



National Audit Office



REPORT

The administrative cost of the tax system

HM Revenue & Customs

SESSION 2024-25
10 FEBRUARY 2025
HC 675



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National Audit Office

The administrative cost of the tax system

HM Revenue & Customs

Report by the Comptroller and Auditor General

Ordered by the House of Commons
to be printed on 6 February 2025

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Gareth Davies
Comptroller and Auditor General
National Audit Office

31 January 2025

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CORRECTION SLIP

Title: The administrative cost of the tax system

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Correction One:

The error is a discrepancy in the total cost figure. The text incorrectly states £917 million instead of the correct £913 million.

Paragraph 8

Text currently reads:

HMRC identified 16 changes as having a significant financial impact on businesses, of which 13 have estimated implementation and ongoing costs totalling £917 million.

Text should read:

HMRC identified 16 changes as having a significant financial impact on businesses, of which 13 have estimated implementation and ongoing costs totalling £913 million.

Paragraph 1.18

Text currently reads:

HMRC identified implementation costs of £715 million from six TIINs, ongoing costs of £224 million from seven, and ongoing savings of £26 million from five, giving a net increase of £917 million.

Text should read:

HMRC identified implementation costs of £715 million from six TIINs, ongoing costs of £224 million from seven, and ongoing savings of £26 million from five, giving a net increase of £913 million.

Correction Two:

The error is a numerical discrepancy – the percentage should be 30%, not 29%.

Paragraph 11

Text currently reads:

Customer Services Group, including staff and its share of HMRC's overheads and digital costs, accounted for 29% of HMRC's total 2023-24 tax collection costs.

Text should read:

Customer Services Group, including staff and its share of HMRC's overheads and digital costs, accounted for 30% of HMRC's total 2023-24 tax collection costs.

Paragraph 2.19

Text currently reads:

In 2023-24, the cost of serving taxpayers was £1.27 billion including Customer Services Groups' staff and share of overheads and digital costs (29% of HMRC's total tax collection costs and an increase of 5% since 2019-20).

Text should read:

In 2023-24, the cost of serving taxpayers was £1.27 billion including Customer Services Groups' staff and share of overheads and digital costs (30% of HMRC's total tax collection costs and an increase of 5% since 2019-20).

Correction Three:

The error is a reference mistake. The text incorrectly cites Figure 11 instead of Figure 8

Paragraph 12

Text currently reads:

(paragraphs 1.6, 2.22 to 2.23 and Figure 11).

Text should read:

(paragraphs 1.6, 2.22 to 2.23 and Figure 8).

Date of correction: 3 March 2025

CORRECTION SLIP

Title: The administrative cost of the tax system

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Correction one:

Text currently reads:

Paragraph 11

‘Two-thirds of this increase was due to Income Tax’

Text should read:

Paragraph 11

‘Two-thirds of this cost was due to Income Tax’

Date of correction: 7 February 2025



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Key facts

£4.3bn

the amount spent by HM Revenue & Customs (HMRC) to collect £829 billion of tax in 2023-24

0.51p

just over half a penny spent by HMRC on collecting tax for every pound of tax revenue collected in 2023-24, as reported in HMRC's annual report

£15.4bn

HMRC estimate of the annual cost to businesses of complying with the tax system, although it recognises this is out of date and incomplete

- 15%** real-terms increase in HMRC's cost of collecting tax (excluding customs duties and import VAT) between 2019-20 and 2023-24 (equivalent to £563 million)
- 16%** real-terms increase in tax revenue (excluding customs duties and import VAT) over the same period, equivalent to £113 billion
- 23%** real-terms increase in HMRC's cost of collecting Income Tax Self Assessment over the same period
- £5.4 billion** estimated annual cost of complying with the tax system for VAT-registered traders
- 56%** proportion of HMRC's costs of tax collection related to its Customer Compliance Group in 2023-24 (£2.4 billion)
- £1.27 million** the 2023-24 compliance yield per full-time caseworker, compared with a real-terms average of over £1.4 million in the five years before the pandemic (2015-16 to 2019-20)

Summary

1 The tax system raised £829 billion in 2023-24. The system involves many taxes and duties for His Majesty's Revenue and Customs (HMRC) to administer, and some taxpayers incur administrative costs in paying taxes.

2 HMRC collects the money that pays for the UK's public services. Its aim is to be a trusted, modern tax and customs department. Its strategic objectives include collecting the right tax and paying the right financial support; making it easy to get tax right and hard to bend or break the rules; and supporting wider government economic aims through a resilient, agile tax administration system. HMRC takes the lead role in government on policy maintenance and implementation (HM Treasury leads on strategic tax policy and policy development).

3 The administrative costs of the tax system fall on three groups:

- HMRC, which administers the collection of tax revenue;
- taxpayers, both individuals and businesses; and
- intermediaries representing taxpayers to help manage their tax affairs and interact with HMRC on their behalf.

Aside from the actual payment of tax due, the latter two groups may incur costs in order to submit information and tax returns and deal with communications from HMRC. The burden for all parties varies by tax depending on the complexity of the tax regime and the degree to which interactions can be conducted digitally.

Scope of this report

4 With the tax burden rising and the cost-of-living crisis bringing further cost pressures, this report seeks to increase the transparency of the costs for all parties of administering taxes, establish how far HMRC understands where within the tax system its administrative costs are high and/or increasing, and how it is acting to improve efficiency and productivity, and reduce costs for taxpayers. As HMRC carries out limited assessments of factors driving its costs and variations in costs between taxes, we carried out analysis using cost data provided by HMRC. This report covers:

- The administrative cost of the tax system.
- The main cost pressures affecting administration of the tax system.
- Opportunities to improve the cost efficiency of administering the tax system.

5 This report covers the UK tax system, focusing on the four taxes with the highest revenues and administrative costs (the “main taxes”): Income Tax, National Insurance Contributions, VAT and Corporation Tax. It does not cover costs relating to Borders and Customs functions, such as collection of customs duties, which are not included in HMRC’s cost of tax collection calculation. We also exclude HMRC’s costs of administering benefits such as child benefits and tax credits. We have not conducted primary research into the costs of complying with the tax system for taxpayers and their representatives. Our approach is outlined in Appendix One.

Key findings

The administrative cost of the tax system

6 HMRC’s costs of administering the tax system increased by 15% (£563 million) in real terms between 2019-20 and 2023-24, with tax revenue increasing at a similar rate.

HMRC spent £4.3 billion to collect £829 billion of tax in 2023-24. The increase in costs followed a period prior to 2019-20 where funding constraints had reduced HMRC’s capacity to undertake compliance work in some areas, and delayed important IT upgrades. Between 2019-20 and 2023-24 tax revenue increased £113 billion (16%) in real terms (excluding customs duties and import VAT). Revenue increased largely due to the government’s tax policy decisions and wider economic factors, such as the freezing of personal allowance and tax thresholds, and wages growing faster than the economy. There were large real-terms increases in revenue per taxpayer for Corporation Tax (37%) and Income Tax Self Assessment (28%) up to 2022-23 (see **Figure 1**). HMRC reported that its headline ‘cost of collection’ metric remained at 0.51 pence for each pound it collected in 2023-24, as costs increased in proportion to revenue. HMRC’s costs of supporting each taxpayer increased above inflation for all the major taxes apart from National Insurance Contributions (paragraphs 1.6 to 1.8, 2.10, 2.12 and Figures 1 and 5).

7 HMRC estimates that complying with the obligations of the tax system costs businesses around £15 billion annually, though this is likely to be an understatement, and HMRC has not made an equivalent estimate for individuals.

HMRC estimates that complying with the tax system imposes an administrative burden on businesses of £15.4 billion a year, of which £6.6 billion is payments to agents, accountants, software developers and other intermediaries. This estimate is an understatement, however, because it does not take into account all taxpayer obligations. Although HMRC has updated costs for businesses to reflect increased acquisition costs, wage rates and agents’ fees, it has not carried out research into the time taken by businesses to comply with tax obligations in most cases since 2015. HMRC’s estimates do not take account of all costs or recent developments in HMRC services. HMRC is planning to partially update its model in 2025. Around one third of the total cost falls on VAT traders (£5.4 billion) (paragraphs 1.14 to 1.15).

Figure 1

Real-terms changes in revenue collected per taxpayer, HM Revenue & Customs' (HMRC's) cost of collecting taxes per taxpayer and its total cost of collection, 2019-20 compared with the most recent years for which data are available

HMRC's cost of collecting taxes increased between 2019-20 and 2023-24 for all the main taxes other than National Insurance Contributions

Tax	Revenue per taxpayer		HMRC cost per taxpayer		Total cost of collection	
	2019-20 (£)	2022-23 (£) ²	2019-20 (£)	2022-23 (£) ²	2019-20 (£mn)	2023-24 (£mn)
Income Tax Self Assessment	3,239	4,157 (+28%)	71	84 (+18%)	858	1,056 (+23%)
Income Tax Pay As You Earn	6,546	6,983 (+7%)	23.15	23.56 (+2%)	679	777 (+14%)
VAT	71,865	75,551 (+5%)	347	384 (+11%)	785	905 (+15%)
Corporation Tax	40,266	55,090 (+37%)	253	309 (+22%)	397	496 (+25%)
National Insurance Contributions					247	226 (-9%)

Notes

- 1 This figure covers the main taxes that account for most (around 80%) of HM Revenue & Customs' (HMRC's) total tax collection costs. For VAT, cost of collection is based on 'Home VAT' only as this is consistent with how HMRC measures total cost of collection. For revenue per taxpayer, and HMRC cost per taxpayer (Figures 3 and 6), values are based on the total of 'Import VAT' and 'Home VAT' as HMRC does not have data on the number of VAT traders who only paid 'Home VAT'.
- 2 HMRC did not have sufficient data on taxpayer numbers for National Insurance Contributions to calculate its cost and revenue per taxpayer. For most of the other taxes, cost and revenue per taxpayer are provided for 2022-23, as HMRC had yet to report taxpayer numbers for 2023-24 for two taxes, in part because some tax returns for 2023-24 were not due until 2025. The exception is Income Tax Pay As You Earn, where data are for 2021-22. For VAT, costs per taxpayer continued to rise in 2023-24 to £394, with revenue per taxpayer falling to £67,728.
- 3 Taxpayer numbers for Corporation Tax are for those who had a tax liability. For VAT it is the number of traders who submitted a return independent of whether there was a liability and independent of who ultimately bears any liability, as it will be typically passed onto consumers. For Income Tax Self Assessment, it is the numbers who were due to submit a tax return. For Income Tax Pay As You Earn, numbers are for those who paid Income Tax. Due to differences in the basis of taxpayer numbers, it is not possible to make a like-for-like comparison of cost per taxpayer between different taxes.
- 4 Figures are in real terms and, where necessary, have been adjusted to 2023-24 values using the GDP deflator, in order to provide meaningful comparisons over time. See Appendix One for explanation.

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

8 Published assessments of the impact of tax policy changes rarely estimate the costs for businesses and individuals. When HM Treasury and HMRC change tax policy in Finance Bills following major fiscal events, or through other legislation, they publish a Tax Impact and Information Note (TIIN) of the estimated future impact. Of 240 TIINs published between 2022 and 2024, HMRC identified 16 changes as having a significant financial impact on businesses, of which 13 have estimated implementation and ongoing costs totalling £913 million (83% of which is attributable to the costs of Making Tax Digital for Income Tax Self Assessment). The remaining ones would incur ‘negligible’ additional costs (although these could have a significant cumulative impact). HMRC provided quantified estimates of the change in administrative burden on individuals in two cases. Estimates of costs to business from changes to other government regulations are subject to external oversight, but this is not required for tax (paragraphs 1.17 to 1.18).

The main cost pressures affecting the tax system

System-wide cost pressures

9 While tax revenue has increased, changes to the tax system and growing numbers of taxpayers have increased HMRC’s costs for collecting tax:

- **Impact of tax policy changes.** HMRC estimated that the combined effect of tax policy changes announced between 2022 and 2024 would increase its operational costs by an estimated cumulative total of around £875 million over the next few years (57% of which is attributable to the introduction and running costs of Making Tax Digital for Income Tax Self Assessment). Estimates were a mix of one-off costs and those which will be incurred over multiple years (paragraph 2.3).
- **Customer numbers.** The number of Income Tax payers rose to 36.2 million in 2023-24 – 14% above the 31.7 million taxpayers in 2020-21 – creating a cost pressure for HMRC, particularly its Customer Services Group. The Office for Budget Responsibility estimated in March 2024 a further 1.6 million taxpayers will be brought into Income Tax between 2024-25 and 2027-28 as a result of tax band freezes (paragraphs 2.5 to 2.7).

10 HMRC has also made significant investment into developing digital systems and recruiting more staff including those that are higher-skilled:

- **Changes in staff numbers:** HMRC staff specifically working on tax administration had increased by 6% between 2019-20 and 2023-24 to 57,514 full-time equivalents with their real-terms costs increasing by 9%. An increase in the seniority of HMRC’s tax and wider workforce added over £100 million to salary costs between 2019-20 and 2023-24 (paragraphs 2.8 to 2.10 and Figure 7).

- **Digital costs:** It cost HMRC £785 million to run its digital tax systems in 2023-24 (an 18% increase in real terms from 2019-20) and it spent £482 million on developing new systems and upgrading legacy systems. Remediating legacy systems is taking HMRC longer than it had expected and is costing more. HMRC has one of the largest and most complex IT estates in the UK, and it faces a significant challenge to modernise its IT infrastructure to keep pace with changing technology (paragraphs 2.11 to 2.13).

Cost changes across HMRC business groups

11 HMRC's customer service costs have been broadly stable, but the cost to serve each taxpayer has risen for some large taxes amid poor levels of service.

Customer Services Group, including staff and its share of HMRC's overheads and digital costs, accounted for 30% of HMRC's total 2023-24 tax collection costs. Two-thirds of this cost was due to Income Tax. Total customer service costs grew by 5% in real terms from 2019-20. It cost HMRC more on average to serve each VAT and Corporation Tax taxpayer, but it cost HMRC less to serve each Income Tax Self Assessment taxpayer. HMRC has failed to achieve its performance targets for handling calls and correspondence, imposing additional costs on taxpayers and creating additional contact for HMRC customer service staff as customers chase progress undermining service efficiency (paragraphs 2.19 to 2.20 and Figure 10).

12 Most of the increases in HMRC's costs of tax collection are for compliance activity.

Compliance work helps to reduce the difference between taxes theoretically owed and those actually paid. HMRC's Customer Compliance Group (CCG) leads its compliance activity. CCG accounted for £350 million of the £563 million real-terms increase in HMRC's total cost of tax collection between 2019-20 and 2023-24. CCG's costs had risen a sixth in real terms to £2,411 million by 2023-24, with a £279 million increase in its compliance staff costs and overheads, and a £71 million increase in its digital costs such as tools to better risk-assess tax returns. Fifty six percent (£2.4 billion) of HMRC's total cost of tax collection in 2023-24 related to CCG's compliance activities (paragraphs 1.6, 2.22 to 2.23 and Figure 8).

13 Total yield from HMRC's compliance activity was £41.8 billion in 2023-24, with an increasing proportion coming from activities to stop non-compliance from occurring in the first place ('upstream').

