benefits: tax credits (principally personal tax credits – child and working tax credits); and child benefit.

In 2014-15, HMRC spent £29.1 billion on personal tax credits, compared with £29.3 billion in 2013-14. This is the second largest area of benefit expenditure, after retirement benefits.

It also spent £11.6 billion on child benefits (£11.5 billion in 2013-14).

Personal tax credits give financial support to around 4.6 million families, supporting around 7.6 million children (4.7 million and 7.8 million in 2013-14).

Expenditure stayed roughly constant over the course of the last Parliament.

Staff and Resources

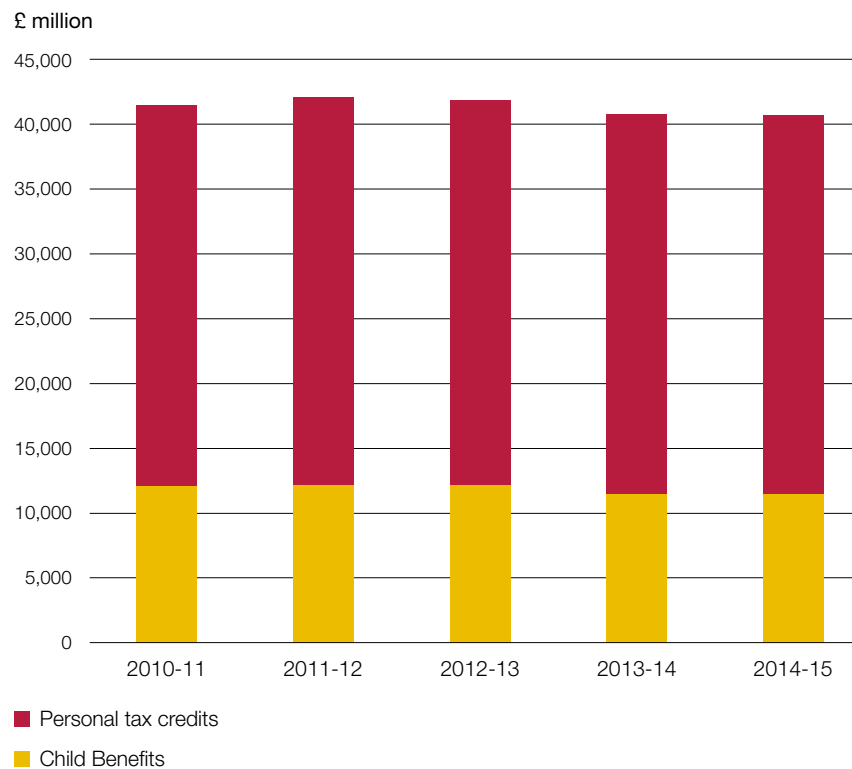
£154.7 million was spent on running the Benefits and Credits division in 2014-15 (£153.0 million in 2013-14).

Staffing levels stayed roughly constant over the last Parliament.

5,200 staff worked in benefits and credits in March 2015, compared with 5,300 in March 2012.



How much HMRC has spent on personal tax credits and child benefits



Benefits and Credits

Future developments

Reducing fraud, error and debt

Personal tax credits awards are paid on a provisional basis throughout the year, with the correct amount only finalised at year end.

Reliance on claimants updating HMRC of changes means that payments are exposed to fraud, error and debt.

