National Audit Office

A Short Guide to

HM Revenue & Customs

December 2017

About this guide and contacts

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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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. 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 £734 million in 2016.

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Key facts

A snapshot of HM Revenue & Customs (HMRC) in 2016-17

£574.9 billion

The amount of tax and duties collected by HMRC in 2016-17

6.0%

The tax gap (the amount of tax due but not collected, as a % of total revenues) in 2015-16 (latest available data)

£28.9 billion

Estimated revenues from HMRC compliance and enforcement activities in 2016-17, up from £26.6 billion in 2015-16 (£0.8 billion of the year-on-year increase was due to a change in the estimation methodology)

£3.8 billion

HMRC's administration costs in 2016-17, up from £3.6 billion in 2015-16

58,600 to 61,800

Increase in HMRC staff from 2015-16 to 2016-17 (full-time equivalents) – HMRC had 97,000 staff in March 2005

145

HMRC buildings as at 31 March 2017, down from more than 500 in 2005

£2.2 billion

The amount HMRC expects to **spend on its transformation programme** in the four years to 2019-20

£27.1 billion

The amount of Personal Tax Credits paid by HMRC in 2016-17

£1.57 billion

Error and fraud in Personal Tax Credits resulting in overpayments in 2015-16, equivalent to 5.5% of Personal Tax Credits expenditure

About the Department

HM Revenue & Customs is the UK's principal revenue-collecting department. Its purpose is to collect the money that pays for the UK's public services and help families and individuals with targeted financial support.

In 2016-17 HMRC collected £574.9 billion in revenue, an increase of £38.1 billion (7.1%) on 2015-16.

Income tax, National Insurance Contributions (NICs) and VAT accounted for 73% of tax collected.

HMRC paid £38.8 billion on benefits and credits in 2016-17, of which:

- £27.1 billion was on Personal Tax Credits; and
- £11.7 billion was Child Benefit.

HMRC supports the work of the Office for Budget Responsibility (OBR) to provide predictions of revenues to Parliament in Budgets and Autumn Statements.

HMRC reports to Parliament on revenues collected in its Trust Statement, published in its annual report and accounts.

HMRC officials work in partnership with HM Treasury officials to produce tax policy advice for HM Treasury ministers.

In October 2016, the Department restructured its operational areas into three new groups:

- Customer Strategy and Tax Design,
- Customer Services; and
- Customer Compliance.

These three groups are underpinned by existing transformation and corporate services areas.

HMRC published its Strategy in July 2017 setting out its current strategic position and future direction of travel. The Strategy can be found at: www.gov.uk/government/publications/hmrc-strategy

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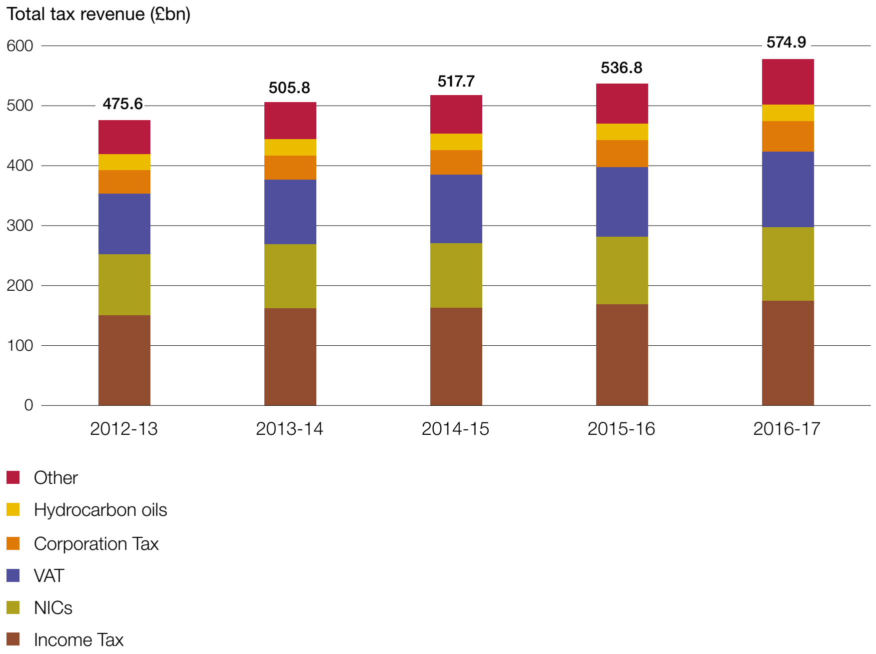
HMRC revenue collection

Between 2012-13 and 2016-17 tax revenue rose by some £100 billion (21%)



Source: HM Revenue & Customs *Annual Report and Accounts 2016-17*

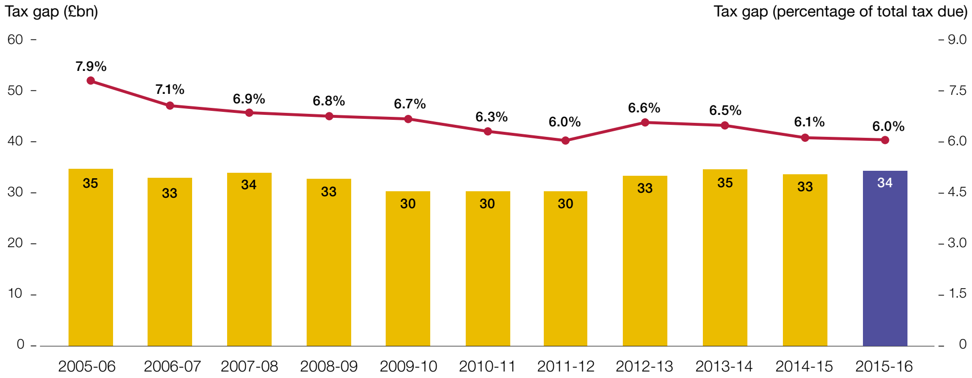
Key trends

The UK tax gap has continued to reduce as a percentage of total tax revenues to 6.0%, compared with 7.9% in 2005-06.

The tax gap measures the difference between tax due and that collected by HMRC. The tax gap is difficult to measure – there are many sources of uncertainty and error. However, it gives an indication of HMRC's long-term performance in tackling non-compliance. The tax gap involves a significant time lag. Taxpayers have just under 10 months from the year-end to submit their tax returns and HMRC needs time to evaluate them. HMRC therefore each year publishes an initial estimate of the tax gap around 18 months after the end of the tax year to which it applies.

Zoom Out | Zoom In +

Tax gap as a percentage of theoretical tax liabilities



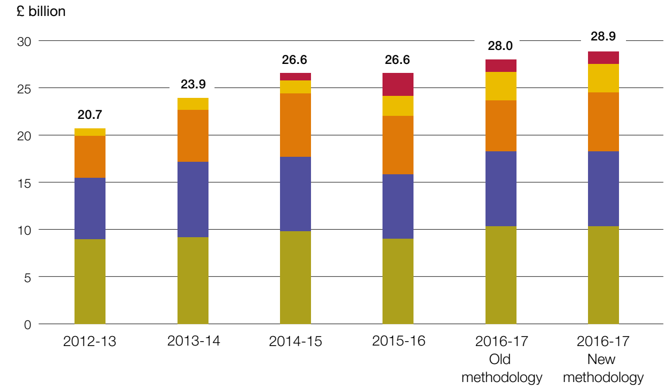
Source: HM Revenue & Customs, *Measuring tax gaps 2016 edition*, page 4

HMRC's compliance yield has risen each year over the previous two Parliaments.

Compliance yield is an estimate of the additional revenues that HMRC considers it has generated, and the revenue losses it has prevented, from its tax compliance and enforcement activities. It is one of HMRC's main performance measures and is used to agree targets with HM Treasury for spending on compliance work. In 2016-17, HMRC achieved a compliance yield of £28.9 billion, some £1.9 billion more than its target. However, £840 million of the reported yield is due to HMRC changing its reporting methodology in response to one of NAO's recommendations on reporting 'Future Revenue Benefit' in the year of impact rather than the year in which it is assessed.