In December 2022 we reported that HMRC's compliance work offers good value for money. In 2023-24, the Customer Compliance Group (CCG) generated £34.7 billion of compliance yield (over 80% of HMRC's total compliance yield). Upstream yield constituted 33% (£14 billion) of all compliance yield recorded in 2023-24, up from 22% in 2019-20. HMRC expects upstream activity is more cost-effective by preventing problems before they happen, but it does not know the cost of its upstream activity, or whether the cost has increased (paragraphs 2.23 to 2.26).

14 HMRC faces a continuing challenge to achieve efficiencies and increase productivity. HMRC was set stretching efficiency targets in the 2021 Spending Review, and these were increased further in 2022. HMRC has reported it achieved 93% (£497 million) of its target of £536 million of cumulative efficiency savings by 2023-24. The main shortfalls arose from curtailment of planned IT upgrade programmes and in customer service. HMRC's 2024-25 efficiency target represents an increase of one third on 2023-24 (paragraphs 2.17 to 2.18 and Figure 9).

15 Compliance productivity has not yet returned to pre-pandemic levels. In the five years prior to the COVID-19 pandemic compliance staff achieved more than £1.4 million per compliance worker in 2023-24 prices but 2023-24 performance was £1.27 million per worker. The government is providing HMRC with resources to recruit 5,000 additional staff to achieve £2.7 billion of additional tax revenue a year by 2029-30. To meet this target, each new compliance worker recruited will need to achieve a return of £0.55 million. At the same time HMRC should be seeking to increase the productivity of existing compliance staff. HMRC considers that raising returns is difficult when it already works the cases it thinks have the most potential, and when it needs to recruit and train large numbers of new staff who will take time to become fully productive. However, HMRC has increasingly focused on 'upstream' compliance, alongside investment in developing digital systems and more senior staff, which should all enhance compliance performance and be factored into HMRC's future compliance targets. Unless HMRC increases levels of compliance yield per case worker, there is a risk that the expectation of lower compliance yield performance becomes the norm (paragraphs 2.10, 2.27 to 2.29 and 3.14).

Opportunities to improve the cost efficiency of the tax system

16 HMRC's strategy is to build a modern, trusted tax system by 2030 but progress to date has been mixed. HMRC is now halfway through the life of its Tax Administration Strategy. Progress against key metrics has been mixed. HMRC is maintaining the tax gap at around 5% of tax liabilities, and reports increasing compliance yield from upstream activities, and increasing contact with customers through digital channels. However, the cost of the tax system is not reducing while at the same time trust in HMRC has fallen among some customer groups. HMRC told us that, following the change of government, it is developing a new strategy (paragraphs 3.2 to 3.3).

17 Following the abolition of the Office of Tax Simplification, HMRC, in concert with HM Treasury, is making a renewed effort to reduce costs for taxpayers by putting forward proposals to simplify the tax system. The UK tax system is complex both in terms of the number of obligations to pay tax in legislation, and administrative processes. Following the government abolishing the Office of Tax Simplification in 2022, HMRC put in place the foundations for a more strategic approach to tax simplification with published objectives, key metrics, and a pipeline of potential measures. In the 2024 Autumn Budget, the government stated that it will take forward tax simplification as part of its three strategic priorities for HMRC (paragraphs 3.4 to 3.9).

18 The introduction of major digital programmes and systems such as Making Tax Digital (MTD) and Pay as You Earn (PAYE) Income Tax Real Time Information (RTI) has increased revenue for HMRC, but for taxpayers the picture is mixed and those with complex tax affairs face continuing difficulties. Both developments have yielded large increases in revenue by reducing the scope for PAYE and VAT errors. RTI yielded benefits for taxpayers, though the extent of this is disputed. HMRC has estimated that customers will incur significant costs from MTD. Some VAT traders have reported benefits (paragraphs 3.13 to 3.16).

19 Some taxpayers and their representatives are finding it more difficult to deal with their tax matters and are losing trust in HMRC. The HMRC Charter promises to provide services that minimise taxpayer costs. However, the most recent HMRC surveys of customers indicate that they are finding it harder to deal with their tax matters, particularly agents. Agents and other advisers are a crucial part of the tax system but they are not well-served by HMRC's digital services currently. Agents and other advisers are not regulated and a risky subset are creating additional costs for HMRC. HMRC is developing a strategic approach to improve its relationship with intermediaries, including improving their access to digital services (paragraphs 3.3 and 3.16 to 3.24).

20 HMRC is finding it difficult to improve productivity in its customer service and compliance work, but wider roll-out of its 'regime ownership' model for each of the main taxes could help. HMRC customer services have too many unnecessary and costly person-to-person interactions because of 'failure demand' (almost three-quarters of customer calls), or because customers are not using the online tools available (two-thirds of calls). 'Failure demand' covers calls caused by HMRC's process failures and delays, customers chasing progress – including when HMRC has not yet breached target timescales for responding – and customers' errors. Up until now HMRC has lacked an end-to-end overview of each tax regime. It has now put in place a regime owner for VAT. This development has considerable potential to help HMRC quickly identify and address cross-cutting issues that are affecting performance. Its success will depend on the regime owner's level of empowerment and on HMRC improving the quality of internal management information available, especially around costs, and addressing system weaknesses that increase contact or reduce compliance (paragraphs 3.19 and 3.24 to 3.25).

Conclusion

21 The cost to HMRC of running the tax system is increasing. In part this is due to rising complexity in the different tax regimes and taxpayer numbers, but it is also due to the additional cost of introducing and remediating digital systems, and moving to a more highly-skilled workforce. HMRC does not measure the overall efficiency of its administration of the tax system, but there is evidence from different parts of the system that there is scope for increased efficiency and productivity: enhanced digitalisation has increased revenue but it does not seem to be reducing running costs; customer service performance has declined; and efficiency targets have proved difficult to achieve without compromising services. Compliance staff productivity remains below pre-pandemic levels. Unless HMRC improves there is a risk that lower levels of yield per caseworker could become the norm. Higher returns should be achievable given HMRC's investment in more highly-skilled staff and digital systems, and its assessment that more upstream activity should be more cost-effective.

22 There is evidence that the tax system is imposing increased administrative burdens on taxpayers and their intermediaries, despite the availability of digital channels. The system has become more complex over time, rather than more straightforward and easier to deal with. There are too few examples where system changes have considered the cost to taxpayers, or prioritised sufficiently those that will reduce cost. There is little doubt that the high returns HMRC generates from its compliance work offer good value for money for the government, but the system is not optimised. To maximise value for money HMRC must be able to demonstrate efficient use of resources and be more conscious of the full cost of administering each tax and how the end-to-end system is working for each tax. It has rightly identified that simplification, automation, upfront compliance activity and better working with tax intermediaries will help to reduce its costs. HMRC's move towards end-to-end oversight of each tax regime will be important to better enable it to understand the cost-efficiency of administering each tax, including how easy it is for taxpayers to follow the rules, and whether the system is causing unnecessary contact or making it harder and more costly for taxpayers to comply.

Recommendations

- 23** HMRC must better understand how the changes it makes will flow through to savings in tax administration for all parties, and reduce unnecessary complexity in tax regimes, drive out inefficiency, and improve productivity. It should:
- a** Take a whole-system view of the cost-effectiveness of the tax system when making administrative changes or advising on policy changes. HMRC should be clear when it is placing increased requirements on taxpayers or intermediaries about the estimated costs and benefits to each party, and explain the allocative efficiencies from any redistribution of responsibilities. If the burden on customers is to be increased, the assumption should be that HMRC costs will fall, unless there is a compelling reason why this should not be the case, such as revenue gains or service improvements. Similarly, it may be appropriate for HMRC to take on greater costs, where this reduces the overall cost of the system.
 - b** Move quickly to establish clear responsible owners for the effectiveness and efficiency of each tax regime. These Regime Owners should have a complete picture of costs relevant to their tax regime, not just direct costs, to aid decision-making on issues relevant to their tax regime. As part of this they should analyse costs through different lenses such as cost per taxpayer, and monitor and respond to areas of high unnecessary cost such as process failures and design weaknesses.
 - c** Establish clear and measurable objectives for making changes to simplify the administration of the tax system. As part of its simplification strategy, HMRC should make a measurable commitment to reduce administrative cost burdens on customers, and published proposals should include an estimate of the costs being taken out of the system.
 - d** Develop efficiency and productivity measures to demonstrate that it is controlling costs independently of movements in revenue or increased budgets. Measures should include the cost and time to complete each activity and the ratio of activity to outcome. For example the cost to serve each taxpayer, the cost and time to deal with types of contact, query or case, and the additional revenue raised per compliance activity.
 - e** Increase levels of compliance yield per case worker with the aim to return to pre-pandemic levels of performance as soon as possible. Experienced caseworkers should be expected to generate yield levels closer to historic levels more quickly. HMRC should ensure that its benchmark for good levels of compliance yield per caseworker take account of historic levels, inflation, higher returns from relevant upstream activity, increased capability from digital investment, and skills and experience of staff. Overall HMRC should be aiming to increase productivity each year and ensure benchmarks are sufficiently stretching.

- f** Develop a clearer understanding of the costs and benefits of ‘upstream’ compliance activity, and identify where upstream measures will reduce the need for downstream compliance work.
- g** Be more ambitious in how it can better work with intermediaries to reduce system costs. 2025 is the midpoint of the Tax Administration Strategy and this is an appropriate moment to include more on the role of intermediaries in terms of commitments to provide access to digital services on an equal footing with taxpayers, and set out how unregulated agents will be managed. This might involve both responding to agents’ feedback, but also considering the level of compliance risk associated with different taxpayer representatives and the appropriate amount of compliance and quality assurance work.
- h** Analyse whether cost and benefit estimates published in Tax Information and Impact Notes with significant expected impacts were accurate, to help refine future estimates, and publish the results where there are large variations between estimate and outturn.
- i** Consider the feasibility of introducing more external scrutiny and independent challenge of the estimates of business impacts included in Tax Information and Impact Notes. For example, sharing more detail of costing assumptions, research and methodologies as part of external consultation exercises that follow budget announcements.
- j** Publish its estimates of the costs of the tax system to businesses and individuals, and explore how it could identify the burdens on compliant individual taxpayers.

Part One

The administrative cost of the tax system

1.1 HM Revenue & Customs (HMRC) takes the lead role in government on tax policy maintenance and implementation (HM Treasury leads on strategic tax policy and policy development). HMRC aims to administer the tax system in the most simple, customer-focused and efficient way.

1.2 HMRC's strategic objectives include a commitment to collect the right tax, make it easy to get tax right and hard to bend or break the rules, and maintain taxpayers' consent through fair treatment. HMRC's Charter undertakes to provide services that are designed around what the customer needs to do, and are accessible, easy and quick to use, minimising customers' costs.

1.3 The administrative costs of the tax system fall on three groups:

- HMRC, which administers the collection of tax revenue;
- taxpayers, both individuals and businesses; and
- intermediaries used by taxpayers to help manage their tax affairs and interact with HMRC on their behalf.

Aside from the actual payment of tax due, the latter two will incur costs in order to submit information and tax returns and deal with communications from HMRC. The burden for all parties varies between individual tax regimes, which vary in complexity and the degree to which interactions can be conducted digitally.

1.4 In this part of the report we cover:

- HMRC's total administration costs;
- the ratio of HMRC's cost of tax collection to tax revenue;
- the costs of collecting the main taxes;¹ and
- HMRC's estimates of the administrative costs of the tax system to businesses and individuals.

The findings are drawn from published HMRC cost metrics and analysis we have carried out on HMRC's cost base, including to determine the unit costs of serving taxpayers for each main tax where data are available.

¹ Excluding customs and international trade, and the payment of benefits. Main taxes are those which are the most costly to administer and generate the most revenue – they are Income Tax, VAT, National Insurance Contributions and Corporation Tax.

HMRC's total administration costs over time

1.5 The large majority of HMRC's costs are for the administration of the tax system. It cost HMRC £4.3 billion to collect £829 billion of tax in 2023-24.² HMRC's total administration costs were £5.5 billion, with the remaining £1.2 billion largely incurred in administering customs and trade, benefits and COVID-19 support schemes.

1.6 The tax system has become increasingly costly for HMRC to administer over the past five years. Between 2019-20 and 2023-24, HMRC's cost of tax collection increased by 15% (£563 million) in real terms (see 'costs of collection of taxes' in **Figure 2**).

HMRC's costs and revenue from collecting taxes

1.7 HMRC's costs to administer the tax system have increased in line with tax revenue. HMRC's headline 'cost of collection' metric was stable between 2019-20 and 2023-24. In both years HMRC's annual reports showed that its costs equalled 0.51 pence for each pound of tax it collected (which is HMRC's preferred metric for showing its costs of collection). The ratio was unchanged because tax revenue increased by 16% in real terms (£113 billion) at a similar rate as costs (15%). Tax revenue can increase due to increasing taxpayer numbers and to increases in the amount paid per taxpayer. Since 2020-21, increased revenue from Corporation Tax and Income Tax Self Assessment has been driven by large real terms increases in revenue per taxpayer (**Figure 3** on page 18). Revenue for Income Tax Pay As You Earn (PAYE) taxpayers has risen due to increases in both revenue per taxpayer and the number of taxpayers.³

1.8 Tax revenues are mainly determined by factors that are outside HMRC's control. Key drivers of higher revenue are tax policy decisions made by HM Treasury and wider economic factors. Examples of the former are measures to support the economy during the COVID-19 pandemic, such as lower VAT rates, and the freezing of personal allowance and tax thresholds. Examples of the latter are wages growing faster than the economy, more taxpayers qualifying to pay higher rates of tax, and an increase in Corporation Tax revenues from tax-rich sectors of the economy.

² Cost and revenue values do not include 'import VAT' and customs duties as these are excluded from HMRC's cost of collection metric reported in its annual reports (paragraph 1.7). There are some small variances between the year-end cost of collection figures reported in HMRC's annual reports and the available data sets used in our analysis. Causes for these variances include:

- The impact of more recent changes to reporting formats on older data held within HMRC's systems. HMRC has identified this as a limitation of the existing software and is implementing solutions to resolve this for subsequent years.
- The impact of minor manual adjustments (such as IT impairments and the reallocation of costs attributable to Borders and Trade) made to the year-end cost of collection figures that account for revisions made after the report had been run.