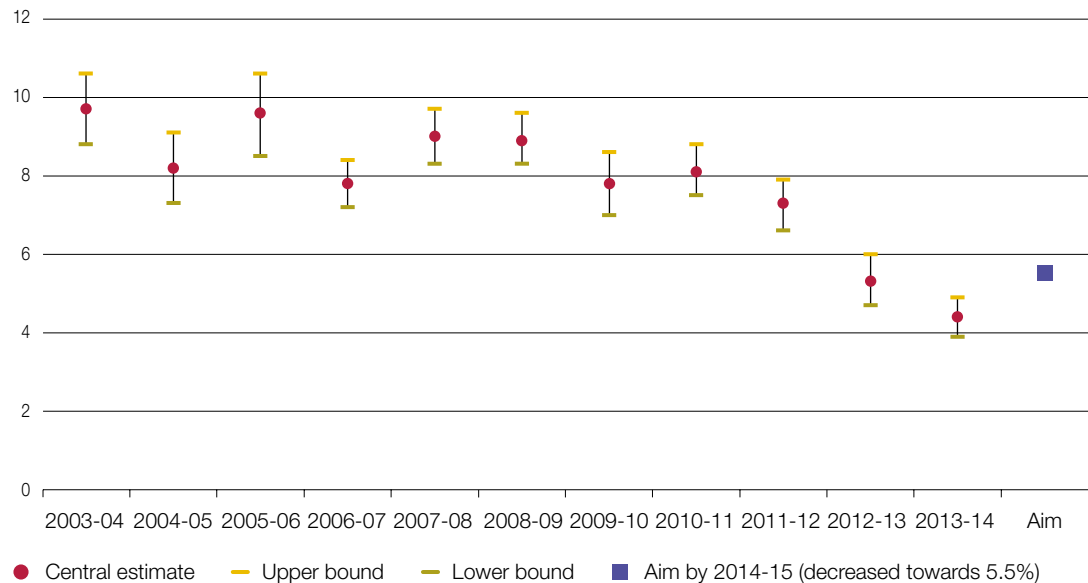
The C&AG has qualified the HMRC Resource Accounts since 2011-12 due to the likelihood of material levels of fraud and error in personal tax credits.

In 2013-14 (latest figures available), HMRC estimated the level of error and fraud within the personal tax credits system as between 3.9% and 4.9% (central estimate 4.4%), its lowest level since tax credits were introduced.

While in-year recoveries of personal tax credits overpayments increased from £815 million in 2013-14 to £967 million in 2014-15, the balance of overpayments outstanding continued to rise in 2014-15, from £6.5 billion at 1 April 2014 to £6.9 billion at 31 March 2015.

HMRC's fraud and error estimates from 2003-04 to 2013-14, including projections to 2014-15 'towards 5.5%' aim

Percentage of fraud and error



Note

1 HMRC reports fraud and error within a range around a central estimate. The figures referred to within this report are the central estimates. The methodology meets the national standard for official statistics. It is HMRC's best estimate of fraud and error.

Source: HM Revenue & Customs, *Child and Working Tax Credits Error and Fraud Statistics, 2003-04 to 2013-14*

Tax credit error and fraud has fallen. HMRC aim to decrease it to 5.5% by end of 2014-15. The central estimate for fraud and error in 2013-14 was 4.4%. The estimate of error and fraud for 2014-15 will not be available until June 2016.



Benefits and Credits

Future developments

HMRC's efforts to reduce fraud, error and debt

The balance of personal tax credits overpayments outstanding rose to £6.9 billion in 2014-15. HMRC's original target was to reduce the gross tax credits debt balance to £3.7 billion by March 2015. HMRC has a provision of £4.1 billion for the portion of this balance it does not expect to recover.

HMRC has introduced a new target that emphasises its cash recovery of tax credits overpayments (£970 million in 2014-15). In 2014-15, it achieved in year recoveries of £967 million (£815 million, 2013-14).

HMRC is improving its approach to tax credit debts, using new recovery mechanisms, reducing creation of debt and tailoring its approach on a VfM basis.