Zoom Out | Zoom In +

Total yield reported from compliance activities



	2012-13	2013-14	2014-15	2015-16	2016-17 Old methodology	2016-17 New methodology
Accelerated payments			768	2,436	1,317	1,317
Product and process yield	794	1,233	1,335	2,110	3,013	3,013
Future revenue benefit	4,441	5,508	6,748	6,238	5,419	6,259
Revenue losses prevented	6,512	8,003	7,869	6,795	7,926	7,926
Cash collected	8,975	9,182	9,838	9,028	10,340	10,340
Total compliance yield	**20,722**	**23,926**	**26,558**	**26,607**	**28,015**	**28,855**

Source: HM Revenue & Customs *Annual Reports and Accounts* 2016-17

Where the Department spends its money

As well as collecting taxes, HMRC administers Personal Tax Credits and Child Benefit. Of the £46.2 billion spent by HMRC in 2016-17:

- £3.8 billion was administrative costs; and
- £42.4 billion (92%) related to payments to HMRC's customers, including Personal Tax Credits and Child Benefit.

HMRC aims, through administering Personal Tax Credits and Child Benefit, to support families with children and to help ensure that work pays more than welfare.

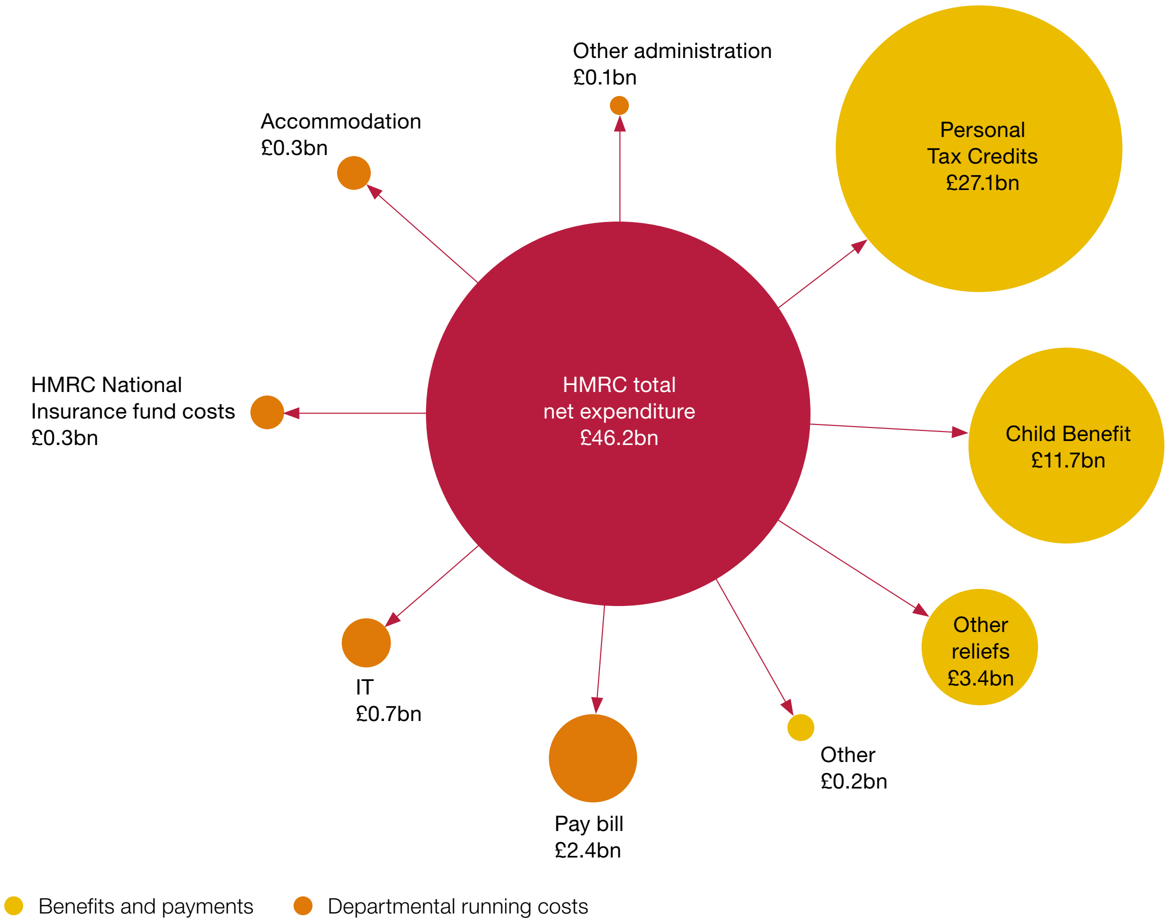
In 2016-17:

- Tax Credits supported around 4.1 million families and 7.2 million children.
- Child Benefit supported around 12.9 million children.

Universal Credit is replacing some of the current working-age benefits, including Personal Tax Credits, with a single means-tested payment. HMRC will be responsible for administering Personal Tax Credits until all existing customers have moved on to Universal Credit. The Department for Work & Pensions (DWP) expects full transition of customers to Universal Credit to be completed by 2022.

Breakdown of HMRC's total net expenditure 2016-17

Most of HMRC's expenditure in 2016-17 went on Personal Tax Credits and Child Benefit



Source: HM Revenue & Customs *Annual Report and Accounts 2016-17*

Accountability to Parliament

Accounting Officer (Jon Thompson)

HMRC's Accounting Officer is the First Permanent Secretary, who is personally accountable to Parliament for the Department's expenditure and performance. Edward Troup is the Department's Executive Chair and Permanent Secretary, responsible for shaping and developing HMRC's strategy.

HMRC is a non-ministerial department. It is ultimately accountable to the Chancellor of the Exchequer, who delegates oversight to the Financial Secretary to HM Treasury. HMRC is accountable to Parliament primarily through the **Committee of Public Accounts** and the **Treasury Select Committee**.

The Commissioners for Revenue and Customs Act 2005 gives the legal powers and responsibilities of the Department to Commissioners appointed by the Queen. The aim is to ensure the administration of the tax system is fair and impartial. The Commissioners are responsible for the collection and management of revenue, the enforcement of prohibitions and restrictions and other functions, such as the payment of tax credits.

HMRC publishes an Annual Report and Accounts and quarterly performance updates. This enables Parliament to monitor progress towards the Department's key objectives. This accountability is now enhanced by the requirement to publish an Accounting Officer System Statement (setting out all its accountability relationships and processes) and Accounting Officer assessments during any major projects.

HMRC's Single Departmental Plan sets out three key objectives:

- Maximise revenues due and bear down on avoidance and evasion.
- Transform tax and payments for our customers.
- Design and deliver a professional, efficient and engaged organisation.

The four essentials of accountability

1. A clear expression of spending commitments and objectives
2. A mechanism or forum to hold to account
3. Clear roles and someone to hold to account
4. Robust performance and cost data

Source: Comptroller and Auditor General, *Accountability to Parliament for taxpayers' money*, Session 2015-16, HC 849, National Audit Office, February 2016

Spending reductions

Expenditure limits

HMRC's total Departmental Expenditure Limit increased over the past two years from £3.7 billion to £4.2 billion. HMRC's running costs (administrative and programme costs) increased over the same period from £3.1 billion to £3.5 billion.

HMRC's budget is split into two categories:

- Departmental Expenditure Limit (DEL), which covers administrative costs and is tightly controlled by HM Treasury, with limits set in the government's periodic Spending Review.
- Annually Managed Expenditure (AME), notably on Personal Tax Credits and Child Benefit, which is demand-led and subject to factors beyond the Department's control, such as employment and demography.

Target savings

HMRC, as set out in its Single Departmental Plan 2015 to 2020, had a target to deliver:

- sustainable cost savings of £717 million a year by the end of 2019-20; and
- a cumulative total of £1.9 billion between 2016-17 and 2019-20.

HMRC, in 2016-17, realised £254 million of savings of which £181 million counted towards its target of £717 million sustainable cost savings by the end of 2019-20.

HMRC aims to achieve these savings mainly through digitising tax collection and a smaller but more highly skilled workforce.