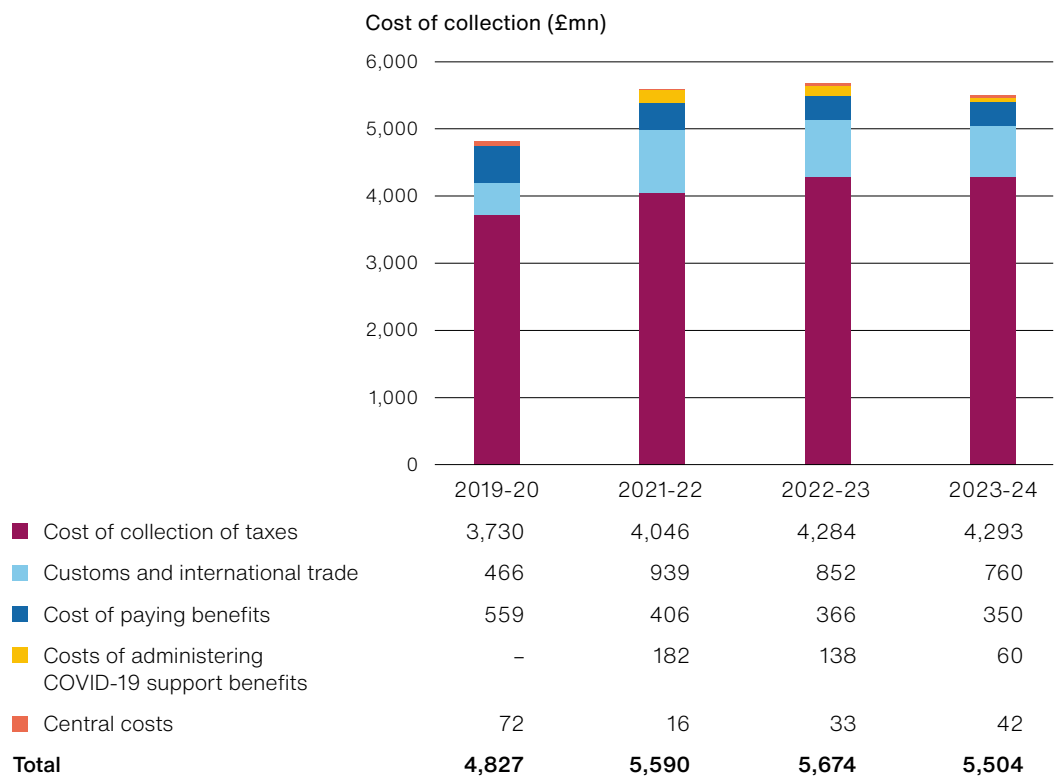
None of these variances has a significant impact on the conclusions derived from National Audit Office analysis of the data underlying the cost of collection report.

³ VAT that counts to HMRC's cost of collection metric has also increased due to a change in the way that VAT is accounted for on some imports.

Figure 2

Real-terms changes in HM Revenue & Customs' (HMRC's) costs, 2019-20 and 2021-22 to 2023-24

HMRC's total costs increased between 2019-20 and 2021-22, then stabilised, but costs of tax collection continued to increase to 2022-23

**Notes**

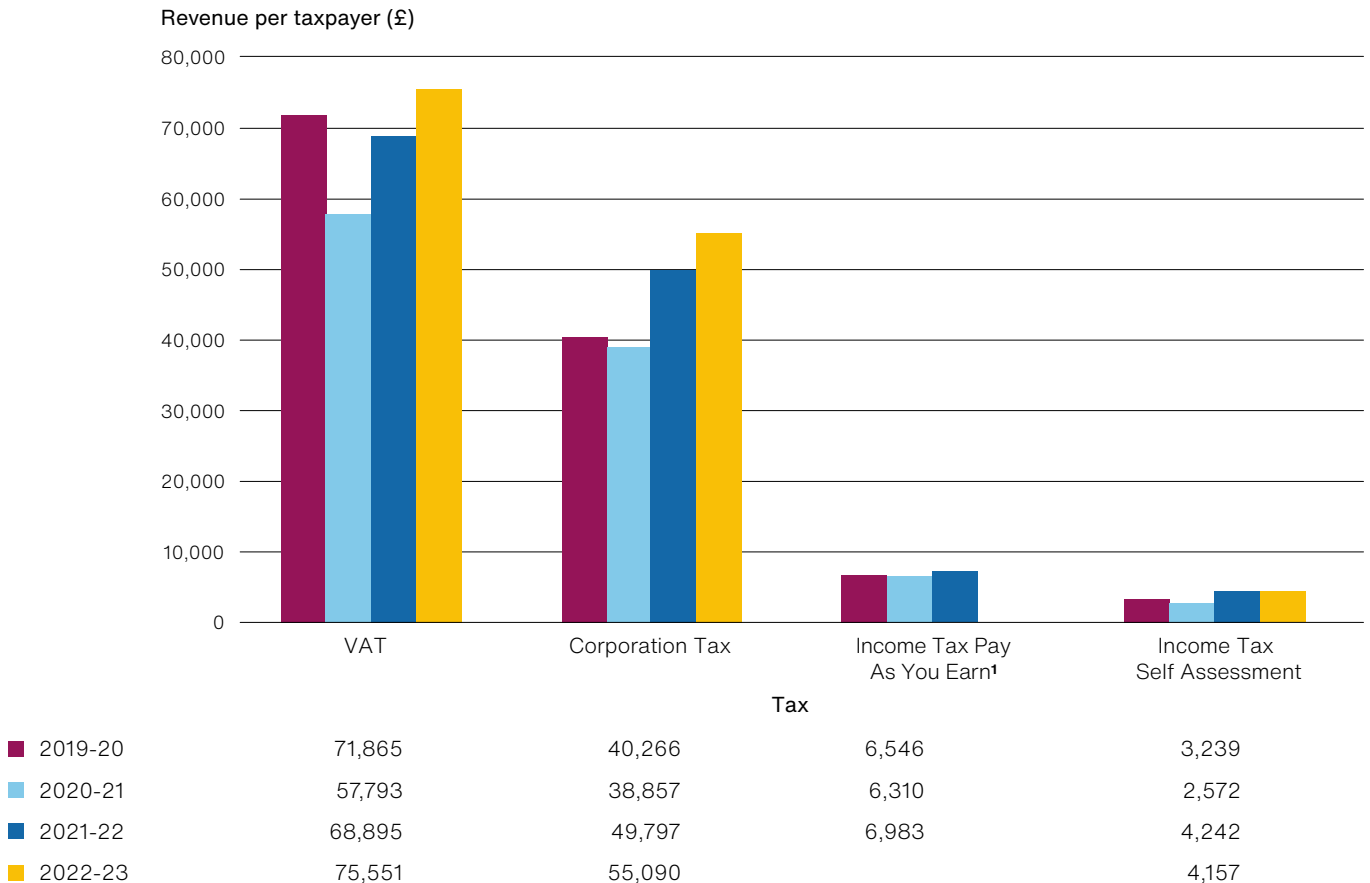
- 1 Central costs are those HM Revenue & Customs (HMRC) has not allocated to one of its main functions. Costs of running digital systems have been allocated across HMRC's main functions.
- 2 Cost of paying benefits includes the costs of Child Benefit and tax credits. The latter are being migrated to the Department for Work & Pensions to administer as part of Universal Credit.
- 3 Costs of administering COVID-19 support benefits include the costs of operating the schemes up to their closure in 2021-22, and action to address error and fraud.
- 4 Figures are in real terms and where necessary have been adjusted to 2023-24 values using the GDP deflator, in order to provide meaningful comparisons over time. See Appendix One for explanation. Not all the values in this figure reconcile back to values in HMRC annual reports for reasons set down in footnote 2 to paragraph 1.5.
- 5 Figure does not include 2020-21 to avoid the administrative burden to HMRC of generating data.
- 6 Components may not sum to total due to rounding.

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

Figure 3

Real-terms changes in revenue per taxpayer for selected taxes, 2019-20 to 2022-23

Revenue per taxpayer dipped for all taxes in 2020-21 following the start of the COVID-19 pandemic but has since recovered to exceed 2019-20 levels, with the growth rates across the period to 2022-23 highest for Corporation Tax (37%) and Income Tax Self Assessment (28%)

**Notes**

- 1 HM Revenue & Customs (HMRC) does not have the data to allow calculation of Income Tax Pay As You Earn (PAYE) tax revenue per taxpayer in 2022-23 or to calculate National Insurance Contributions revenue per taxpayer in any year. For VAT, values are based on the total of 'Import VAT' and 'Home VAT' as HMRC does not have data on the number of VAT traders who only paid 'Home VAT'.
- 2 Taxpayer numbers for Corporation Tax are for those who had a tax liability. For VAT it is the number of traders who submitted a return independent of whether there was a liability and independent of who ultimately bears any liability as it will be typically passed onto consumers. For Income Tax Self Assessment, it is the numbers who were due to submit a tax return. For Income Tax PAYE, numbers are for those who paid Income Tax through PAYE. Due to differences in the basis of taxpayer numbers, it is not possible to make a like-for-like comparison of revenue per taxpayer between different taxes.
- 3 Figures are in real-terms and have been adjusted to 2023-24 values using the GDP deflator, in order to provide meaningful comparisons over time. See Appendix One for explanation.
- 4 Components may not sum to total due to rounding.

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

1.9 In 2023-24, the costliest taxes to administer were Income Tax Self Assessment (25% of total 2023-24 cost of collection), VAT (21%), Income Tax PAYE (18%), Corporation Tax (12%) and National Insurance Contributions (5%). Collectively these main taxes accounted for 81% of HMRC's total cost of collection and 85% of tax revenue. **Figure 4** shows the cost of collection for these taxes. Of these taxes, the Self Assessment element of Income Tax had the highest ratio of cost to revenue. A pound of Income Tax collected through Self Assessment cost HMRC over six times more (2.14 pence in 2023-24) than employer administered PAYE (0.33 pence). Among other taxes which account for more than 1% of expenditure, tobacco duties is the only other with a cost of collection ratio above one penny in the pound, at 1.51 pence. National Insurance Contributions (0.13 pence) had the lowest cost of collection ratio. National Insurance Contributions are collected alongside Income Tax and the reasons why their cost of collection ratio is much lower than either Self Assessment or PAYE are unclear.

Changes in the costs of collecting the main taxes over time

1.10 The cost of collection ratio for each of the main taxes was lower in 2023-24 than in 2019-20.⁴ The largest reductions were Corporation Tax (down 11%) and National Insurance Contributions (10%). Between 2019-20 and 2023-24, the cost of collecting Income Tax Self Assessment and PAYE, VAT and Corporation Tax rose in real terms by between 14% and 25%. Together these taxes accounted for 91% of the £563 million increase in HMRC's total cost of collection over this period (**Figure 5** on pages 20 and 21).

Figure 4

Cost of collection for the most expensive taxes for HM Revenue & Customs (HMRC) to administer, 2023-24

Income Tax Self Assessment is the most expensive tax for HMRC to collect

Tax	Cost (£bn)	Revenue (£bn)	Cost of collection (pence per pound collected)
Income Tax Self Assessment	1.06	49.4	2.14
Income Tax Pay As You Earn	0.78	236.8	0.33
VAT	0.91	155.7	0.58
Corporation Tax	0.50	89.5	0.55
National Insurance Contributions	0.23	177.0	0.13

Notes

- For VAT, values do not include 'Import VAT' as this is not included in HM Revenue & Customs' (HMRC's) cost of collection metric.
- Cost and revenue values may not match cost of collection ratio due to rounding.

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

⁴ There were increases in the ratio for some smaller taxes.

Figure 5

Real-terms changes in HM Revenue & Customs' (HMRC's) cost of collecting taxes and in total tax revenue, 2019-20 and 2021-22 to 2023-24

Between 2019-20 and 2023-24, there were increases in HMRC's cost of collecting Income Tax through both Pay As You Earn (14%) and Self Assessment (23%), and increases in the costs of the next two most costly taxes, VAT (15%) and Corporation Tax (25%), but not National Insurance Contributions

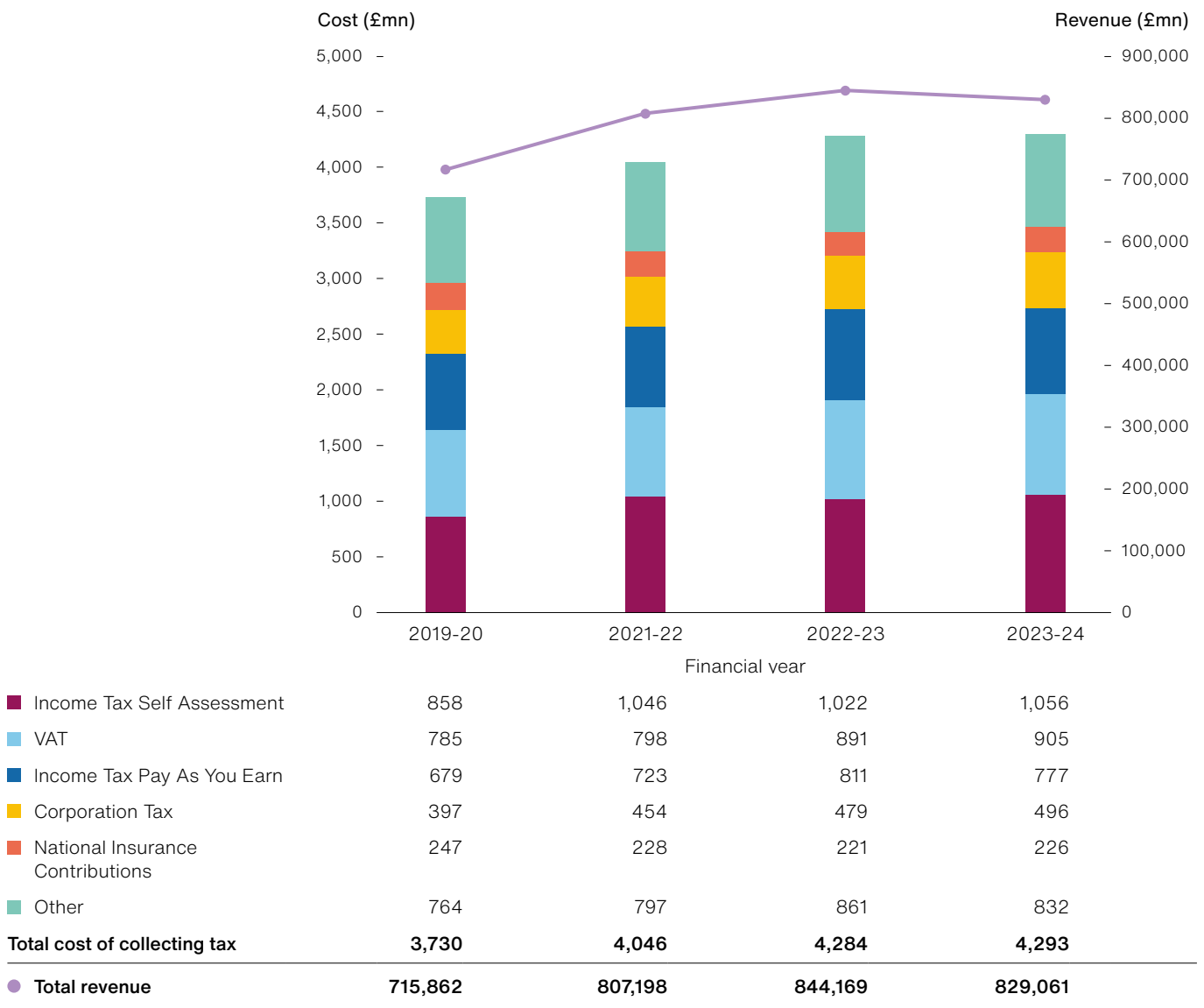


Figure 5 *continued*

Real-terms changes in HM Revenue & Customs' (HMRC's) cost of collecting taxes and in total tax revenue, 2019-20 and 2021-22 to 2023-24

Notes

- 1 Figure shows separately the four taxes that cost HM Revenue & Customs (HMRC) the most to collect. Separate costs are shown for Income Tax Pay As You Earn and Income Tax Self Assessment. In total Income Tax accounted for 43% of total costs in 2023-24.
- 2 Figure does not include the costs of, and the revenue from, collecting customs duties or 'Import VAT' as these are not included in HMRC's cost of collection metric.
- 3 Costs include staff, digital systems and overheads.
- 4 Figures are in real terms and where necessary have been adjusted to 2023-24 values using the GDP deflator, in order to provide meaningful comparisons over time. See Appendix One for explanation. Not all the values in this figure reconcile back to values in HMRC annual reports for reasons set down in footnote 2 to paragraph 1.5.
- 5 Figure does not include 2020-21 to avoid the administrative burden to HMRC of generating data.
- 6 Components may not sum to total due to rounding.