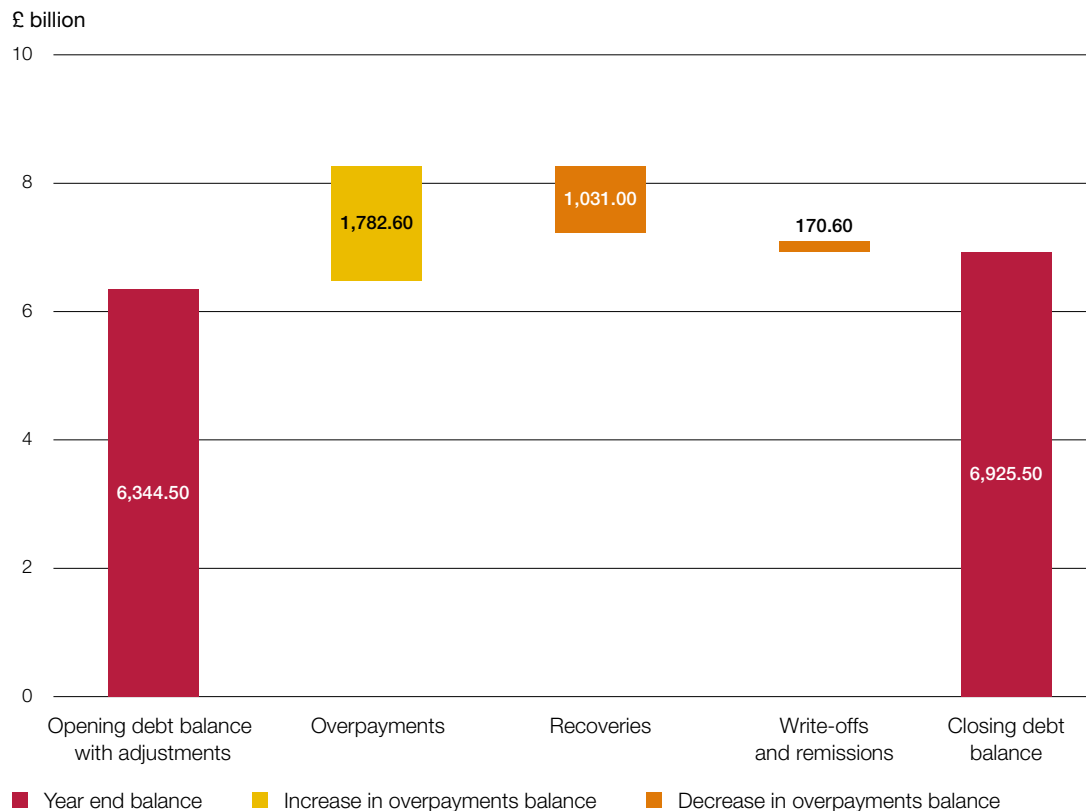
It is improving its understanding of customer behaviour, through the use of greater data analytics.

HMRC has had a significant role in government's use of private sector debt collection agencies (DCAs). Since August 2014, HMRC has sent cases to a private sector company TDX. TDX has collected £15.5 million so far on behalf of HMRC and estimates it will recover a further £37.4 million from payment plans set up with customers.

HMRC is also now deducting a proportion of the payment from a claimant's new award when it identifies that the same person already has a debt on a previous award.

Movements in tax credits receivables 2014-15

Tax credit overpayments are still created faster than they are collected



Benefits and Credits

What to look out for

Universal Credit

Universal Credit is being introduced to replace 6 current benefits, including personal tax credits, with a single mean-tested benefit.

Universal Credit is being rolled out across Great Britain to single claimants, since February 2015, and digital pilots are currently operating in a small number of postcodes. By March 2015, HMRC had stopped 7,000 claims (0.2% of claimants) for customers claiming Universal Credit.

Tax credits claims will start to fall significantly from May 2016 as claims are closed on a geographical basis. HMRC expects still to be administering 660,000 tax credit claimants in December 2019.

How HMRC is working with DWP to deliver Universal Credit

HMRC's ongoing work to reduce error and fraud in tax credits has focused on: improving the effectiveness of its compliance activity; extending its capacity to tackle overpayments; making changes to scheme rules and requirements; and improving its support to claimants.

In the future, the government intends to use the design of Universal Credit to reduce error and fraud in benefits and credits, in part through using RTI to identify it much earlier.

HMRC is responsible for stopping existing personal tax credits claims when a claimant becomes eligible for Universal Credit, and is working with DWP on plans to move all tax credits customers to Universal Credit.

Planning is underway for transferring HMRC staff resources to DWP as more customers claim the tax credits element through Universal Credit.

HMRC is working closely with DWP to agree arrangements for the recovery of tax credits debt once individuals move onto Universal Credit.

Enforcement & Compliance

What do enforcement and compliance activities involve?

Enforcement and compliance activities undertaken by HMRC aim to protect tax revenues and close the gap between the amount of tax that should be collected and that which is actually collected (the "tax gap"). HMRC estimates the tax gap is around £34 billion.