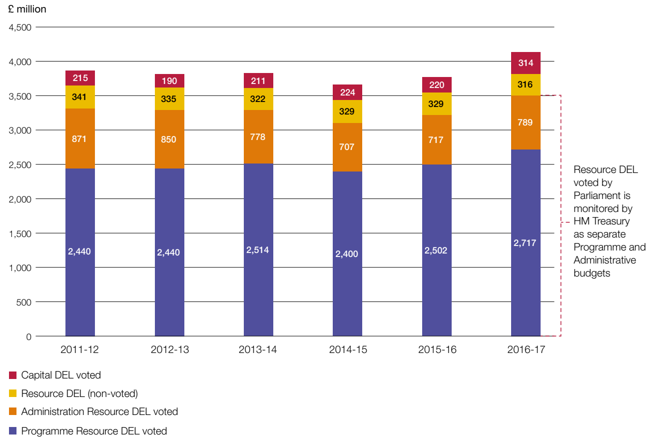
HMRC's office network

HMRC's estate, in 2005, covered more than 500 offices. At 31 March 2017, the Department operated from 145 buildings in 92 locations. HMRC has a 10-year strategy to move from its current offices to 13 large regional centres, with five specialist sites and a London headquarters. It expects the move to save more than £300 million up to 2025 with savings of more than £90 million a year after that.

Zoom Out Zoom In+

HMRC running costs

The increase in costs in recent years is due to additional funding for additional work awarded in Budgets, including making tax digital and funds to improve customer services and increase revenues



Source: HM Revenue & Customs *Annual Reports and Accounts*

Major programmes and developments

The Infrastructure and Projects Authority (IPA) reports annually on those projects included in the Government Major Project Portfolio (GMPP). These are the most complex and strategically significant projects across government. The most recent data relate to September 2016. IPA publishes data at least six months in arrears. HMRC has six projects included in the GMPP.

Project	Description	2015 IPA rating	2016 IPA rating
Customs Declaration Service (CDS) programme	HMRC is responsible for delivering an end-to-end declaration processing service for imports to and exports from the UK. The current service delivery system is the Customs Handling of Import and Export Freight service (CHIEF). This is a business-critical declaration processing system handling movements of third-country (non-EU) goods. CHIEF operates real-time, 24 hours per day, 365 days of the year. HMRC is seeking to replace CHIEF with a robust, scalable set of import/export services, capable of delivering this critical function into the future. (For relevant NAO report see: The Customs Declaration Service).		
Columbus (formerly Aspire Replacement Programme)	To manage the exit of HMRC's ASPIRE IT contract that ended in June 2017. The programme objectives were to ensure continuity of IT supply, provide better value for money, enable digital transformation and ensure IT capacity was sustainable. (For relevant NAO report see: Replacing the Aspire contract).		
Tax-Free Childcare	Tax-Free Childcare (TFC) intends to provide childcare accounts for all eligible children for which the first £8,000 deposited by parents or others is topped up by government by 20p for every 80p deposited, up to a maximum of £2,000 per child per year. HMRC is responsible for TFC delivery and for outcomes on customer service such as correct payments and data security.		
Making Tax Digital for Individuals	Delivery of the Making Tax Digital for Individuals programme is a key building block in HMRC's transformation. It is the biggest change for individual taxpayers in a generation and is a vital part of moving to multi-channel digital delivery, supporting greater real-time working and allowing risk and compliance activity to move upstream. (For relevant NAO report see: HMRC Annual Report and Accounts 2016-17: Report by the Comptroller and Auditor General).	n/a	
Building Our Future Locations programme	This programme, by 2020-21, will replace HMRC's current offices with 13 new regional centres, six transitional sites, five specialist sites and a London headquarters serving every part of the UK. (For relevant NAO reports see: HMRC Annual Report and Accounts 2016-17: Report by the Comptroller and Auditor General and Managing the HMRC estate).	n/a	
Making Tax Digital for Business	Delivering requirements to modernise IT architecture, bring tax reporting closer to the point of transaction, removing the need for customers to complete tax-specific returns and/or provide information HMRC already holds, enhancing digital services for businesses and agents and delivering a better customer experience. (For relevant NAO report see: HMRC Annual Report and Accounts 2016-17: Report by the Comptroller and Auditor General).	n/a	

- Successful delivery of the project is in doubt, with major risks or issues apparent in a number of key areas. Urgent action is needed to address these problems or assess whether resolution is feasible, or both.
- Successful delivery appears feasible but significant issues already exist, requiring management attention. These appear resolvable at this stage and, if addressed promptly, should not present a cost/schedule overrun.
- Successful delivery appears probable; however, constant attention will be needed to ensure risks do not materialise into major issues threatening delivery.

Key themes from NAO reports

HMRC's transformation programme

HMRC is one year into a programme of transformation agreed under the Spending Review and Autumn Statement 2015. Its main aim is to move to a fully digital tax system by 2020 so that all individuals and businesses can see their tax affairs in one place and carry out transactions digitally. To support this HMRC also plans to simplify and automate processes, make better use of data on taxpayers and modernise its working environment. HMRC forecasts its transformation programmes may contribute fewer efficiencies than expected, but it still aims to achieve its efficiency target from change activity elsewhere in the business.

NAO report references (Appendix Three)

Replacing the Aspire contract

Managing the HMRC estate

HMRC Annual Report and Accounts 2015-16: Report by the Comptroller and Auditor General

HMRC Annual Report and Accounts 2016-17: Report by the Comptroller and Auditor General

Tackling tax avoidance, evasion and other non-compliant behaviours

Tax avoidance occurs when people bend the rules of the tax system to gain a tax advantage that Parliament never intended. **Tax evasion** takes place when individuals or businesses deliberately omit, conceal or misrepresent information to reduce their tax liabilities. **Other non-compliant behaviours** include: hidden economy, failure to take reasonable care, legal interpretation, criminal attacks, non-payment and error.

Non-compliance includes a wide range of behaviours and activities to evade or avoid tax or not pay what is due. HMRC has processes and approaches in place to respond to non-compliance, many of which are well established and longstanding. However, it is healthy for any organisation to challenge received ways of doing things. HMRC has started to take a more strategic view of its compliance business, but needs to go further.

NAO report references (Appendix Three)

Tackling tax fraud: how HMRC responds to tax evasion, the hidden economy and criminal attacks

HMRC's approach to collecting tax from high net worth individuals

Investigation into overseas sellers failing to charge VAT on online sales

Customer services

For HMRC's customer service to be value for money it must help customers to pay the right tax at the right time, without undue cost to customers or the public purse. HMRC now aspires to be a leading customer services organisation. It recognises its aspiration will take time to achieve and has yet to define what it means. We have recommended that HMRC's set of performance measures could be improved to better reflect customer experience.

NAO report references (Appendix Three)

The quality of service for personal taxpayers

Investigation into HMRC's contract with Concentrix

HMRC Annual Report and Accounts 2016-17: Report by the Comptroller and Auditor General

Exiting the European Union

The UK is currently a member of the European Union (EU) customs union. This means that it does not levy customs duty on goods arriving from other EU member states and businesses must only make a customs declaration if they are importing from or exporting to countries outside the EU. HMRC is responsible for processing customs declarations and collecting the associated revenue.

HMRC considers customs to be the area of the Department's work most affected by exiting the EU. In evidence to the Committee of Public Accounts on departmental performance, in October 2016, HMRC said it had identified eight areas where exiting the EU was expected to affect its activities. These areas were:

- customs;
- social security;
- excise;
- VAT;
- direct taxes and State Aid;
- information exchange with EU member states;
- outstanding litigation cases; and
- how the effect of exiting the EU on businesses affects their relationship with HMRC.

In July 2017, the NAO published a report on the Customs Declaration Service. In 2013-14, HMRC started planning to replace its customs system, known as CHIEF (Customs Handling of Import and Export Freight). HMRC currently estimates that, subject to the new customs arrangement agreed with the EU, the number of customs declarations could increase from around 55 million to a maximum of around 255 million each year, based on current volumes of UK/EU trade. HMRC's existing CHIEF system can currently process 100 million declarations a year, which reinforces the need for the new service.

We found that HMRC has made progress in designing and developing the new Customs Declaration Service. There is still a significant amount of work to complete, and there is a risk that HMRC will not have the full functionality and scope of CDS in place by March 2019 when the UK plans to leave the EU. HMRC believes that its programme management methodology, combined with the skills and capabilities of its staff, means that programme risks and issues are currently being effectively managed.