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

HMRC cost of collection per taxpayer

1.11 HMRC does not use cost per taxpayer as an indicator of its efficiency.

We consider this measure is a helpful indicator of areas where cost increases are not attributable to processing volumes as they are rising at a faster rate than taxpayer numbers, but it needs to be used carefully as it is not a precise measure of efficiency.⁵ We calculated cost per taxpayer for those main taxes where HMRC had sufficient data on taxpayer numbers.

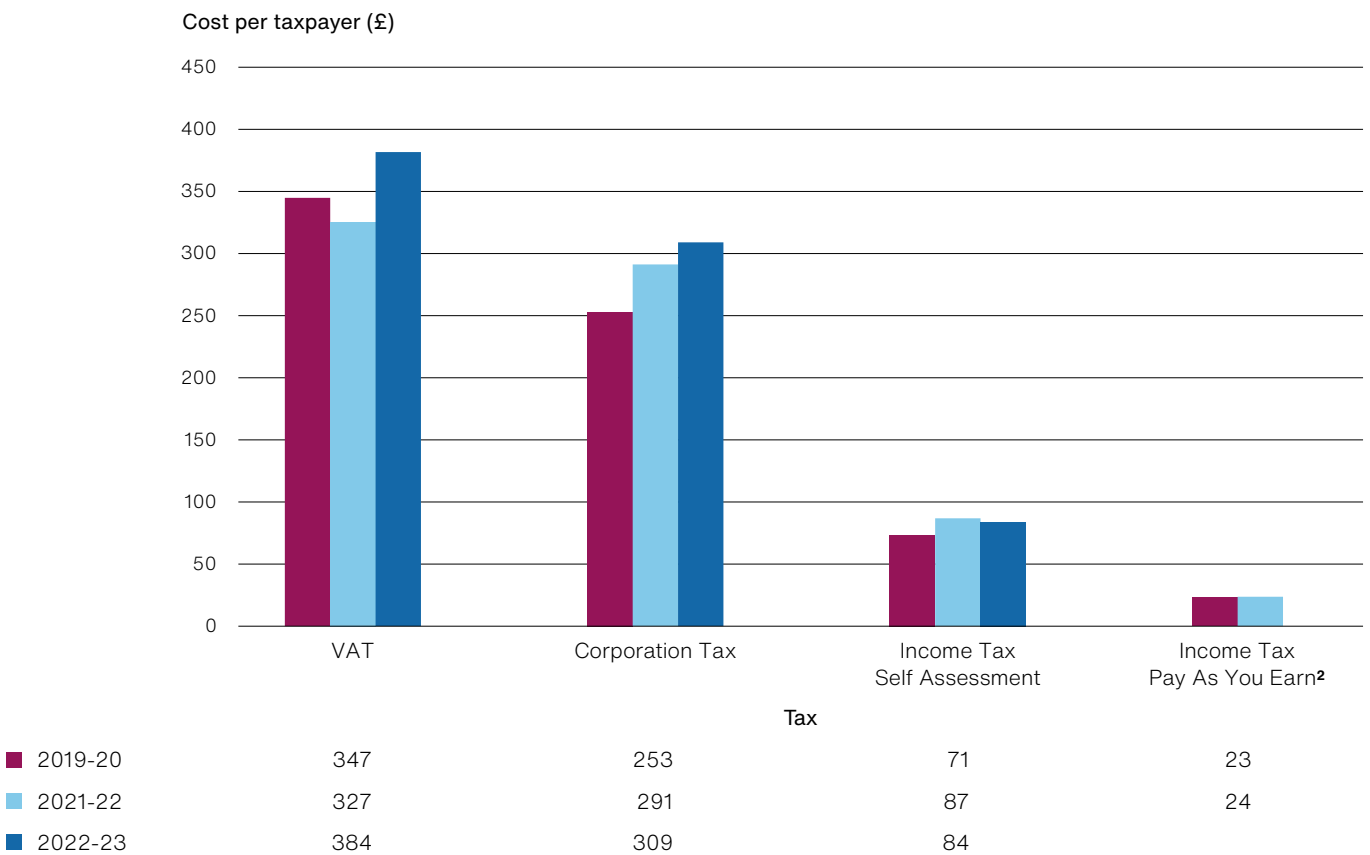
1.12 **Figure 6** overleaf shows that, between 2019-20 and 2022-23, the cost per taxpayer rose for Corporation Tax (22%), Self Assessment (18%) and VAT (11%). The number of taxpayers for these taxes did not change significantly over this period. For PAYE, the number of taxpayers grew at 5% for the part of the period for which taxpayer data is available (i.e. to 2021-22), with the total cost of the tax increasing at 6%. For VAT, Self Assessment, and Corporation Tax around two-thirds of cost per taxpayer in 2023-24 was due to compliance.

5 In particular, HMRC activity can take place before, in, or after the year of the related tax liability.

Figure 6

Real-terms changes in cost of collection per taxpayer for selected taxes, 2019-20 and 2021-22 to 2022-23

Costs per taxpayer grew substantially over the period for all main taxes where HM Revenue & Customs (HMRC) had data on taxpayer numbers, with the exception of Income Tax Pay As You Earn



Notes

- 1 HM Revenue & Customs (HMRC) did not have sufficient data on taxpayer numbers for National Insurance Contributions to calculate cost per taxpayer. For VAT, values are based on the total cost of 'Import VAT' and 'Home VAT' as HMRC does not have data on the number of VAT traders who only paid 'Home VAT'.
- 2 For most taxes, this figure covers the period to 2022-23 as HMRC had yet to report taxpayer numbers for 2023-24 for two taxes, in part because some tax returns for 2023-24 were not due until 2025. For Income Tax Pay As You Earn data on taxpayer numbers were only available to 2021-22. Figure does not include 2020-21 to avoid the administrative burden to HMRC of generating cost data.
- 3 Taxpayer numbers for Corporation Tax are for those who had a tax liability. For VAT it is the number of traders who submitted a return independent of whether there was a liability and independent of who ultimately bears any liability, as it will be typically passed onto consumers. For Income Tax Self Assessment, it is the numbers who were due to submit a tax return. For Income Tax Pay As You Earn, numbers are for those who paid Income Tax through PAYE. Due to differences in the basis of taxpayer numbers, it is not possible to make a like-for-like comparison of cost per taxpayer between different taxes.
- 4 Costs are in real-terms and have been adjusted to 2023-24 values using the GDP deflator, in order to provide meaningful comparisons over time. See Appendix One for explanation.

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

1.13 HMRC has not analysed reasons for variations in the cost of collection per taxpayer for different taxes. We consider factors are likely to include:

- the risk of non-compliance and the scope and cost of approaches HMRC can adopt to address non-compliance. The complexity of a tax and taxpayer circumstances can increase what HMRC needs to do to check returns and address non-compliance. For example, the Corporation Tax return has 985 boxes;
- the underlying productivity of HMRC's administration and the level of automation and digitalisation;
- the design of the tax, including:
 - the role of agents and other intermediaries in collecting tax (such as employers for PAYE) which can reduce HMRC costs;
 - the frequency of tax returns (for example, most traders submit VAT returns quarterly); and
- whether HMRC is assessing or making major changes to the design of a tax as this will increase costs from its policy and design business group.

HMRC estimates of the administrative costs of the tax system to businesses and individuals

1.14 HMRC estimates the administrative burden the tax system imposes on business. HMRC's current estimate is that complying with the tax system costs businesses £15.4 billion a year.⁶ Of the total estimated costs over one-third of the burden (£5.4 billion) falls on VAT traders. HMRC uses a standard cost model (SCM) to calculate the time and cost necessarily incurred by compliant UK businesses in retaining information and/or sending it to HMRC or a third party to meet around 2,500 obligations across 27 policy areas. The £15.4 billion estimate is made up of:

- £6.6 billion of the cost is fees paid to agents, accountants and other intermediaries;
- £4.5 billion of acquisition costs (such as new software and postage); and
- £4.3 billion of internal costs (the cost of staff carrying out the administrative work).

⁶ This model also includes the £3.1 billion costs of compliance with the customs tax area, which are outside the scope of this report.

1.15 HMRC acknowledges that its estimate does not cover all taxpayer obligations, which means that it under-estimates costs. HMRC told us that research into time taken by businesses in tax administration and the number of businesses has not been updated in most cases since 2015.⁷ HMRC is planning to update estimates and conduct research in 2025 to partially update its model. HMRC told us that it has updated costs for businesses to reflect increased acquisition costs, wage rates and agents' fees but not since 2015 for wider tax system changes. The costings are incomplete in a number of areas, including: time taken when businesses are unsure what to do including whether a compliance requirement applies; time correcting errors; and transitional one-off costs of complying with new policy or systems. Some work-arounds are employed to compensate for this. In addition, the effect of some key developments, such as the introduction of Making Tax Digital has not been incorporated into the model.

1.16 HMRC does not maintain a model like the SCM to estimate the cost impact of tax changes on individuals (or charities). HMRC makes use of a 'total cost to serve' calculator to assess the impact on individual taxpayers of interactions with HMRC. HMRC guidance states that this allows it to assess whether it has the right balance of work between HMRC and customer. HMRC currently calculates the cost of customer time as £18.66 per hour, based on 2022 Office for National Statistics wages data. It told us that it will update the calculation in 2025.

HMRC's measurement of cost impact of policy changes

1.17 When HM Treasury and HMRC amend tax policy in Finance Bills following major fiscal events, or through other legislation, they publish a Tax Impact and Information Note (TIIN).⁸ Among other things the TIIN sets out the impact of the change on the Exchequer, the economy, individuals, businesses and civil society organisations. These impacts are assessed by the relevant policy teams within HMRC, with expert input as necessary. The SCM is used as the basis for calculating business impacts, with updates to the assumptions used and data where the SCM is considered out of date. Estimates of impacts on businesses and individuals are not subject to external oversight in the way that the Regulatory Policy Committee oversees the government's Regulatory Impact Assessments.

⁷ In 2023 the number of UK businesses was around 166,000 (3%) higher than in 2015.

⁸ The government publish TIINs for tax policy changes when the policy is final or near final.

1.18 We reviewed the 240 TIINs published between 2022 and 2024. The TIIN will indicate whether there is none, negligible or significant impact. HMRC identified 16 as having a significant financial impact on businesses and has so far provided estimates for 13 of these.⁹ HMRC identified implementation costs of £715 million from six TIINs, ongoing costs of £224 million from seven, and ongoing savings of £26 million from five, giving a net increase of £913 million. Of this, £757 million (83%) is attributable to the cost to businesses of the introduction of Making Tax Digital for Income Tax Self Assessment. HMRC assessed the rest (224) as having negligible costs. HMRC Internal Audit identified in 2021 that many measures were identified as having ‘negligible impact’ on customers but that these could have a significant cumulative effect. It recommended that teams should examine how this cumulative impact could be captured to give a more complete record of customer costs. Two of the TIINs provided a quantified financial impact of the change in administrative burden on individuals, although others expected an impact on hundreds of thousands or millions of individual taxpayers as a whole. Stakeholders told us that there were instances of estimated impacts on individuals in TIINs which were significant under-estimates of the costs actually incurred.¹⁰

1.19 HMRC told us it has started to monitor internally the net change in ongoing business costs from fiscal event measures, which would allow it to evaluate the accuracy of its impact assessments. It reports these internally but it has yet to decide whether to report these publicly.

9 A significant impact should be quantified. A significant impact is one where the impact is above £100,000 annually or £5 million as a one-off cost or saving.

10 A quantitative impact should be shown when:

- each individual’s one-off cost to comply is greater than two hours (cost equivalent £30);
- each individual’s annual cost to comply is greater than one hour (cost equivalent £15); and
- the total affected population had one-off and annual costs exceeding £7.5 million a year.

Part Two

The main cost pressures affecting the tax system

2.1 HM Revenue & Customs faces a range of pressures on costs including the need to keep the tax system up to date; cope with demographic changes and support taxpayers to comply; adopt new technology; and tackle threats to revenue. Inflation also impacts on HMRC's costs (we have adjusted cost data to 2023-24 prices to allow for this).

2.2 In this part of the report we consider the impact of the following factors on HMRC's costs:

- Factors affecting costs wholly or partly external to HMRC;
- HMRC's input costs;
- Changes in HMRC's costs of tax administration over time; and
- Changes in the costs of HMRC's operational business groups.

We have examined HMRC data to identify the underlying causes of changes in the constituent elements of HMRC's administrative cost of collecting taxes. We are not aware of any assessments carried out by HMRC on scope for cost reductions and the reasons for variations in costs between taxes.

Factors affecting costs wholly or partly external to HMRC

Impact of tax policy changes on the complexity of the tax system

2.3 The tax system is becoming increasingly complex and costly to administer. Changes to tax policy are made by HM Treasury, with advice from HMRC. Changes to tax policy and processes can increase HMRC's administrative costs. As we described in paragraph 1.17, the government sets out the estimated impacts of tax policy changes in Tax Impact and Information Notes (TIINs). Between 2022 and 2024 there were 240 TIINs outlining changes which HMRC estimated would increase its costs by an estimated cumulative total of around £875 million – a mix of one-off and ongoing costs. Some £500 million (57%) of the increase was due to the cost of introducing and running Making Tax Digital for Income Tax Self Assessment. None of the changes were expected to reduce HMRC's costs.

2.4 The TIINS indicate a gradual increase of HMRC's running costs over time as the tax system becomes more complex. However, the TIINs may understate the position as some had under-estimated the impact of changes on HMRC. For example, the November 2022 TIIN covering the freezing of Income Tax thresholds for 2027-28 estimated minimal cost impact on HMRC, despite the freeze intending to increase the numbers brought into Income Tax or paying higher rates of Income Tax. Similarly, the March 2021 TIIN covering the initial freezing of thresholds from 2022-23 had assessed there would be no operational impacts on HMRC.

Changes in the numbers of taxpayers

2.5 HMRC is dealing with increasing numbers of Income Tax payers and increasing demand as a result (for example customer enquiries and processing tax returns). The number of Income Tax payers has increased from 31.7 million in 2020-21 to 36.2 million in 2023-24, a 14% increase. This is due to the freezing of Income Tax thresholds since April 2022 and population and employment growth.

2.6 The additional Income Tax payers have created a cost pressure for HMRC, particularly for Customer Services Group. HMRC expects around 700,000 people to be first-time Self Assessment filers in 2024-25, and these people may seek reassurance or require additional support.¹¹ HMRC did not have the data to enable us to estimate the cost pressure created by changes in taxpayers.

2.7 With Income Tax bands frozen up to and including 2027-28 HMRC will continue to face cost pressures from rising taxpayer numbers. In March 2024 the Office for Budget Responsibility estimated a further 1.6 million taxpayers will be brought into Income Tax between 2024-25 and 2027-28 as a result of tax band freezes.