During the last Parliament, HMRC put a greater focus on compliance work to secure extra tax revenues. It reinvested almost £1 billion of funding to bring in more revenue from its compliance work and, longer term, to promote more compliant behaviour among taxpayers.

HMRC measures the effectiveness of the enforcement and compliance work undertaken by all areas of its business by estimating the extra revenue it generates, known as 'compliance yield'.

In 2014-15, HMRC reported total compliance yield of £26.6 billion, up 11% on 2013-14 (£23.9 billion). Compliance yield collates, and estimates, the impact of the wide range of activities undertaken by HMRC. Caution is needed in comparing performance between years as this year's increase includes new activities such as accelerated payments.

The yield consists of five components, each of which estimates the financial impact of HMRC's enforcement and compliance activities. It should not be confused as the amount of cash actually generated each year from these activities as HMRC did not design yield to be a cash-based measure.

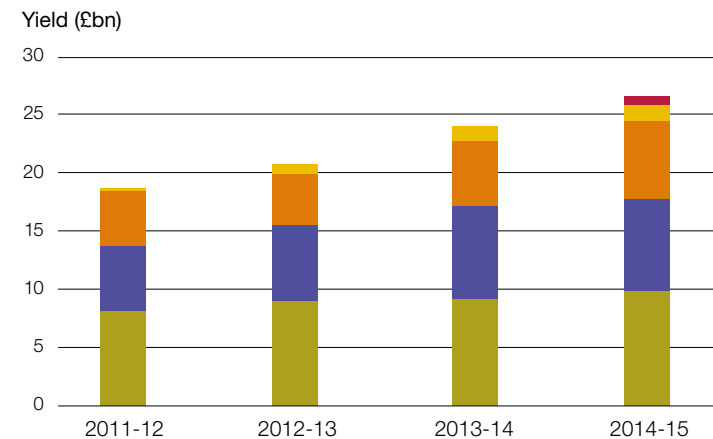
HMRC continues to improve the transparency of how it reports compliance yield in its Annual Report.

Staff and Resources within the Enforcement and Compliance Group within HMRC

HMRC spent £1,018.0 million on the Enforcement and Compliance Group in 2014-15, a slight decrease from the £1,068.6 million spent in 2013-14.

Staff numbers increased from 25,300 FTE in March 2012 to 26,200 in March 2015 (most moved from personal taxes), with 2,500 new jobs in the Group to be created by the end of 2015.

Components of compliance yield 2011-12 to 2014-15



Yield type	2011-12 (£m)	2011-12 (%)	2012-13 (£m)	2012-13 (%)	2013-14 (£m)	2013-14 (%)	2014-15 (£m)	2014-15 (%)
Accelerated payments	0		0		0		768	3
Product and process yield	240	1	794	4	1,233	5	1,335	5
Future revenue benefit	4,700	25	4,441	21	5,508	23	6,748	25
Revenue losses prevented	5,509	30	6,512	31	8,003	33	7,869	30
Cash collected	8,178	44	8,975	43	9,182	38	9,838	37
Total	18,627	100	20,722	100	23,926	100	26,558	100

Note

1 Percentages shown here do not all add to 100% due to rounding.

Source: National Audit Office analysis of HM Revenue & Customs data

Enforcement & Compliance

Future developments

Tax transparency

HMRC's strategy for tackling offshore tax evasion aims to ensure that there is no safe haven for hiding assets and income.

HMRC has worked with HM Treasury, the OECD and other tax jurisdictions to increase tax transparency.

A key agreement between the UK and Switzerland came into force in January 2013. This agreement allowed HMRC to collect total revenue of just over £1 billion between January 2013 and March 2014. In April 2014 HMRC received a further £58 million in withholding tax relating to 2013-14.

Encouraging voluntary compliance

HMRC aims to do more to promote voluntary compliance and reduce reliance on compliance interventions after the event. It has started to redesign its performance measurement framework to capture the impact of this work.

Improving its understanding of the effectiveness of different compliance activities will improve HMRC's ability to decide how to allocate resources.