Issues relating to the EU-exit

Across government the NAO considers that **successfully exiting the EU** will require:

- strong collaboration and coordination across departments;
- a clear sense of prioritisation at departmental and cross-departmental level, including decisions to stop or delay projects; and
- a robust assessment of the required capability and a cross-government strategy to address any gaps.

If a parliamentary committee chooses to examine how HMRC is organising itself to deliver a successful EU-exit, it may wish to explore the following issues:

Coordination across government

Departments should be clear about how the actions they are taking align with plans across government to deliver a successful EU-exit. In total, 26 government departments and agencies operate at the UK border. HMRC's Customs Declaration Service (CDS) will need to integrate with other HMRC systems and a range of third-party systems. It will need to provide information to 85 systems across 26 other government bodies.

Prioritisation of activities

Departments will need to prioritise their activities in response to EU-exit. We would expect this to involve stopping or pushing back some activities. The activities that are prioritised will need to incorporate a strong emphasis on delivery as well as policy. The UK's exit from the EU increases the level of uncertainty and challenge that HMRC faces in managing its transformation programme. For example, HMRC expects it will directly affect more than 20 different systems including its plans to reform its main customs processing system.

Staffing and resources

Departments will need to have assessed what skills and resources are needed to deliver a successful EU-exit in the short to medium term. Filling any gaps may mean recruiting staff externally, and a movement of staff across government to where they are needed most. In our report on the Customs Declaration Service, we highlighted the programme had been operating with a significant number of staff vacancies.

Customs changes

The Department will need to ensure that its future systems are able to accommodate the potential five-fold increase in the volume of customs declarations. HMRC has identified contingency options should the CDS programme not deliver a fully functional new service by 2019, but has not yet planned these in detail.

HMRC's transformation programme

How is it delivered?

In your area

Recent and planned developments

Digital transformation

What are the things to look out for?

How is it delivered?

Aim of the transformation programme

Through its transformation programme HMRC aims to become one of the most digitally advanced tax administrations in the world. At the same time it must also deliver policy commitments and support the introduction of Universal Credit.

Transformation costs, savings and benefits

HMRC expects that a digital tax system will help it raise more tax revenue and reduce its costs and those of its customers. HMRC committed to spending £1.8 billion on transformation between 2016-17 and 2019-20 to deliver:

- £1.9 billion efficiency savings (reaching annual efficiency savings of £717 million in 2019-20);
- £920 million additional tax revenue; and
- reductions in business customers' costs (HMRC's overall aim is to save businesses £400 million over the four years to 2019-20).

Programme delivery ratings

HMRC is managing its transformation through 15 major programmes containing around 250 projects at different stages of maturity. At March 2017:

- five programmes had amber-red delivery ratings: Making Tax Digital for Business, Compliance for the future, Customs Declaration Service, Building our Future Locations and the Process platform;
- two, Making Tax Digital for Individuals and Corporate Services, were rated amber-green; and
- all other programmes had an amber risk rating.

Most of HMRC's transformation is delivered through a portfolio of 15 major programmes

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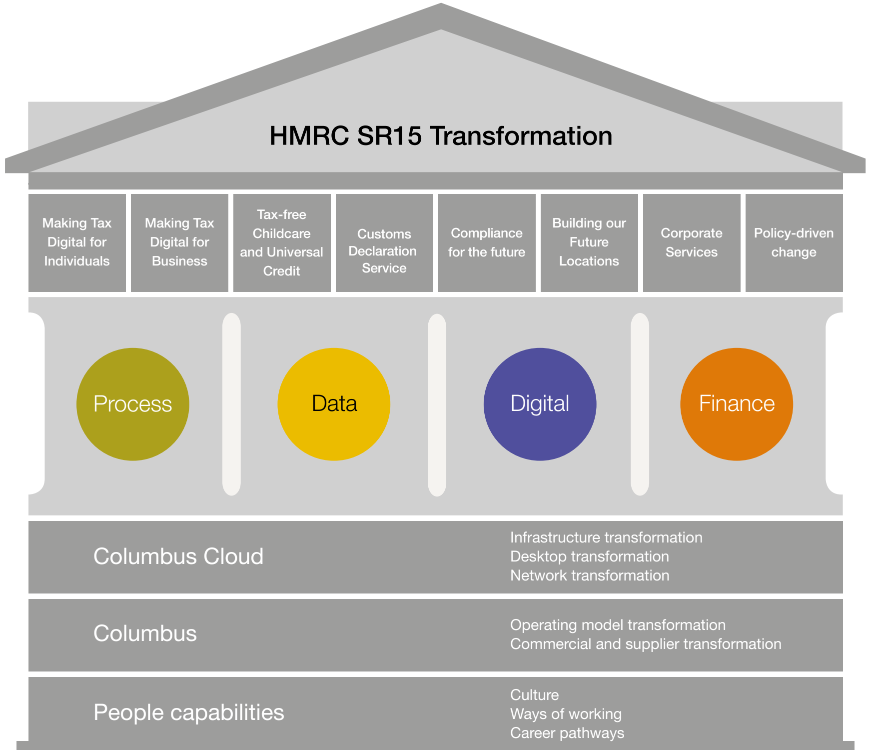

Notes

1 See Figure 6 for more details on the 15 programmes.

2 HMRC intends to work on Process; Data; Digital; and Finance indefinitely as its needs change. Work on these four permanent 'platforms' supports other programmes. For example, the Data platform is developing a centralised 'data hub'. This will be used by many programmes including Making Tax Digital for Individuals; Making Tax Digital for Business; Compliance for the Future, Tax-Free Childcare and Customs transformation.

Source: HM Revenue & Customs

In your area

HMRC sees regional centres as offering the right infrastructure to enable new digital ways of working for its customers and staff and a working environment that will attract and retain talent, increase the flexibility of its workforce and provide economies of scale.

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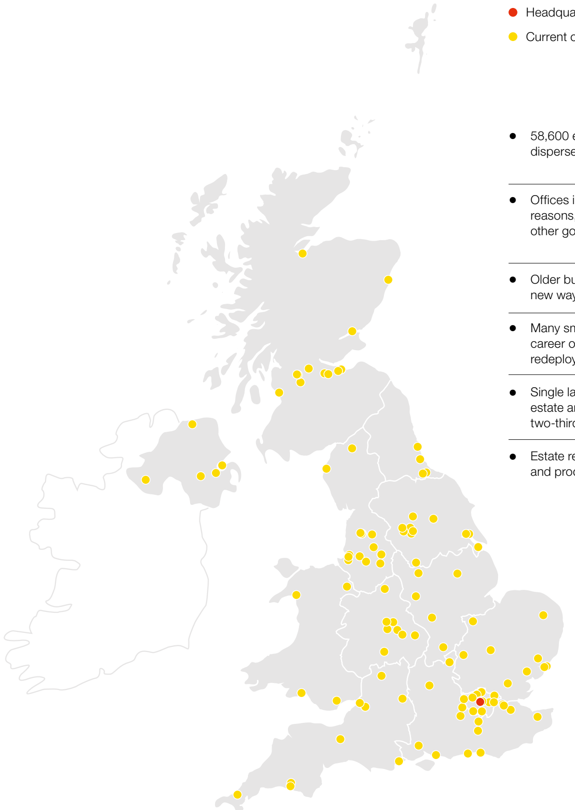
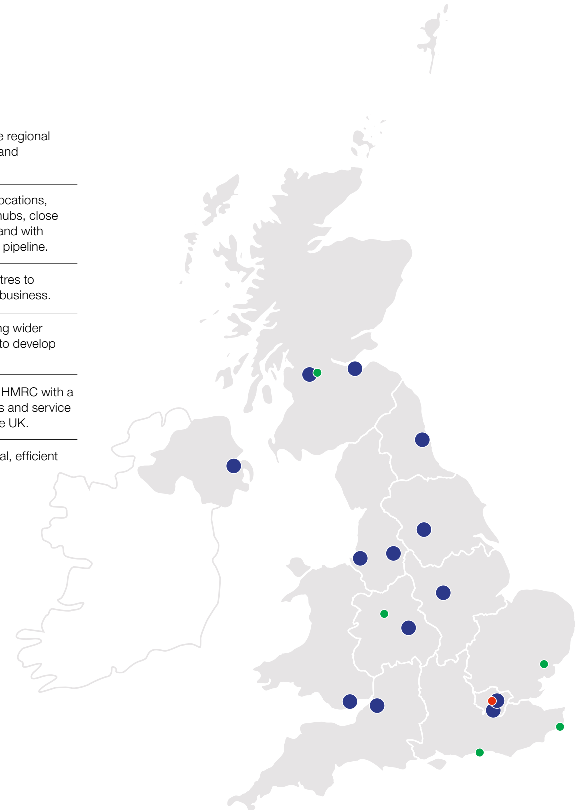
How HMRC is transforming its estate