HMRC's input costs

Staff costs

2.8 HMRC is now a much smaller department than when it was first created in 2005 when it had just under 100,000 full-time equivalent (FTE) staff. At March 2024, HMRC had 62,971 FTE staff in total. In 2023-24, HMRC estimates that 57,514 of its FTE staff administered tax (up 6% on 2019-20). Staff administering tax cost £3.3 billion in 2023-24, around three-quarters of the total cost of tax collection. Staff costs were up 9% in real terms on 2019-20.

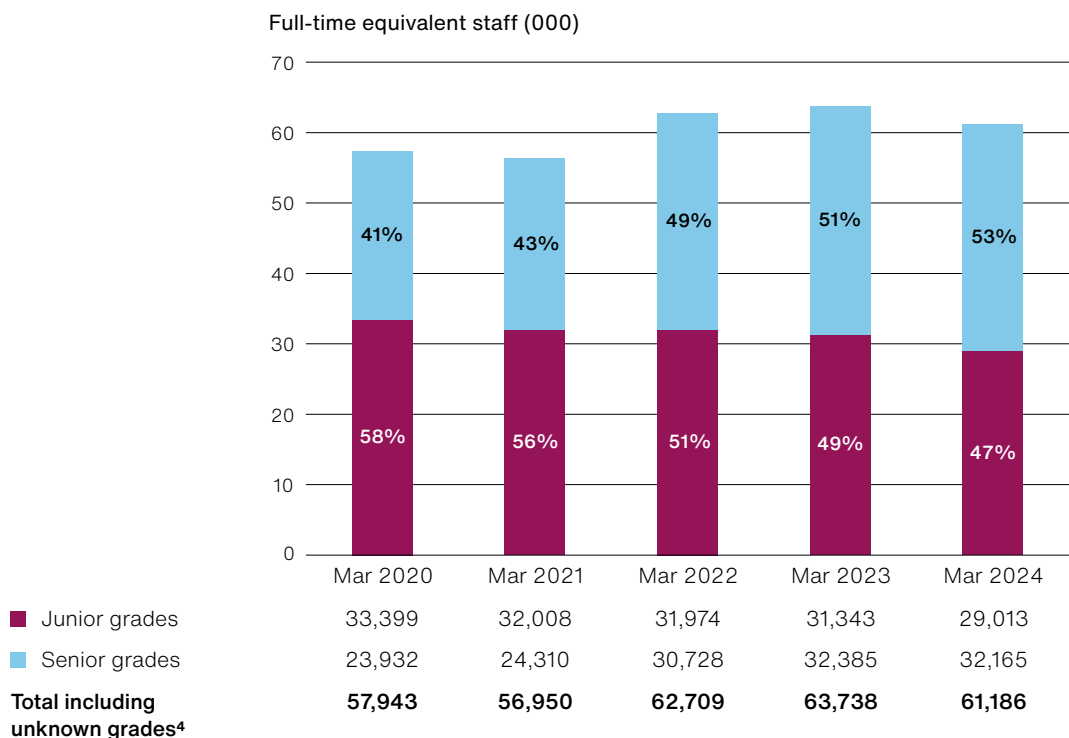
2.9 We examined data on the seniority of all HMRC's permanent staff as it does not have separate data on the grade mix of those staff administering tax. HMRC's permanent staff numbers rose between March 2020 and March 2022 before declining, but remain above March 2020 levels (**Figure 7** overleaf).

¹¹ These people are due to file in 2024-25 tax returns for the 2023-24 tax year.

Figure 7

Number of HM Revenue & Customs' (HMRC's) staff by grade, March 2020 to March 2024

HMRC's permanent workforce increased by 6%, with over half of these staff in higher grades by March 2024



Notes

- 1 Staff numbers are for full-time equivalent permanent staff. Including non-permanent staff would increase the total for March 2020 to 58,403 and for March 2024 to 62,971, an increase of 8%.
- 2 Junior grades comprise administrative assistants, administrative officers and executive officers.
- 3 Senior grades include all grades from higher executive officers up to and including senior civil servants. Less than 1% of HM Revenue & Customs' staff were senior civil servants in March 2024.
- 4 Chart does not show the number of staff whose grade was 'not known', which was at its highest (632) in March 2021.
- 5 Percentages may not sum to 100%, see note 4.

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

2.10 HMRC has been moving towards a more highly-skilled, and therefore better paid, workforce, for example in compliance and digital work, which has necessitated a change in the balance of staff between grades. Between March 2020 and March 2024, the percentage of HMRC staff in the three lowest grades fell by 11 percentage points to 47%, and those in higher grades rose to 53% (Figure 7). We estimate that the change in grade mix increased HMRC's salary costs by over £100 million in 2023-24.¹² HMRC told us there were two main factors affecting its grade mix:

- There was a reduction in frontline customer service workforce, most of whom were in lower grades, and an increase in those in senior grades developing digital systems. Between 2019-20 and 2023-24 there had been an 1,800 (9%) reduction in frontline customer service workforce.
- In July 2020 we reported that HMRC had reduced its compliance resources in several areas, including small business compliance, in response to funding constraints.¹³ In 2021-22, Customer Compliance Group (CCG) recruited mainly senior staff, including for casework and increased activity funded through fiscal events. In response to increased funding in Spending Reviews in 2020 and 2021, overall compliance staff numbers have increased from around 23,000 between 2015-16 and 2019-20 to over 27,000 by 2023-24.

Digital costs

2.11 Investment in digitalisation is a key plank of HMRC's strategy for modernising the tax system. HMRC has one of the largest and most complex IT estates in the UK and, like other government departments, it faces a significant challenge to modernise its IT infrastructure to keep pace with changing technology.¹⁴ HMRC's digital expenditure on tax comprises the cost of running its existing digital tax systems and digital spending within HMRC change programmes to modernise and transform its tax systems. We discuss HMRC's future digital tax-related costs in Part Three.

¹² Estimate does not include employer National Insurance Contributions and pension contributions.

¹³ Comptroller and Auditor General, *Tackling the tax gap*, Session 2019–2021, HC 372, National Audit Office, March 2020, paragraph 18.

¹⁴ In 2023 we found that the extent of legacy systems across government is huge and departments are finding defining and identifying them a challenge. Historic neglect and lack of asset management and maintenance has added to the difficulty. Comptroller and Auditor General, *Digital transformation in government: addressing the barriers to efficiency*, Session 2022-23, HC 1171, National Audit Office, March 2023, Figure 2.

2.12 HMRC does not track how much of its digital costs are incurred maintaining and updating legacy tax systems, some of which are over 30 years old. We reported in 2020 that HMRC recognised the state of its IT systems as a significant risk, due to the postponement of operational maintenance and systems upgrades to secure cost savings.¹⁵ The government provided additional funding in Spending Review 2020 to improve the agility, resilience and security of HMRC's existing IT estate. HMRC's change programmes include tax-related digital programmes to develop new systems and services, and remediate and modernise its legacy IT. HMRC estimate IT-related costs associated with tax-related major digital change programmes were £482 million in 2023-24.¹⁶ Three of HMRC's eight most costly tax-related digital programmes in 2023-24 involved remediation of legacy systems. By March 2023 these programmes had seen whole-life costs increase by between 60% and 390%, with their life extended by between 21 months and 36 months as their scope changed.¹⁷ One of the programmes – Securing our Technical Future – included migrating HMRC's critical IT services onto new platforms. The programme, which is now closed, cost more than initially expected and has underdelivered due to unforeseen technical complexities and some funding in 2023-24 being moved to higher priorities. HMRC reported that, by March 2024, 372 of 545 services had been successfully migrated and 49 had been remediated.

2.13 The day-to-day cost of running HMRC's digital tax systems is increasing. It cost HMRC's digital business group £785 million in 2023-24 to run digital systems to collect tax, up 18% (£122 million) in real terms between 2019-20 and 2023-24. HMRC told us that one of the reasons for the increase was that it was providing more digital tax services, and its digital tax services were used by more customers, which increased costs of maintaining services, including hosting, storage, and ongoing service management. Other reasons were: higher costs of supporting its old legacy tax systems, as those with the necessary expertise become increasingly scarce; higher supplier costs; and the cost of increasing complexity, including cybersecurity.

2.14 In 2023-24, the costs of HMRC's digital business group accounted for between 17% and 22% of the total costs of collection for Income Tax and the three other main taxes. Digital costs grew most quickly between 2019-20 and 2023-24 on Corporation Tax (44% in real terms, adding £27 million), Income Tax Self Assessment (25%, £38 million) and VAT (20%, £26 million). In 2023-24, the digital costs of compliance activity accounted for the majority of these taxes' digital costs. In contrast, digital costs of Income Tax Pay as You Earn (PAYE) and National Insurance Contributions were mainly linked to customer service which is likely to reflect that these taxes have high numbers of taxpayers and a lower than average tax gap, meaning that HMRC needs to do comparatively less compliance work.

15 Comptroller and Auditor General, *Report by the Comptroller and Auditor General*, published alongside the 2019-20 Accounts, HC 891, November 2020, paragraph 2.40.

16 HMRC told us all IT change activity is effectively tax related with some of it also supporting other HMRC functions such as paying benefits.

17 Latest published data as at December 2024, available at: <https://www.gov.uk/government/publications/infrastructure-and-projects-authority-annual-report-2022-23>

How HMRC's main business activities have contributed to changes in the cost of tax collection

2.15 HMRC's two operational business groups – those leading on customer compliance and customer service – accounted for 86% of HMRC's 2023-24 total cost of tax collection, when their staff costs, digital costs and share of overheads are included. We set out in **Figure 8** overleaf how the costs of collection are distributed between its operational and policy business groups. The costs shown are based on the staff costs of business groups, and HMRC's attribution of digital costs (based on use) and overheads (based on staff numbers) to these groups. We then discuss the costs of customer compliance and customer service in more detail.

2.16 Figure 8 shows the dominant role of Customer Services Group and Customer Compliance Group in HMRC's overall costs of tax collection. While the costs of HMRC's design and policy-related business group have increased in cost at the fastest rate (62%) since 2019-20, it added less (£143 million) to total costs than Customer Compliance Group (£350 million). Across these three business groups, most of the cost increases were for non-digital elements, primarily staff. A more detailed analysis of how costs have changed for each of the main taxes is presented in Appendix Two.

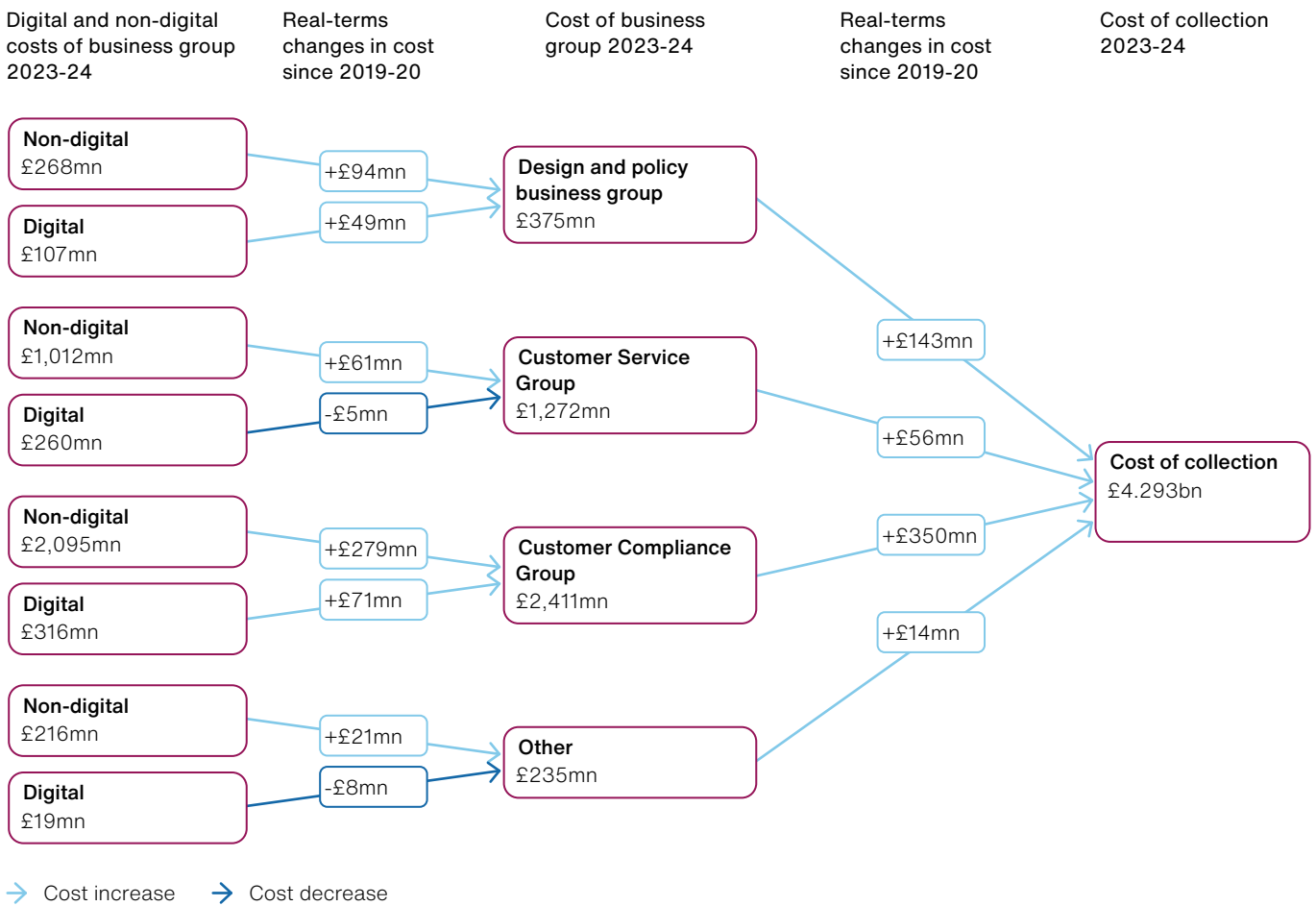
Existing efforts to reduce costs through government efficiency targets

2.17 Despite the cost increases in Figure 8, like most departments, HMRC was set stretching efficiency targets in the 2021 Spending Review, and these were increased further in 2022. Efficiency targets are a direct way for HMRC to address unnecessary cost and inefficiency. HMRC has reported it achieved 93% (£497 million) of its target of £536 million of savings by 2023-24 (see **Figure 9** on page 33), of which £111 million were one-off savings. The chief financial officer, compliance, customer service and digital business groups were allocated the majority of savings. The 2024-25 savings target represents an increase of one-third on the 2023-24 target – most notably an increase of 88% for the Customer Services Group.

Figure 8

Main contributors to overall HM Revenue & Customs (HMRC) costs of collecting taxes, 2023-24, with real-terms changes since 2019-20

The HMRC business groups leading on customer compliance and customer service accounted for 86% of total costs in 2023-24; when their share of overheads and digital costs are included. Customer Compliance Group accounted for 62% of the total real-terms cost increase of £563 million over the period



Notes

- 1 Non-digital costs are staff and also the operational and policy business groups' share of overheads. Digital costs are incurred by HMRC's digital business group and reallocated to HMRC's operational and policy business groups. The inclusion of digital costs and overheads, means the costs we have calculated exceed those reported by HMRC in its Annual Accounts for the cost of its business groups leading on customer service, customer compliance and design and policy.
- 2 Of the £61 million increase in the non-digital costs of customer services, £49 million relate to costs of debt management and recovery.
- 3 Components may not sum to total due to rounding.