Should HMRC be successful in encouraging more people to comply with their tax obligations voluntarily, the tax gap will fall but so will the amount of yield HMRC would generate from its compliance work. Thus, HMRC will need to gradually change the framework by which it measures its performance further.

Enforcement

HMRC continues its enforcement work. In 2014-15 HMRC's Criminal Investigations had a yield of £2 billion Revenue Loss Prevented. This included 1,288 prosecutions with an overall conviction rate of 90%; securing custodial sentences together totalling 407 years.



Enforcement & Compliance

What to look out for?

How HMRC focuses on the risks to collecting taxes

Enforcement & Compliance is responsible for identifying and managing compliance risks, bringing together and analysing intelligence across the range of taxes and duties managed by HMRC.

HMRC cannot fully show how it aligns resources with its assessment of tax risks. HMRC is developing a new 'Strategic Picture of Risk' to show how risks relate to customer groups and behaviours. This aims to give a more comprehensive view of risks across its business, and provide a more explicit link between risks and decisions about where to allocate resources.

The Strategic Picture of Risk combines all risks to tax exceeding £250 million with risks to the integrity of the tax system or HMRC's reputation for running it. HMRC has identified 54 such strategic risks with a combined potential impact of £48 billion in lost tax revenue. The Strategic Picture of Risk is becoming an important tool in how HMRC allocates resources. HMRC aims to use it more consistently to inform operational decisions.

Anti-avoidance – new powers

Tax avoidance accounts for £3.1 billion of the tax gap. HMRC estimates a total £14 billion of tax is at risk in marketed avoidance schemes.

HMRC is working to reduce the economic advantages of tax avoidance schemes. Since July 2014 HMRC can demand upfront payment, also known as accelerated payments, in relation to disputed tax avoidance schemes, reducing the advantages of such schemes. It has also established a stronger disclosure regime.

HMRC informed the Treasury Select Committee that, since July 2014, it has issued around 5,000 accelerated payment notices, with a value of £1.3 billion tax.

It has reported £768 million of compliance yield in 2014-15, due to revenues it expects to receive under the new accelerated payments legislation. It is also working on its stock of open cases – currently 65,000 avoidance cases are under investigation. Changes to the way HMRC records open cases are likely to increase the number.



Enforcement & Compliance

What to look out for?

The level of tax debt

Tax debt (and tax credit debt) is collected by HMRC's Enforcement and Compliance Group.

HMRC's total tax debt balance decreased in 2014-15 to £13.0 billion (£8.0 billion of which related to personal taxes) from £13.3 billion in 2013-14 (£8.7 billion of which related to personal taxes).

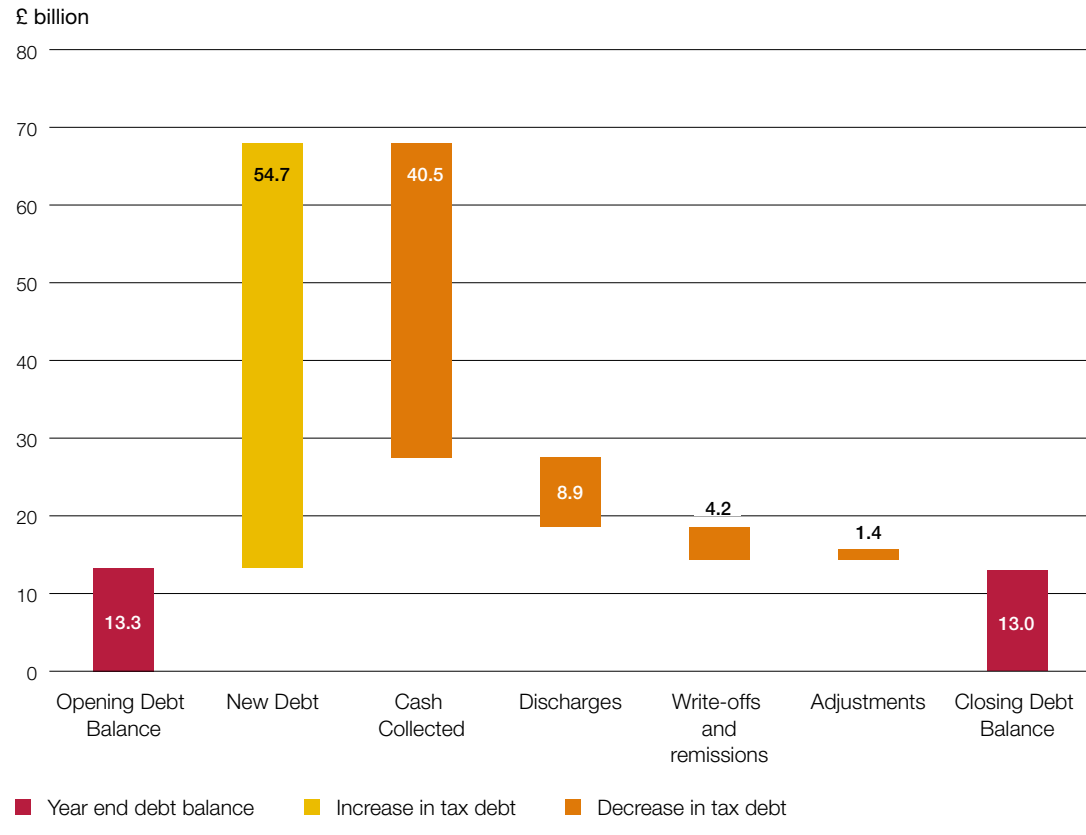
This decrease was largely as a result of more debts being collected in year (£40.5 billion, vs. £39.6 billion in 2013-14).