Current position – 170 offices	Future position – regional centres and specialist sites
Headquarters; Current office	Headquarters; Regional centre; Specialist site
• 58,600 employees in 170 offices, dispersed across the UK.	• 50,000 employees in 13 large regional centres, four specialist sites and one headquarters.
• Offices in locations for historical reasons, sometimes isolated from other government departments.	• Offices based in city centre locations, forming part of government hubs, close to universities and colleges, and with stronger skill base and talent pipeline.
• Older buildings, unable to adapt to new ways of working.	• Modern, flexible regional centres to support HMRC transformed business.
• Many small buildings with limited career opportunities or flexibility to redeploy staff.	• Large regional centres offering wider opportunities for employees to develop their careers.
• Single large PFI contract covering estate and facilities management in two-thirds of HMRC's properties.	• Estate managed primarily by HMRC with a number of separate contracts and service providers in three areas of the UK.
• Estate reduces staff morale and productivity.	• Estate supports a professional, efficient and engaged organisation.



Source: Comptroller and Auditor General, HM Revenue & Customs, *Managing the HMRC estate*, Session 2016-17, HC 726, January 2017 (updated)

Recent and planned developments

Affordability

The detailed costs in HMRC's transformation plans amount to £2.2 billion to 2019-20. HMRC secured transformation funding of £1.8 billion under Spending Review 2015 (SR15).

HMRC set aside other administrative funding of around £320 million to cover some of the costs of its Columbus programme and estates programme redundancy costs.

The SR15 settlement and the business cases indicate different spending profiles for transformation. The SR15 settlement anticipated that transformation expenditure would decline from 2016-17 onwards. Since then HMRC finalised nine of its 15 business cases for transformation in the final quarter of 2016-17 and these show spending peaking in 2017-18 (see figure).

As a result HMRC has needed to take tough decisions and recognised that it needed to stop anything that was not fully aligned with its priorities. It has de-scoped some activity and deferred some work until future years. In doing so it reduced planned activity to around £519 million in 2017-18 and is continuing to prioritise.

2016-17 efficiency savings

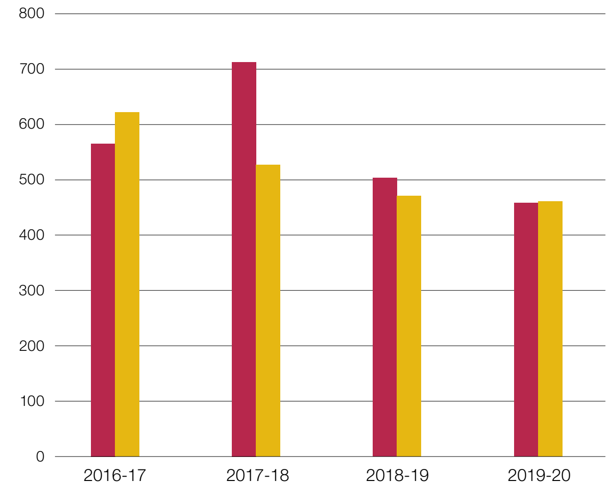
In its SR15 settlement, HMRC committed to making £203 million of sustainable efficiency savings in 2016-17. In 2016-17 HMRC made £254 million of efficiency savings against this target. Only £181 million of these were sustainable.

HMRC did not achieve efficiency savings of £189 million expected from transformation in 2016-17, instead recording a total of £78 million sustainable efficiency savings.

Zoom Out Zoom In +

HMRC's planned costs (from programme business cases) and its budgets for transformation 2016-17 to 2019-20

Transformation plan costs exceed the budget particularly in 2017-18



	2016-17	2017-18	2018-19	2019-20
Transformation plans' costs (£m)	565	713	504	459
Budget (£m)	622	527	471	461

Notes

1 The SR15 period runs to the end of 2019-20. HMRC's SR15 funding settlement included £1.8 billion for HMRC's transformation (£1.3 billion new investment and £0.5 billion from existing budgets).

2 Costs arising from the UK's exit from the EU are not included in either the budget or the transformation plans' costs.

3 Transformation plans' costs exclude the cost of work originally proposed in the Columbus business case now covered by the Columbus Cloud programme.

4 'Budget' includes the transformation budget and additional funds set aside for transformation of £40 million a year from HMRC's IT budget and £40 million a year from its human resources budget. This is in addition to total SR15 funding of £1.8 billion.

Source: HM Revenue & Customs

Digital transformation

Digital transformation has a fundamental role in ensuring HMRC achieves the objectives of its transformation programme.

HMRC offers 35 digital services and processes more than two billion digital transactions per year

HMRC's Single Departmental Plan digital priorities include:

- providing all tax details in one place for individuals;
- enabling all businesses to update their tax position quarterly;
- developing analytics to support compliance checking; and
- ensuring third-party software can integrate securely with its systems.

How HMRC's plan fits with the government's key digital priorities:

Data strategy: exploiting new techniques to analyse its data is central to HMRC's efforts to make tax digital and increase compliance.

Cyber security and information assurance: cyber-attacks are an ever-present threat, and HMRC is responsible for developing Government Gateway 3 to enhance identity assurance and verification.

Legacy systems: HMRC has more than 600 systems, some of which date back 40 years to the era of punch cards. Replacing and integrating legacy systems is a major challenge for HMRC. HMRC's Columbus project will manage the exit from its ASPIRE IT contract, which ended in June 2017. For relevant NAO report see: Replacing the Aspire contract.

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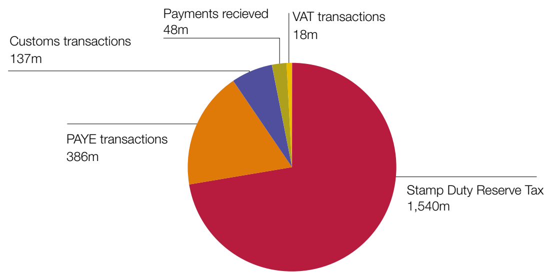
HMRC's top five digital transactions in 2016-17

Stamp Duty Reserve Tax payments are the most numerous of HMRC's digital transactions



Service	Percentage of total transactions that are conducted via digital channels
Stamp Duty Reserve Tax	100
PAYE	95
Customs	100
Payments received	92
VAT	83

Source: www.gov.uk/performance

Results include:

6 million
fewer sheets of paper printed

92%
of self-assessment customers submitting and paying their returns online

9.4 million
customers using online personal tax accounts

60%
of IT services moved to cloud-based platforms

Source: HM Revenue & Customs, *Annual Report and Accounts 2016-17*

What are the things to look out for?