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

Figure 9

Sustainable efficiency savings and one-off savings against target, 2023-24, and the 2024-25 target

HM Revenue & Customs (HMRC) achieved 93% of targeted savings in 2023-24; that target has increased by one-third in 2024-25

Business group	2023-24 target (£mn)	2023-24 achieved (£mn)	2024-25 target (£mn)
Chief Financial Officer	148.9	166.9	194.7
Customer Compliance Group	119.9	125.8	150.4
Chief Digital Information Officer	139.7	110.6	173.8
Customer Services Group	74.9	47.7	140.8
Other	52.6	45.9	59.6
Total	536.0	496.8	719.3

Notes

- 1 Components may not sum to total due to rounding.
- 2 Savings include tax and non-tax related activities.

Source: HM Revenue & Customs

2.18 The business group that registered the highest savings was the Chief Financial Officer's (£167million) resulting largely from HMRC's programme of rationalising accommodation into regional hubs and other accommodation savings. Significant shortfalls against target came from the following segments:

- **Customer service.** We reported in May 2024 that efficiency targets had put pressure on HMRC's customer service budget, and that additional required savings were allocated to customer services activities instead of compliance work.¹⁸ Contributory factors to the shortfall included a failure to return productivity to pre COVID-19 levels (see paragraph 2.20).
- **Digital.** The Securing our Technical Future programme was intended to 'stabilise' HMRC's current IT estate by migrating services to modern platforms and improving the estate's resilience (paragraph 2.12). In the event HMRC reduced the scope of the programme because of wider financial constraints, reducing its benefits and also planned savings through the related Our Future Chief Digital Information Office programme.

¹⁸ Comptroller and Auditor General, *Customer service: HM Revenue & Customs, Session 2023-24, HC 726*, National Audit Office, May 2024.

Customer service

2.19 In 2023-24, the cost of serving taxpayers was £1.27 billion including Customer Services Groups’ staff and share of overheads and digital costs (30% of HMRC’s total tax collection costs and an increase of 5% since 2019-20). Income Tax (PAYE and Self Assessment combined) accounted for 66% (£838 million) of customer service costs in 2023-24 (**Figure 10**). In the period 2019-20 to 2022-23, increases in the cost of customer service for Corporation Tax and VAT were driven by increases in the average cost of serving each taxpayer (24% for Corporation Tax and 16% for VAT). Over the same period, the average customer service cost per Income Tax Self Assessment taxpayer reduced by 11%.

Figure 10

Real-terms customer service costs by main tax, 2019-20 and 2021-22 to 2023-24

The costs of customer service have increased over the period for VAT, Income Tax Self Assessment and Corporation Tax and fallen marginally for National Insurance Contributions and Income Tax Pay As You Earn



Notes

- 1 Costs include Customer Compliance Group’s staff, its share of overheads and digital costs.
- 2 Figures are in real terms and where necessary have been adjusted to 2023-24 values using the GDP deflator, in order to provide meaningful comparisons of performance over time. See Appendix One for explanation.
- 3 Figure does not include 2020-21 to avoid the administrative burden to HMRC of generating data.

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

2.20 Poor customer service performance creates additional cost for HMRC and taxpayers. In May 2024 we reported that HMRC had not achieved any of its performance targets for telephone and correspondence services since 2018-19 and its performance in answering calls continued to decline in 2023-24. HMRC closed some helplines in 2023-24 to save costs, and it planned further reductions in 2024-25 but reversed its decision following stakeholder criticism.¹⁹ In 2023-24 taxpayers who got through to an adviser spent the equivalent of 805 years (7.1 million hours) queuing.²⁰ Using £20 an hour to value customer time, we estimate that waiting times imposed costs of around £142 million on taxpayers.²¹ HMRC's call-handling performance has since improved following an additional £51 million for 2024-25 to improve its phone services, but performance for the year will be below target.

2.21 HMRC last achieved a target for handling correspondence in 2018-19 and performance declined markedly during the pandemic, with only 45.5% of HMRC's responses provided within 15 working days in 2021-22 (target: 80%). HMRC has since improved its performance and reduced the stock of priority correspondence needing a response from a peak of two million items in September 2021 to one million in February 2024.

HMRC's compliance work: costs and returns on investment

2.22 Compliance work helps to reduce the difference between taxes theoretically owed and those actually paid (the 'tax gap') resulting from accidental or deliberate failure of taxpayers and their representatives to pay the right amount of tax. HMRC's Customer Compliance Group (CCG) contains the operational directorates that deal directly with non-compliance.

Compliance cost

2.23 In 2023-24, CCG's work on tax cost £2,411 million including staff costs, its share of overheads and digital costs (56% of HMRC's total cost of tax collection). CCG's costs have risen by a sixth (£350 million) in real terms since 2019-20. The increase was driven by the increased investment in compliance work on Income Tax, VAT and Corporation Tax (**Figure 11** overleaf). Together these taxes accounted for 75% of total compliance costs of tax collection in 2023-24. For VAT, Income Tax Self Assessment and Corporation Tax, increases were driven by an increase in CCG's compliance cost per taxpayer.²²

19 Comptroller and Auditor General, *Customer Service: HM Revenue & Customs*, Session 2023-24, HC 726, National Audit Office, May 2024, paragraphs 8, 17, 18 and 1.15 and Figure 2. See: *Customer service* (nao.org.uk).

20 This estimate does not include the additional time callers initially spent listening to automated messages or the time spent by those callers who did not get through to an adviser.

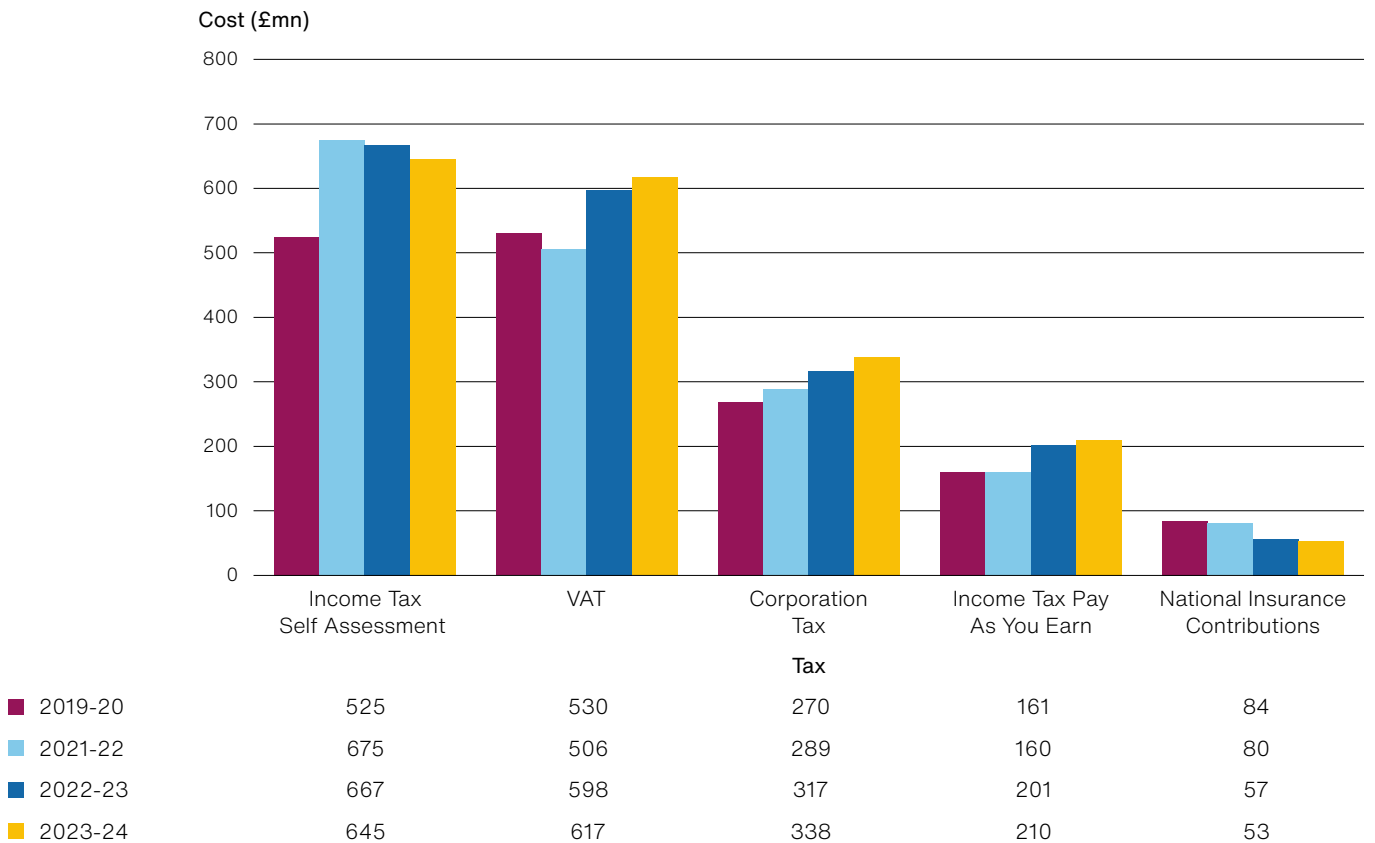
21 £20/hour based updating HMRC's estimate of £14.20/hour to 2023-24 prices, using the GDP deflator. See: HM Revenue & Customs, *Costing Customer Time – Research Paper*, HMRC Working Paper No 8, January 2010.

22 Position for Income Tax PAYE is unclear as the costs started to rise from 2022-23 and we do not have taxpayer numbers for that period.

Figure 11

Real-terms customer compliance costs by main tax, 2019-20 and 2021-22 to 2023-24

The cost of compliance work on Income Tax Self Assessment, VAT, Corporation Tax and Income Tax Pay As You Earn increased in total by £325 million over the period. The cost of compliance work on National Insurance Contributions declined

**Notes**

- 1 Costs include Customer Compliance Group's staff, its share of overheads and digital costs.
- 2 Figures are in real terms and where necessary have been adjusted to 2023-24 values using the GDP deflator, in order to provide meaningful comparisons of performance over time. See Appendix One for explanation.
- 3 Figure does not include 2020-21 to avoid the administrative burden to HMRC of generating data.

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

Compliance yield

2.24 HMRC's main measure of the performance of its compliance work is through tracking compliance yield arising from its interventions.²³ In December 2022, we reported that HMRC's compliance work offers good value for money.²⁴ CCG's work generated £34.7 billion of compliance yield in 2023-24, 83% of HMRC's total compliance yield of £41.8 billion. HMRC achieved its overall compliance yield target for 2023-24 (£40.5 billion) set for it by HM Treasury. Compliance yield returned to around 5% of tax revenues in 2023-24, having dipped during the COVID-19 pandemic. This proportion of yield is similar to most years before the pandemic, apart from 2018-19 and 2019-20 where levels were boosted by the settlement of some exceptionally large cases (**Figure 12** overleaf).

2.25 The return from CCG's compliance activities in 2023-24 started to rise after declining during the COVID-19 pandemic. CCG's ratio of yield to the cost of every £1 spent on its compliance workforce was 24:1 in 2019-20, boosted by an exceptionally large settlement. The ratio was 22:1 in 2023-24. The ratio excludes overheads and the running costs of digital systems supporting compliance staff.

Upstream and downstream compliance

2.26 Upstream activities aim to prevent non-compliance and promote compliance, enabling customers to get their tax right at the earliest possible opportunity. Upstream activities can remove opportunities and incentives to make mistakes, to bend or break the rules, or to attack the tax system. Some upstream activities are undertaken by CCG but others – such as those seeking to improve compliance through policy and tax system changes, for instance Making Tax Digital – are undertaken by HMRC's other business groups. We reported in 2022 that HMRC's strategy has been to move its compliance work upstream.²⁵ Upstream yield accounted for 33% of all 2023-24 yield, up from 22% in 2019-20 and from 5% in 2014-15 (see **Figure 13** on page 39). HMRC considers upstream activities are generally more cost effective than downstream and can be the only way to tackle some risks, such as sectors where there is a high level of low-value non-compliance.²⁶ We could not calculate a rate of return on CCG's upstream compliance activities by tax or in total from HMRC data.²⁷

23 HMRC defines compliance yield as the revenue collected and protected that would otherwise have been lost to the Exchequer if not for its interventions. See HMRC, *HMRC compliance yield: technical note*, available at: <https://www.gov.uk/government/publications/hmrc-annual-report-and-accounts-2023-to-2024-technical-notes/hmrc-compliance-yield-technical-note>, 30 July 2024.

24 Comptroller and Auditor General, *Managing tax compliance following the pandemic*, Session 2022-23, HC 957, National Audit Office, December 2022.

25 Comptroller and Auditor General, *Managing tax compliance following the pandemic*, Session 2022-23, HC 957, National Audit Office, December 2022, paragraph 1.5.

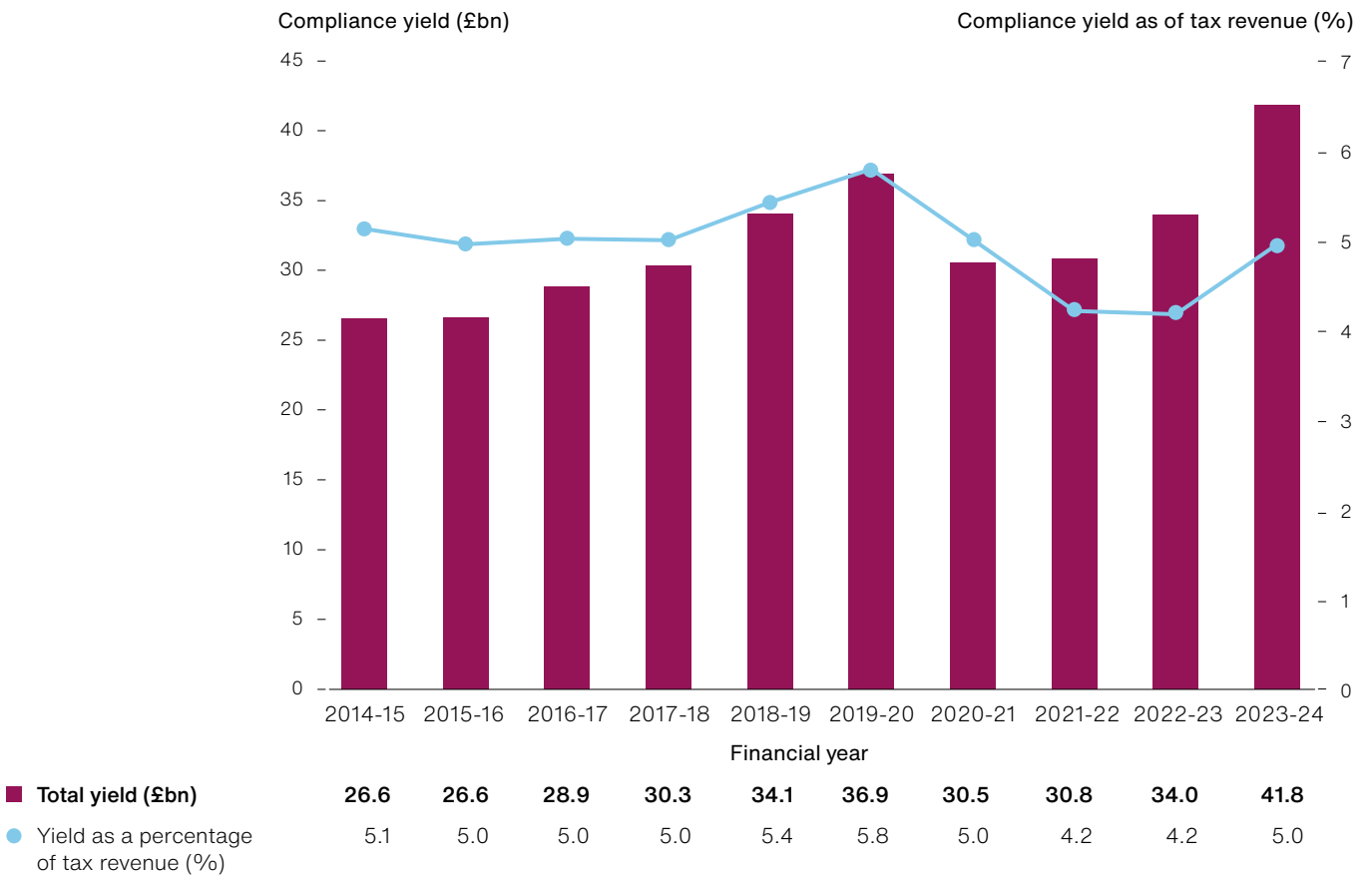
26 There are some upstream activities that involve contact with individual taxpayers – such as calling someone before they file a return – which are likely to be no more cost effective than a downstream intervention.