Losses due to debts being written off were also lower.

HMRC has developed a new debt management strategy which involves:

- more strategic use of private sector debt collection agencies;
- a focus on reduced creation of debt across all tax streams; and
- improved data analytics, risk profiling and segmenting of its debtors.

Movements in tax debt 2014-15



Enforcement & Compliance

Tax Assurance

In 2011, the NAO and the Committee of Public Accounts identified weaknesses in the governance of large tax disputes settlements, and cases where existing arrangements had not been followed.

HMRC announced changes in February 2012 designed to provide greater assurance over large settlements, by increasing transparency over processes and strengthening the governance around decisions.

These changes included: creating the post of Tax Assurance Commissioner who oversees HMRC's decision-making processes in tax disputes and publishes an annual report about how HMRC resolves tax disputes; improved case governance for the largest and most sensitive cases; a new code of governance for resolving tax disputes; and an annual review of a sample of settlements by HMRC internal audit.

The Tax Assurance Commissioner has presented three annual reports to Parliament so far (for 2012-13, 2013-14 and 2014-15), highlighting:

- £5.2 billion of disputed tax was referred to Commissioners in 2014-15;
- HMRC won the majority (81%) of the 1,303 appeals that went to tribunals in 2014-15 (2013-14: 76% of 2,538); and
- 80% of cases fully follow the new governance processes, though HMRC continues to build the assurance capacity and systems in its lines of business.

See: www.gov.uk/government/uploads/system/uploads/attachment_data/file/444911/How_we_resolve_tax_disputes.pdf

Appendix One

Related bodies

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.

The work of the Agency encompasses:

- compiling and maintaining lists of rateable values of the 1.9 million non-domestic properties in England and Wales, to support the collection of business rates;
- compiling and maintaining lists of council tax bands for 24.8 million domestic properties in England and Wales, to support the collection of council tax;
- determining local housing allowances across some 150 Broad Rental Market areas for Housing Benefit purposes, and more than 190,000 Housing Benefit referrals each year for the Department for Work & Pensions and determining some 47,500 Fair Rent Cases each year for the Department for Communities and Local Government;
- delivering a range of valuation and surveying services to more than 2,200 other customers in the wider public sector, including central and local government departments, as well as advice to ministers on valuation and property matters; and
- supporting HMRC's work on capital gains, inheritance tax and other areas of tax compliance.

The Office of Tax Simplification (OTS) was formed in July 2010, with a remit to provide the government with independent advice on simplifying the UK tax system.

The OTS is actually an arm's length body of HM Treasury. It has a small board led by an independent Chairman and Tax Director, and supported by a secretariat of civil servants and private sector secondees (six staff FTE).