Issue	Future developments, risks and challenges[1]
Expected benefits and the assumptions underlying benefits of transformation up to 2020-21	HMRC's transformation plans show that most benefits will accumulate over the next five years. It measures three types of benefits: net benefits for businesses from reduced administration costs; additional tax revenue; and efficiency savings in HMRC. Any slippage, whether caused by delays, policy changes or other reasons, will mean that HMRC is at risk of not achieving its targets for transformation. There are serious risks that benefits will not materialise if major assumptions underpinning HMRC's strategy do not prove realistic: • Efficiency savings depend on assumptions that digital transformation will result in HMRC using fewer resources for: chasing underpaid tax and dealing with overpayments; managing compliance cases; and dealing with post and phone contacts. • Additional tax revenue is based on assumptions that requiring businesses to keep digital records using commercial software, and providing HMRC with quarterly digital data will reduce error and that this will increase tax revenues. • Reduced business costs are based on the assumption that businesses will need to spend less time meeting their tax obligations as a result of Making Tax Digital for Business.
Delivery schedule	HMRC, under its Making Tax Digital for Business (MTDB) programme, plans to modernise tax administration for business through digital solutions. MTDB is expected to deliver HMRC's £920 million target for additional tax revenues. Changes to the roll-out of MTDB may affect the timing of additional tax revenue and customer benefits. Since HMRC launched the programme in December 2015, the government has announced a reduction in scope and a number of deferrals. On 13 July 2017, the government, in response to concerns about the pace and scale of change under MTDB and government decisions to defer making Income Tax Self-Assessment mandatory, announced that the roll-out had been amended to ensure businesses have plenty of time to adapt to the changes. Businesses will not now be mandated to use the Making Tax Digital for Business system until April 2019 and then only to meet their VAT obligations over the VAT threshold. Work to shift customers to online services, under HMRC's Making Tax Digital for Individuals, has not reduced customer demand for telephone contact to the levels expected.

Note

1 Taken from *HMRC Annual Report and Accounts 2016-17: Report by the Comptroller and Auditor General,* especially Part 2 on HMRC's transformation plans.

Tackling tax avoidance, evasion and other non-compliant behaviours

How is it delivered?

Recent and planned developments

What are the things to look out for?

How is it delivered?

HMRC's compliance strategy

HMRC is responsible for minimising the tax gap using its 'promote, prevent, respond' strategy to tackle non-compliance. The strategy aims to:

- promote compliance by designing it into systems and processes, enabling customers to get their affairs right from the start;
- prevent non-compliance at or near the time of filing by using available data to spot mistakes, prevent fraudulent claims, personalise online services and automate calculations; and
- respond to non-compliance by identifying and targeting the area of greatest risk, and using tough measures to tackle those who deliberately try to cheat the system.

Compliance yield

HMRC assesses the impact of its compliance work by estimating compliance yield, a measure of the additional revenue it generates through its compliance activities. The yield is a more direct and timely measure of the impact of HMRC's enforcement and compliance activities than the tax gap, which is subject to long reporting delays and other factors outside HMRC's control.

HMRC reported compliance yield of £28.9 billion in 2016-17 against a target of £27 billion.

There are five types of compliance yield: cash expected, revenue losses prevented, future revenue benefit, accelerated payments, and product and process.

Definitions of HMRC's five categories of compliance yield are shown below

Yield type	Definition
Cash expected	An estimate of the extra tax HMRC expects to collect by identifying and challenging non-compliance.
Revenue losses prevented	Tax revenue HMRC has protected each year either by refusing or reducing repayment claims because they are in error or fraudulent or by disrupting organised criminal activity.
Future revenue benefit	HMRC's estimate of the revenue benefits where it considers it has changed the behaviour of taxpayers and can be claimed for up to five years.
Accelerated payments	The net amount of disputed tax that users of avoidance schemes have paid upfront to, and have received back from, HMRC and an estimate of behavioural impact.
Product and process	The annual impact of legislative changes made since April 2011 to close tax loopholes and changes to HMRC's processes which reduce opportunities to avoid or evade tax.

Recent and planned developments

Enablers of tax avoidance and evasion

In December 2015, the government introduced new civil penalties and naming provisions for those who deliberately assist taxpayers to hide assets and taxable income and gains outside of the UK, to evade their UK tax responsibilities.

Online VAT error and fraud

HMRC introduced new legal powers to tackle online VAT error and fraud in September 2016. The new powers include making online marketplaces jointly and severally liable for non-payment of VAT when HMRC has informed them of an issue with a seller, and they do not subsequently take appropriate action.

From April 2018, a new Fulfilment House Due Diligence Scheme will come into effect. From this date fulfilment businesses (types of warehouse where goods can be stored before delivery to customers) in the UK will have to register with HMRC, keep certain records and carry out due diligence checks on their overseas customers.

Tax transparency

From 2017 there will be an automatic exchange of tax information between more than 50 countries, intended to tackle offshore tax evasion. This information is private and the Committee of Public Accounts has pushed for greater transparency.

Additional investment

HMRC will invest £800 million, over the period 2015 to 2020, into additional work to tackle evasion and non-compliance in the tax system, raising an additional £5 billion a year by 2019-20 by tackling tax avoidance and aggressive tax planning, evasion and compliance, and by addressing imbalances in the tax system.

Panama Papers

In April 2016, the government announced that a new taskforce, jointly led by HMRC and the National Crime Agency, would tackle the economic and fiscal crime, regulatory misconduct, tax evasion and tax avoidance arising from the so-called 'Panama Papers'. The Chancellor of the Exchequer and the Home Secretary, on 8 November 2016, published an update on the work of the taskforce. More than 30 individuals and companies were under investigation for criminal or serious civil offences with hundreds more under detailed review.

Country-by-Country Reporting

The Country-by-Country Reporting measure introduced a new statutory requirement for multinational companies to make an annual country-by-country report to HMRC. HMRC will review the international country-by-country tax reporting rules and consider the case for making this information publicly available on a multilateral basis.

What are the things to look out for?

Issue	Future developments, risks and challenges
Effective management of tax reliefs	Tax reliefs are integral to the tax system and an important tool for public policy, covering many areas of government activity. Since they reduce the amount of tax payable or generate a payment, they can be the focus of tax avoidance. In 2014, we reported twice on tax reliefs, highlighting the need for greater transparency about the costs and use of reliefs. The Committee of Public Accounts concluded that HMRC needed to improve how it monitors and reports on tax reliefs. In response to these recommendations, HMRC has made progress in addressing gaps in its management of reliefs. HMRC has developed guidelines for managing tax reliefs based on a review of its practices and has committed to improving its reporting on tax reliefs, but currently provides limited information about their cost and impact. HMRC is in the process of compiling a list of all tax reliefs to improve accountability.
Tax avoidance and reforming international tax rules	Government has supported the Organisation for Economic Co-operation and Development's plans for reforming international tax rules and, in 2013, called for new standards of transparency for multinational companies. HMRC has recruited additional staff to tackle abusive transfer pricing and strengthen its risk assessments across large businesses to challenge artificial arrangements by multinational companies where the only aim is to minimise tax liabilities. A new Diverted Profit Tax (DPT) was announced in the Autumn Statement 2014. DPT is set at a higher rate than Corporation Tax to encourage businesses to change their behaviour so that profits taxed in the UK fully reflect the economic activity carried out in the UK.
The impact of personalised digital tax accounts	HMRC expects its transformation of the tax system will deliver around £1 billion of additional tax revenue by 2020-21 by making it easier to pay the correct tax and reducing error. HMRC has provided individuals with access to their own digital Personal Tax Account. Take-up of the accounts had reached 9.4 million by March 2017, exceeding HMRC's seven million target. HMRC continues to promote take-up.
Relationship between compliance yield and tax gap	The Committee of Public Accounts concluded, in April 2016, that the way HMRC reported its performance was too confusing and that the impact that HMRC claims for its work far exceeds any reduction in the tax gap. The Committee recommended that "HMRC should clearly set out in its annual reports the relationship between its compliance yields and changes in the tax gap". In its latest Annual Report, HMRC noted that the linkage between the tax gap and compliance yield is not a straightforward one. The Annual Report provides links to technical papers that provide further detail and context on these two measures.

Customer services

How is
it delivered?

Recent and planned
developments

What are the things
to look out for?

How is it delivered?

Types of customer service

HMRC collects tax and duties from more than 45 million individuals and 5.4 million businesses, and Tax Credits support around four million families. Every year millions of people contact HMRC by telephone, by post and online. HMRC employs around 25,000 staff to provide these services to customers. HMRC recognises that taxpayers do not have a choice about whether to interact with HMRC and that this places an obligation on it to provide an acceptable standard of service.

HMRC's Customer Services Group

In October 2016, HMRC reorganised its operations, with the aim of putting the customer at the heart of HMRC and providing services and designing policies, products and processes with the customer in mind. The reorganisation brought customer services for Tax Credits and benefits, personal tax and debt management together into a new customer services group headed by one director-general. HMRC now aspires to be a leading customer services organisation.