27 Customer Compliance Group does not separately track the costs of its upstream activities. CCG is organised by customer group with staff primarily working on a particular group and thus it can calculate a return by customer group, which covers both upstream and downstream activities.

Figure 12

Compliance yield compared with total tax revenue between 2014-15 and 2023-24

Compliance yield as a proportion of total tax revenue fell following the COVID-19 pandemic but increased in 2023-24



Notes

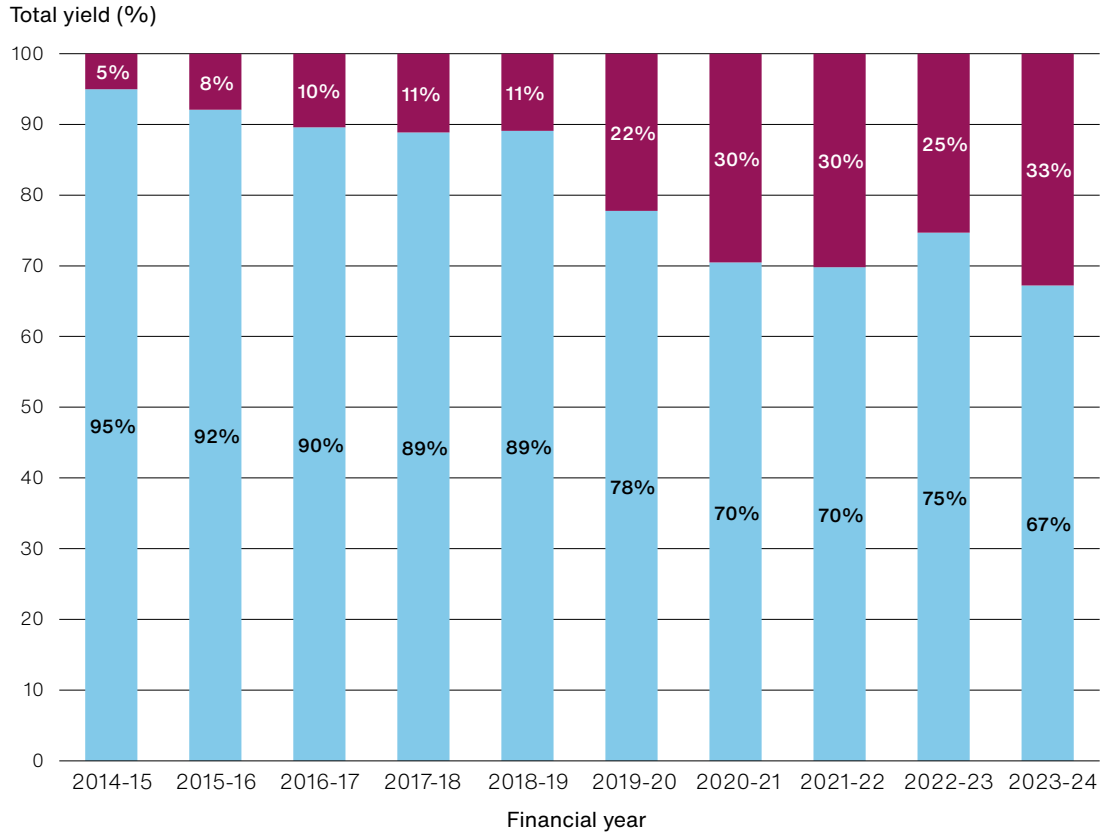
- 1 To illustrate how compliance yield performance has changed over time, we show yield as a proportion of total revenues. Unlike in most other figures in this report, data are therefore shown in nominal terms (rather than real terms) so as to align with conventional reporting of tax revenues.
- 2 The yield values for 2018-19 and 2019-20 include two unusual and exceptionally large cases.

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

Figure 13

Split in HM Revenue & Customs' (HMRC's) compliance yield between upstream and downstream, 2014-15 to 2023-24

The proportion of HMRC's total compliance yield classed as upstream yield has increased



	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Upstream yield (£bn)	1.3	2.1	3.0	3.4	3.7	8.2	9.0	9.3	8.6	13.7
Downstream yield (£bn)	25.2	24.5	25.8	26.9	30.4	28.7	21.5	21.5	25.4	28.1

Notes

- 1 Compliance yield represents the financial benefit to the Exchequer from HM Revenue & Customs' (HMRC's) compliance activity.
- 2 Upstream compliance activity includes actions to prevent non-compliance before it occurs, such as legislative changes to close tax loopholes, and changes to HMRC's processes that reduce opportunities to avoid or evade tax.
- 3 Downstream compliance activity includes activities to address non-compliance after it has occurred, such as investigations and audits.
- 4 Unlike in most other figures in this report, yield values are shown in cash terms (rather than real terms) so as to align with conventional reporting of tax revenues and the values used in Figure 12.

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

2.27 The number of downstream compliance cases worked by HMRC has declined. We reported in December 2022 that HMRC's strategy to focus increasingly on upstream compliance and prioritise higher-impact cases meant downstream case numbers had declined before 2020. During the COVID-19 pandemic there were further reductions in opened and closed downstream cases, partially due to tax compliance staff being redeployed to COVID-19 support schemes and HMRC recognising pressures on taxpayers, and offering them the option to pause enquiries.²⁸ In 2023-24, CCG opened 311,000 new cases, 14% lower than 2019-20, despite the increased investment in tax compliance activities see paragraph 2.10.

The productivity challenge

The legacy of the pandemic

2.28 The level of tax debt stood at £43 billion at the end of 2023-24, lower than the £68.5 billion reported at the height of the pandemic but significantly higher than the pre-pandemic level. HMRC received an additional £303 million in the Autumn Statement 2023 and Spring Budget 2024 to improve its capacity to manage tax debts, including increased staffing. Inflation also ran at much increased levels after the pandemic.

Compliance productivity

2.29 HMRC may be able to hit its compliance targets with CCG's productivity levels remaining below the levels achieved prior to the pandemic. In 2022 we found that CCG's yield per FTE staff member was £1.48 million (2023-24 prices) in the five years prior to the pandemic (2015-16 to 2019-20). Yield in these years included two exceptionally large cases, and if these are removed average returns were £1.41 million. Returns fell to £1.23 million between 2020-21 and 2021-22, and HMRC's forecast at the time was to maintain that level of productivity in the future and in 2023-24 it achieved 1.27 million.²⁹ To close the tax gap, the government is providing HMRC with resources to recruit 5,000 additional staff. In the Autumn Budget 2024 the government said it would raise £6.5 billion of additional tax revenue per year by 2029-30. The 5,000 additional staff will generate £2.7 billion of this by 2029-30, requiring a productivity level of around £0.55 million per each new staff member recruited. HMRC will also need to increase the productivity of existing staff members in order to return to the higher levels of productivity it achieved in the years prior to the pandemic. HMRC considers that raising returns is difficult when it is already working the cases it thinks have the most potential and when it needs to recruit and train large numbers of new staff who will take time to become fully productive.

²⁸ Comptroller and Auditor General, *Managing tax compliance following the pandemic*, Session 2022-23, HC 957, National Audit Office, December 2022, paragraphs 8, 9, and 1.10. Enquiries were not paused in cases where HMRC suspected fraud or criminal activity.

²⁹ Comptroller and Auditor General, *Managing tax compliance following the pandemic*, Session 2022-23, HC 957, National Audit Office, December 2022, Figure 14. The report showed values of £1.30 million (2015-16 to 2019-20) and £1.08 million (2020-21 and 2021-22) at 2021-22 prices. We have adjusted these values to 2023-24 prices using the GDP deflator in order to provide meaningful comparisons with HMRC's performance over time (see Appendix One for explanation). In cash terms, HMRC averaged £1.13 million of yield per FTE between 2015-16 and 2019-20 (or £1.08 million with large cases excluded), and £1.00 million in 2020-21 and 2021-22.

Part Three

Opportunities to improve the cost efficiency of the tax system

3.1 In the report so far, we have identified the costs of different parts of the tax system and the areas suffering cost pressures. We will now look at the opportunities and challenges for improving the cost efficiency of tax administration for all parties. In this part of the report we therefore look at:

- HMRC's strategic approach;
- designing cost out of the system;
- distribution of costs between HMRC and customers; and
- improving the operation of HMRC systems.

HMRC's strategic approach

International benchmarking

3.2 HMRC last commissioned consultants to undertake an exercise to benchmark its performance against other tax authorities in 2016. The exercise established that HMRC was a good practice performer in areas such as the skills of employees, speed of processing of tax returns and the effectiveness of its revenue collection operations. Areas in which it performed less well against peers were in taking a single organisational view of the taxpayer, use of IT, the efficiency with which it processed compliance enquiries and their coverage, and the effectiveness of customer service call handling. The consultants identified that compliance performance was a consequence of HMRC's compliance strategy, which prioritised generating yield from areas of greatest risk, rather than maximising coverage of all taxes or the number of enquiries, as was often the case elsewhere.

HMRC's Tax Administration Strategy

3.3 In July 2020 HMRC and HM Treasury published the Tax Administration Strategy (the Strategy) which set out how they would build a modern, trusted tax administration system by 2030.³⁰ Many of its aims will impact on the costs of HMRC and customers. HMRC has measured progress on this Strategy through a series of “strategic measures.” HMRC told us that, following the change of government, it is developing a new strategy. Progress with the Strategy so far has been mixed in the areas relevant to the scope of this report:

- **Prevent the tax gap widening.** HMRC estimated the tax gap had reduced as a percentage of total theoretical tax liabilities to 4.8% (£39.8 billion) in 2022-23 from 5.5% (£36.3 billion) in 2019-20. The government announced in the 2024 Autumn Budget that it wants to reduce the tax gap, and it is targeting an additional £6.5 billion of revenue a year by 2029-30 (paragraph 2.29).
- **Increase the proportion of compliance yield from upstream compliance.** HMRC has increased the proportion of yield from upstream activities to 33% (£14 billion) of total yield in 2023-24, compared with 22% in 2019-20.
- **Gradually increase the trust of taxpayers in HMRC.** Trust is seen as vital for a tax authority to effectively discharge its role, including the willingness of taxpayers to pay the correct amount of tax on time. Since the Strategy was launched, trust has changed as follows:
 - For large businesses trust in HMRC has fallen from 86% in 2020 to 70% in 2023.
 - For medium-sized businesses it has remained stable over that period and was 63% in 2023.
 - For others, measurement started in 2021:
 - a the proportion of individuals with trust in HMRC has fallen from 52% to 47% between 2021 and 2023; and
 - b the proportion of agents with trust in HMRC has fallen from 61% to 49%.
 - c Small businesses' trust decreased from 70% to 65% over that period.³¹

³⁰ HM Revenue & Customs and HM Treasury, *Building a trusted, modern tax administration system*, July 2020.

³¹ HMRC told us that the change for small businesses was not statistically significant, year on year.

- **Have 80% of transactions between HMRC and its customers conducted digitally by 2030.**³² We reported in May 2024 that around 60% of customer transactions are now carried out digitally. There was a small fall (£9million, 2%) in the real-terms post and telephony costs for five taxes between 2019-20 and 2023-24.³³
- **Reduce the cost of running the tax system.** As set out in paragraph 1.6, the cost of running the tax system, and specifically the total cost of collecting taxes, has increased by £563 million since 2019-20.

Designing costs out of the system

3.4 All parties acknowledge that the tax system has become increasingly complex over time and this drives costs within HMRC, and externally. In 2021 HM Treasury wrote that “unnecessary complexity within a tax system increases the costs of complying with tax rules for taxpayers and their representatives... This in turn has the potential to erode trust in the tax system [and] create a bigger tax gap due to accidental non-compliance...”³⁴

3.5 Simplification can happen in two areas:

- **Rules that establish an obligation to pay tax and are laid down in legislation.** Decisions on tax rules ultimately rest with ministers, informed by advice from HM Treasury and HMRC. The UK tax code is criticised for its length. The situation can be complicated by ‘exceptions’ to the rules, such as tax reliefs which normally add administrative complexity. Our 2024 report on tax reliefs explained that the impact of changes has only recently begun to be reported more consistently.³⁵
- **Simplifying administrative processes,** either by reducing administrative requirements (which can reduce tax revenue), or utilising modern data sources and digital technologies so that complexity is dealt with without requiring major administrative effort for taxpayers, for example by making tax easier through better use of data held by third parties, such as bank interest.

³² HMRC has now revised its target to 80% of customer interactions – rather than transactions – by digital channels by 2030.

³³ The five taxes are Income Tax (both Pay As You Earn and Self Assessment), VAT, Corporation Tax, National Insurance Contributions and Inheritance Tax.

³⁴ HM Treasury, *2021 Review of the Office of Tax Simplification*, November 2021.

³⁵ Comptroller and Auditor General, *Tax measures to encourage economic growth*, Session 2023-24, HC 445, National Audit Office, January 2024.

HMRC's simplification strategy

3.6 The 2020 Tax Administration Strategy covered system simplification in only a limited way. At the time, identifying opportunities for simplification was seen as the responsibility of the independent Office for Tax Simplification (OTS), which the former government abolished in 2022.

3.7 Following the abolition of the OTS, HMRC is taking steps to embed simplification in its approach to the development of tax policy (alongside HM Treasury) and administration, and has begun to develop a more strategic approach to simplification as part of policy and system design. HMRC told us that its policy teams are now required to "consider complexity as part of tax policy-making."

3.8 In the Autumn Statement 2023 the government published four objectives for simplification. The government is measuring progress against two of the metrics announced in the Spring Budget 2024. The government is pursuing five simplification measures announced in January 2024 and a further five measures announced in the 2024 Spring Budget. It has not quantified estimates of savings expected for taxpayers as a result. These measures are a mix of simplifications to tax rules and administrative processes.

3.9 As part of its renewed efforts in this area HMRC has undertaken an exercise with staff and identified a long list of issues cross-referenced to those raised by stakeholders. HMRC told us that they had been asking for simplification ideas from a range of stakeholder forums during 2024. Following this, it intends to develop a pipeline of potential measures. In the 2024 Autumn Budget, the government stated that it will take forward tax simplification as part of its three strategic priorities for HMRC. The government committed to announcing a package of measures to simplify tax administration and improve the customer experience in spring 2025.