Examples of HMRC's customers and services for individuals

Customer group

Personal tax customers include: 48 million people in the Income Tax system;
Tax Credit customers (four million);
Child Benefit customers (seven million).

Tax products

- Personal Tax – Income Tax.
- Employee data are collected by the Pay-As-You-Earn (PAYE) system.
- Self-employed people and people with other incomes submit a self-assessment return.

Digital services

- Ten million self-assessments submitted online.
- More than nine million customers signed up for a Personal Tax Account by March 2017.
- 0.5 million web chats.

Telephone

Fifteen million calls made to the taxes helplines were handled by advisers, including:

- Ten million calls on PAYE.
- Three million calls on self-assessment.

Post

- Approaching 10 million items of personal tax correspondence received from customers.
- One million self-assessment paper returns.

This diagram is a simplified version of Figure 12 from the *HMRC Annual Report and Accounts 2016-17: Report by the Comptroller and Auditor General*

Recent and planned developments

HMRC's customer service performance

In 2016-17, HMRC invested £71 million in its customer service to make it quicker and easier for individuals and small businesses to deal with HMRC by providing a "top-class, multi-channel, seven-day service". The programme aims to bridge the gap between HMRC's service levels and industry standards for call-handling, and enabled HMRC to increase its customer service workforce by more than 800 in the second half of 2016-17, with new staff recruited on flexible contracts. The programme also supports HMRC's wider transformation and the development of digital services as an alternative to individuals writing or phoning. A further £43 million will be provided in 2017-18.

In 2016-17, HMRC improved customer service performance significantly, achieving its best performance in the past five years against its key targets. HMRC reported its best performance against both of its key telephony measures: the percentage of calls to its helplines that it handled; and the average speed to answer calls from the point when a caller enters a queue to speak to an adviser.

HMRC's contract with Concentrix

HMRC's contract with Synnex-Concentrix was designed to add capacity to HMRC's programme of interventions to prevent or detect error and fraud in Personal Tax Credits awards. Following the widely publicised termination of the contract in November 2016, our January 2017 report Investigation into HMRC's contract with Concentrix outlined the aims of the contract; the management of the contract; the decision to terminate the contract and the impact of the contract termination. At the time of the Committee of Public Accounts hearing in January 2017, HMRC estimated that the short-term redeployment of HMRC staff to complete Concentrix cases would have an opportunity cost of £30 million of savings not realised. HMRC also said that the transfer of staff from Concentrix to HMRC would give it additional capacity. Since the Committee hearing, due to HMRC's resourcing constraints, it has used the former Concentrix staff to fill vacancies in its benefits and credits operations directorate. HMRC forecasts that early termination will increase the underlying rate of error and fraud by 1.2 percentage points in 2016-17 (to be published June 2018).

Zoom Out | Zoom In+

Examples of HMRC's customer service performance in 2016-17[1]

HMRC reported achieving all of its published targets in 2016-17

Metric	Target	Outturn
Phone		
Average speed of answering calls to HMRC helplines (queue time)[2]	6 minutes	3 minutes, 54 seconds
Percentage of calls to helplines that HMRC handled	85	92
Tax correspondence		
Post responded to within 15 days (percentage)	80	81
Post responded to within 40 days (percentage)	95	96
Digital		
Customers using their Personal Tax Account[3]	7 million by March 2017	9.4 million
Customer satisfaction for digital services[4] (percentage)	80	83
i-forms and secure emails replied to within 7 days[5] (percentage)	95	99

Notes
1 This diagram is a simplified version of Figure 13 from the HMRC Annual Report and Accounts 2016-17: Report by the Comptroller and Auditor General.
2 Speed of answering calls covers the time customers spend in the queue waiting for an adviser. It excludes the time customers are in HMRC's automated telephony system before entering the queue.
3 The number of customers using their Personal Tax Account includes people who have accessed their account but not carried out transactions.
4 Customer satisfaction for digital services is measured using an exit survey.
5 i-forms can be filled in and filed online.

What are the things to look out for?

Issue	Future developments, risks and challenges
Sustainability of the levels of customer service	Up to 2013-14, HMRC had maintained or improved service levels. However, under pressure to live within its budget, HMRC released customer service staff in 2014-15 before it had made the service improvements needed to reduce demand through automation and online services. As a result, the time HMRC took to respond to post and phone calls increased significantly and it missed its performance targets. HMRC responded by recruiting 2,400 additional staff in summer 2015, helping it to improve performance. HMRC's operating environment remains challenging as its advisers had to deal with eight million more calls in 2016-17 than forecast. In the coming year, HMRC plans further cost reductions, which could put the service under pressure once again.
Relationship between quality of service and tax compliance	HMRC does not know what impact the quality of service it provides has on tax revenue. HMRC agrees that the level of its customer service is likely to affect tax revenue in some way; for example, a customer's attitude to compliance is likely to be affected by the quality of their interaction with HMRC. HMRC agrees that a clear understanding of the relationship would support decisions about how much to spend on services to customers to maximise tax revenue. HMRC is carrying out research to improve its understanding of this relationship.
Transition to Universal Credit	HMRC will continue working with HM Treasury and the Department for Work & Pensions (DWP) on the transition to Universal Credit. Originally it was planned that the transition of all benefit claims to Universal Credit would have been completed by October 2017. The transition is now expected to be completed by 2022. HMRC will continue to be responsible for administering Tax Credits until all claimants have either migrated to Universal Credit or left the Tax Credits. This will result in further challenges for HMRC, most notably in ensuring that compliance processes operate efficiently in preventing and detecting error and fraud with reduced resources, as HMRC staff will move to DWP as claimants transition to Universal Credit.
Reducing error and fraud in Personal Tax Credits	HMRC estimates that in 2015-16 error and fraud resulted in overpayments of £1.57 billion (5.5%) and underpayments of £0.21 billion (0.7%) of Personal Tax Credits expenditure. Over- and under-payments mean that spending is not in line with Parliament's intentions and where this is the case the Comptroller and Auditor General may 'qualify' his opinion on HMRC's accounts. This has happened every year since Personal Tax Credits were introduced in 2003-04. The rate of error and fraud resulting in overpayments fell between 2010-11 and 2013-14, but has since increased in 2014-15 and 2015-16. HMRC believes the level of error and fraud in Tax Credits will increase further when measured for 2016-17 (June 2018).
The end of annual tax returns	By 2020, HMRC aims to introduce simple, secure and personalised digital tax accounts, removing the need for annual tax returns. Taxpayers can use their accounts to complete a variety of tasks, from updating an address to filing their self-assessment return. Within the digital tax accounts, customers can correspond with HMRC using forms that can be filled in and filed online, known as i-forms.

Appendices

Appendix One – Staff and pay

Appendix Two – Staff attitudes and engagement

Appendix Three – Recent NAO reports

Appendix Four – Sponsored bodies

Appendix One – Staff and pay 2016-17

HMRC employed 61,800 staff in 2016-17, up from 58,600 the previous year (on a full-time equivalent basis). When HMRC was created in 2005, it employed 97,000 people.

Women account for 56% of the Department's headcount (not FTE). Mean earnings for women were 9.1% below that of men (FTE). HMRC has an ageing workforce: 40% of staff at HMRC were aged 50 years and over in 2016-17, and 64% are aged 40 or over; 9% declare themselves as having a disability.

Workforce capability

The civil service has a shortage of the digital, project delivery and commercial skills that it needs to deliver planned departmental transformation, major projects and preparations to exit the European Union. It is working to improve workforce planning and to build specialist capability through cross-government functions, but this will take time to take effect.

HMRC recognises the risk that if it does not have the right number of highly skilled and engaged people in the right roles and professions, in the right places at the right time, it may fail to deliver its business objectives. HMRC is taking mitigating actions, notably by developing its strategic workforce plans for each of its key business areas.

In our report on the Customs Declaration Service, we highlighted the programme had been operating with a significant number of staff vacancies. On HMRC's transformation programme, we found that HMRC had developed its leadership capacity, and improved its accountability arrangements and its financial forecasting.

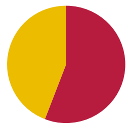
Zoom Out

Zoom In+

Workforce in HMRC 2016-17

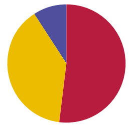
Civil service average

Staff gender



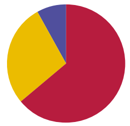
Staff gender	HMRC | Civil service average
Female	56% | 54%
Male	44% | 46%

Disability



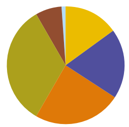
Disability	HMRC | Civil service average
Non-disabled	52% | 61%
Preferred not to say	39% | 32%
Declared disabled	9% | 7%

Ethnicity



Ethnicity	HMRC | Civil service average
White	64% | 68%
Preferred not to say	28% | 23%
Ethnic minority	8% | 9%

Age



Age	HMRC | Civil service average
16–19	0% | 0%
20–29	15% | 12%
30–39	19% | 21%
40–49	24% | 26%
50–59	33% | 32%
60–64	7% | 7%
65 and over	1% | 2%

Staff breakdown 2015-16 and 2016-17 (FTE)

	HMRC 2016-17	HMRC 2015-16
Staff numbers	61,800	58,600
Costs (£m)	2,300	2,100

Pay multiples 2016-17

	HMRC 2016-17	HMRC 2015-16	HM Treasury 2016-17	Valuation Office Agency 2016-17
Ratio of highest-paid employees to median salary	8.57	8.43	4.4	5.29
Band of highest paid director's total remuneration (£000)	205–210	200–205	200–205	145–150 (excludes pension benefits)
Median total remuneration (£)	24,224	24,012	45,918	27,847

Note

1 Numbers may not sum to 100% due to rounding.

Sources: Office for National Statistics data; HM Revenue & Customs *Annual Report and Accounts* 2016-17

Appendix Two – Staff attitudes and engagement

The government has conducted its Civil Service People Survey every year since 2009. The most recent survey was carried out during November 2016.

HMRC's employee engagement index in 2016 was 47%, up from 45% the previous year. HMRC's employee engagement index of 47% is some way below the civil service benchmark of 59% and the second lowest after the Department of Health.

On the individual engagement themes the department either held its ground or, for most themes, registered gains.

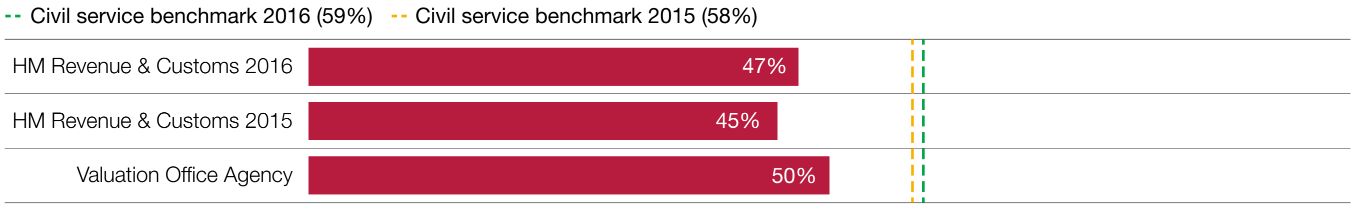
HMRC staff are more positive than the civil service average about their own teams and opportunities for learning and development. Staff at HMRC scored below the civil service average for the other themes, particularly on 'my work', 'leadership and managing change' and 'pay and benefits'.

Attitudes of staff in 2016 compared with 2015 – HM Revenue & Customs

Key
- Results in 2016
- Increase since 2015
- Decrease since 2015
- No change

Theme	Results in 2016	Change since 2015	Civil service average
My work	65%	0%	75%
Organisational objectives and purpose	80%	+1%	83%
My manager	67%	+2%	68%
My team	83%	0%	80%
Learning and development	53%	+3%	50%
Inclusion and fair treatment	71%	+1%	76%
Resources and workload	68%	+2%	73%
Pay and benefits	24%	+3%	31%
Leadership and managing change	34%	+4%	43%

Engagement index 2016



Note

1 The index is calculated as a weighted average of the responses to five employee engagement questions and ranges from 0% to 100%. A score of 0% represents all respondents giving a rating of "strongly disagree" to all five questions. A score of 100% represents all respondents giving a rating of "strongly agree" to all five questions.

Sources: Civil Service People Survey 2016 and 2015

Appendix Three – Recent NAO reports

Title	Publication Date	Description
HMRC Annual Report and Accounts 2016-17: Report by the Comptroller and Auditor General	July 2017	This report provides the findings and overall conclusion of work conducted under section 2 of the Exchequer and Audit Departments Act 1921, by which the Comptroller and Auditor General must consider the adequacy of the systems to assess, collect and allocate tax revenues.
The Customs Declaration Service	July 2017	This report looks at HMRC's development of the new Customs Declaration Service.
Investigation into overseas sellers failing to charge VAT on online sales	April 2017	This investigation describes how online VAT error and fraud takes place, its impacts and the actions taken by HMRC to address this problem.
Investigation into HMRC's contract with Concentrix	January 2017	Our investigation considers HMRC's contract with Synnex-Concentrix UK Ltd. The contract was designed to add capacity to HMRC's programme of interventions to prevent or detect error and fraud in personal tax credits awards. The investigation sets out the aims of the contract; the management of the contract; the decision to terminate the contract; and the impact of the contract termination.
Managing the HMRC estate	January 2017	This report examines whether HMRC is well placed to deliver its new estates model, which meets its changing operational needs.
HMRC's approach to collecting tax from high net worth individuals	November 2016	This report looks at HMRC's approach to collecting tax from high net worth individuals.
HMRC Annual Report and Accounts 2015-16: Report by the Comptroller and Auditor General	July 2016	This report provides the findings and overall conclusion of work conducted under section 2 of the Exchequer and Audit Departments Act 1921, by which the Comptroller and Auditor General must consider the adequacy of the systems to assess, collect and allocate tax revenues.
Replacing the Aspire contract	June 2016	In 2014, the previous Committee of Public Accounts examined HMRC's management and early preparations for the replacement of its long-running contract for IT services with Capgemini, known as Aspire. The purpose of this memorandum is to provide an agreed factual update to support the Committee in examining HMRC's progress in replacing Aspire since then.
The quality of service for personal taxpayers	May 2016	This report examines HMRC's performance in meeting its customer service standards and explores the impact of its customer service on tax revenue.
Tackling tax fraud: how HMRC responds to tax evasion, the hidden economy and criminal attacks	December 2015	This report provides an overview of the issues facing HMRC in dealing with tax fraud and how it has responded to them.

Appendix Four – Sponsored bodies

Valuation Office Agency

www.gov.uk/government/organisations/valuation-office-agency

HMRC has one executive agency, the Valuation Office Agency, which provides the valuations and property advice required to support taxation and benefits.

The work of the Agency encompasses:

- compiling and maintaining lists of rateable values of the almost two million non-domestic properties in England and Wales, to support the collection of business rates;
- compiling and maintaining lists of council tax bands for 25 million domestic properties in England and Wales, to support the collection of council tax;
- determining local housing allowances across some 152 Broad Rental Market areas for Housing Benefit and Universal Credit purposes, and around 129,000 Housing Benefit referrals each year for the Department for Work & Pensions and registering some 36,000 fair rent applications each year for the Department for Communities and Local Government;
- delivering a range of valuation and surveying services to 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.

For more information see the Agency's Annual Report 2016-17.

Revenue and Customs Digital Technology Services Ltd

HMRC is the parent of RCDTS Ltd, an arm's-length body created in 2015-16 and which started trading in 2015. RCDTS Ltd provides a managed IT service to HMRC. HMRC provides the funding for RCDTS Ltd.

R.N. Ltd

R.N. Ltd administers the holding of charges securing tax debts owed to HMRC. These debts are already fully reflected in the Trust Statement. The company's parent undertaking and controlling party is HMRC. R.N. Ltd also holds assets assigned to HMRC in settlement of debts, and these are not in the Trust Statement until realised.

Adjudicator's Office

The Adjudicator acts as a fair and unbiased referee looking into complaints about HMRC and the Valuation Office Agency, across the UK. It is a free and impartial service for all.