Expanding digitalisation

3.10 Digitalisation is potentially the solution to the complexity of existing paper-based or legacy IT systems. The greater digitalisation of taxes is at the centre of HMRC's Tax Administration Strategy. HMRC has bid for increased resources to accelerate its spending on remediating and modernising its IT estate and get to its target IT architecture by 2030.

3.11 Feedback from stakeholders is that most would like new digital systems, provided they are well designed, but that HMRC's new systems may not account for people with complex tax affairs sufficiently, and problems with the system are not addressed promptly. This has obvious implications for HMRC's own cost base. HMRC faces challenges in producing a single solution for a wide customer base, from well-resourced large businesses with access to accountancy and tax experts to small and medium-sized enterprises who may not prioritise tax issues until there is a problem.

3.12 There are areas which tax authorities in many parts of the world see as priorities for development. For example, e-invoicing has been adopted by a number of countries and can have a big impact on simplifying communications and significantly reducing non-compliance. While it has been in commercial use in the UK for some years, the government is now launching a consultation to increase its adoption by businesses. Pre-population of tax returns with data from the tax authority or other bodies is another feature of good practice countries. The Strategy indicated that extending pre-population could be a useful option for HMRC in the future. In the 2024 Autumn Budget the government announced that it would publish a consultation in early 2025 on how HMRC could better use third-party data to help taxpayers.

Costs and benefits of digitalisation for HMRC and customers

Costs and benefits for HMRC

3.13 Evidence from the introduction of Making Tax Digital (MTD) and Pay As You Earn (PAYE) Real Time Information (RTI) shows that new digital services can provide clear benefits to HMRC, whereas taxpayers have reported both benefits and additional costs.

3.14 In the case of PAYE RTI, HMRC expected that regular submission of PAYE information might lead to improvements in the timeliness and accuracy of payments from employers to HMRC during the tax year. It estimated RTI would generate savings of £716 million from reduced fraud, error and overpayments in tax credits and operational savings by the end of 2016-17, as well as staffing reductions of 889 full-time equivalents.³⁶ However, PAYE's customer service costs of £550 million in 2023-24 (around 40% of total customer service costs) indicate that large numbers of customers continue to need support in engaging with the system. HMRC identified £292 million of ongoing savings to businesses in its 2017 post-implementation review, for example from the removal of the need for employers to submit various forms. In 2016 we reported that taxpayers and their intermediaries disputed HMRC's assessments of large savings, especially with regard to IT costs.³⁷

³⁶ The Department for Work & Pensions also estimated significant savings from use of RTI in its administration of the benefits system.

³⁷ Comptroller and Auditor General, *The quality of service for personal taxpayers*, Session 2016-17, HC 17, National Audit Office, May 2016.

3.15 HMRC rolled out the Making Tax Digital (MTD) for VAT programme in two stages – 2019 and 2022 – and now plans to introduce it for Income Tax Self Assessment from 2026. In June 2023 HMRC estimated that, over 15 years, MTD would generate additional revenues of £3.9 billion, and staff savings of around 50 FTE. It estimated net costs for VAT traders of around £300 million between 2019-20 and 2023-24. HMRC’s costs of collecting VAT in 2023-24 were 15% (£118 million) higher in real terms than in 2021-22. This is not explained by changes in the number of VAT traders which fell over that period. HMRC estimated in February 2024 that Income Tax Self Assessment customers will face transitional costs of around £561 million and a net increase in ongoing annual costs of around £196 million for those businesses mandated to use MTD for Income Tax Self Assessment at that time (those with incomes above £30,000). This equated to an estimated average transitional cost of £320 per business and average annual ongoing costs of £110.³⁸

3.16 There is no strong evidence to date to suggest productivity improvements for most VAT traders following the introduction of MTD. In survey results from the Administrative Burdens Advisory Board in September 2023, around one-third of small businesses and agents reported that MTD for VAT had increased costs and around 3% said that it had reduced them, while around one-quarter reported that it had increased time spent on tax matters and 13% said that it had reduced time spent.³⁹ Research commissioned by HMRC into businesses’ experience of MTD for VAT reported in February 2024 that:

- 73% had seen no change in productivity with MTD, with 22% seeing a productivity improvement, and 3% a decrease;⁴⁰
- 72% felt more confident using digital technologies to complete tax processes, which may help with future digitalisation projects;⁴¹ and
- 42% of businesses had seen some improvements in one of the wider operational or financial areas tested.

Extent to which taxpayers and intermediaries bear the costs of complying with the tax system

3.17 We described the process by which HMRC assesses the cost implications for customers of new projects and programmes, or changes to tax policy and process, in paragraph 1.17. It is not, however, clear how HMRC decides what is an appropriate burden when providing advice to Ministers on how administrative responsibilities should be split between itself and customers.

38 In the Autumn 2024 Budget the government announced that it would expand the roll-out of MTD to those with incomes over £20,000 by the end of this Parliament.

39 HM Revenue & Customs, *Administrative Burdens Advisory Board ‘Tell ABAB’ report 2022 to 2023*, September 2023. Around one third of respondents did not respond to either question.

40 Separately, 45% of businesses reported a time saving due to MTD, Two-thirds ‘tended to use it to increase their productivity at work’.

41 Verian, *Assessing the wider benefits of Making Tax Digital (MTD) for VAT among businesses above and below the VAT threshold*, prepared for HM Revenue & Customs, February 2024.

Taxpayers' and their representatives' experience of the system

3.18 The HMRC charter promises to “provide services that are designed around what [the customer] need[s] to do, and are accessible, easy and quick to use, minimising the cost to [them]”. In HMRC’s surveys the proportion of respondents who reported that they found it easy to deal with tax issues in 2023 varied from 38% of agents to 71% of large businesses, leaving a significant proportion across the customer segments which did not.⁴² In particular, the proportion of agents who found it easy has declined from 50% in 2019 to 38% in 2023.

3.19 Two areas where HMRC could greatly reduce costs for itself and taxpayers is by reducing interactions resulting from: ‘failure demand’ (that is, calls caused by HMRC’s process failures and delays, customers chasing progress, including when HMRC has not yet breached target timescales for responding, and customers’ errors), which accounted for 72% of customer calls to HMRC in 2023-24; and costly person-to-person interactions which could have been carried out online, which accounted for an estimated 66% of calls in 2023-24 (there is overlap between the two populations). Our May 2024 report *Customer service: HM Revenue & Customs* recommended that HMRC improve its understanding of failure demand and set a target to reduce failure demand affecting telephone and correspondence and thereby reduce cost.⁴³ HMRC is considering its response to this recommendation.

3.20 The Strategy states that ‘modernisation’ can help to build trust, especially digitalisation. In May 2024 we set out the views of stakeholders on the shortcomings of HMRC’s digital systems, including a lack of functionality, especially for taxpayers whose affairs are not straightforward, and a failure to provide reassurance and clarity to customers submitting information.

Role of agents and other intermediaries

3.21 Agents are vital in helping taxpayers whose affairs are complex or who lack the confidence to manage their own tax affairs. The Strategy advocated improving services for agents. HMRC acknowledges that agents and other intermediaries (such as software developers) are an important part of a healthy tax system, but that the current tax system creates ‘pain points’ for them, driving demand on customer services. In addition, digital service developments have not treated them on the same basis as taxpayers, and their access to client data is limited. HMRC has created an intermediaries directorate and has plans to provide intermediaries with more tailored digital services and improved guidance.

⁴² The question asked of large businesses was worded slightly differently.

⁴³ Comptroller and Auditor General, *Customer service: HM Revenue & Customs*, Session 2023-24, HC 726, National Audit Office, May 2024 paragraph 14, recommendations f and g page 16.

3.22 Results from the HMRC 2023 agents' survey found that those who were more negative about HMRC across a range of measures were more likely to have contacted HMRC by telephone because they could not resolve their issue online. There is a dedicated helpline for agents but less than 30% of them rated this positively. HMRC told us that the line has been monopolised by high volume agents (who deal with large numbers of clients, often for a short time only, and make requests or submit returns that generate repayments). HMRC considers that many of these agents present a high risk to both HMRC and their clients. In the Autumn 2024 Budget the government announced a mandated tax adviser registration service and plans to take tougher action against advisers who facilitate non-compliance.

3.23 The use of intermediaries can improve compliance. For example, the government's legislative change in January 2021 to tackle tax non-compliance through online marketplaces, made the online marketplaces liable for the VAT due from overseas retailers using their sites. This had a significant impact in reducing VAT non-compliance by overseas retailers but imposed additional burdens on online marketplaces as they became responsible for checking the VAT due from overseas sellers and collecting that VAT. HMRC said that the administrative impact on these businesses would be significant but did not quantify it.

HMRC's ability to improve its performance

End-to-end overview of a tax regime

3.24 HMRC is introducing a 'regime ownership' model where for the first time there will be a data-driven, end-to-end overview of individual tax regimes. This should help to achieve the Strategy's objectives by reducing the tax gap and improving customer experience. HMRC introduced 'regime ownership' first for VAT in 2024 because it is one of the simpler taxes administratively and HMRC had fully introduced MTD for VAT. HMRC told us that regime ownership allowed for more collaborative working across the VAT regime, helping to resolve cross-cutting issues and agree priorities, leading to speedier implementation of solutions.

3.25 The 'regime ownership' model has the potential to deliver improvements in the ability of HMRC to provide strategic and iterative improvements in specific tax regimes. The metrics currently being used for VAT are very delivery-focused. For example, although cost of the service has been included in design documentation as a metric for monthly review and detailed monthly cost of collection data are available, the current VAT dashboard used by the regime owner does not include cost data or efficiency or productivity measures, such as cost per taxpayer, and there are no firm plans to include them. There is also scope for metrics to be forward-looking and more service-quality oriented, along with further development of the interface with operational teams.

Compliance and the tax gap

3.26 Compliance costs have increased significantly since 2019-20 (see paragraph 2.23). There should not necessarily be an expectation that costs will reduce, given the high return on investment from compliance activities, but there is a continuing need to carry out compliance interventions efficiently and in a well-targeted way. In September 2024 we reported that it is not easy to know from HMRC's data which interventions are most important or likely to be the most cost-effective. HMRC told us it instead monitors overall costs of compliance projects, and evaluates projects to understand outcomes.⁴⁴

3.27 HMRC is increasingly using an approach to compliance whereby it sends one standard letter to many taxpayers who are judged to be at risk of non-compliance. Taxpayers are asked to take action, such as reviewing their tax return. Standard letters can increase productivity per staff member where there are resource constraints or where HMRC considers that there is not enough risk to open a specific compliance case.⁴⁵ While acknowledging the usefulness of standard letters to HMRC, stakeholders have raised concerns about the effort involved in dealing with them and difficulties if letters are not received by both the taxpayer and their agent.

3.28 We reported in 2022 that HMRC had been funded to maintain the tax gap.⁴⁶ In 2024, HMRC estimated the tax gap was 4.8% of tax due (£39.8 billion) in 2022-23. HMRC now wants to reduce the tax gap (see paragraph 3.3). It plans to increase its compliance staff by 5,000 by 2029-30 (18%, to more than 32,000) which we estimate will increase its staff costs by around £270 million a year at current prices.

3.29 HMRC's evidence base for the cost effectiveness of upstream yield is limited. In 2022, we reported that HMRC does not have figures to separately analyse and systematically compare the costs of its upstream and downstream work and is therefore less able to judge the returns for different activities.⁴⁷ This remains the case, as HMRC does not have good data on the costs of upstream compliance interventions. Neither does it have guidance or tools to assist those designing responses to compliance risks to get the best balance between upstream and downstream interventions.

⁴⁴ Comptroller and Auditor General, *Tackling tax evasion in high street and online retail*, Session 2024-25, HC 229, National Audit Office, September 2024, paragraph 3.12.

⁴⁵ Comptroller and Auditor General, *Tackling tax evasion in high street and online retail*, Session 2024-25, HC 229, National Audit Office, September 2024, paragraphs 3.16 and 3.17.

⁴⁶ Comptroller and Auditor General, *Managing tax compliance following the pandemic*, Session 2022-23, HC 957, National Audit Office, December 2022, paragraph 3.5.

⁴⁷ Comptroller and Auditor General, *Managing tax compliance following the pandemic*, Session 2022-23, HC 957, National Audit Office, December 2022, paragraph 3.14.

Appendix One

Our audit approach

Our scope

1 In this report we examine the costs of the UK tax system, by which we mean the costs of collecting taxes as reported by HM Revenue & Customs and the costs of complying with the tax system which fall on businesses and individuals and their representatives. Within the overall tax system we have focused on reporting the cost of collecting the main domestic UK taxes. We have excluded HMRC costs of administering: taxes and duties collected under the heading of 'customs and international trade', such as customs duties (the National Audit Office has a separate programme of work looking at HMRC's management of the border and customs issues); temporary schemes introduced to provide support during the COVID-19 pandemic; and benefits, such as child benefit.

Our evidence base

Interviews and meetings

2 We conducted virtual interviews and meetings between April and October 2024 with representatives from HMRC and wider stakeholders to inform our audit. These included:

- **Interviews with HMRC staff** selected on the basis that they work in high-cost areas or are involved in the collection and scrutiny of those costs. Staff were from:
 - Customer Services, Chief Digital Information Officer and Customer Compliance Groups and VAT Regime Ownership team;
 - Costings and Data Team, External Reporting Team, Resource Accounting Team, Consultancy, Skills & Engagement Team; and
 - HMRC Strategy Team.

- **Semi-structured interviews with stakeholders:**

- Chartered Institute of Taxation;
- Institute for Government;
- The Institute of Chartered Accountants in England and Wales;
- British Chambers of Commerce;
- Association of British Insurers;
- Association of Taxation Technicians;
- Confederation of British Industry;
- SAGE Plc;
- Low Incomes Tax Reform Group;
- Institute of Fiscal Studies;
- Chartered Institute of Payroll Professionals;
- Deloitte LLP;
- Organisation for Economic Co-operation and Development; and
- Administrative Burdens Advisory Board.

3 Document review

- We conducted desk research of publicly available evidence. This included:
 - Tax-related publications from the House of Commons Library;
 - Office of Budget Responsibility reports;
 - GOV.UK taxpayer guidance;
 - HMRC's internal Compliance Handbook;
 - Tax Information and Impact Notes;
 - Transcripts of oral evidence provided to Select Committees;
 - Reports by the Administrative Burdens Advisory Board;
 - Reports by the Office of Tax Simplification;
 - HMRC Accounting Officer Assessments; and
 - Previous National Audit Office reports.

- We reviewed documentation provided by HMRC that is not available in the public domain. This included:
 - internal guidance for cost centres on assigning their time to tax regimes;
 - introductory briefings on HMRC's Standard Cost Model;
 - reporting dashboard design documentation for HMRC's regime ownership model; and
 - HMRC internal audit reports.

Case studies

- 4** We conducted case studies in four areas to look in greater depth at:
- compliance activity, including the balance between 'upstream' and 'downstream' compliance work;
 - digital costs, including understanding the digital cost of change programmes, and the costs of upgrading legacy systems;
 - the costs and benefits of HMRC's Pay As You Earn (PAYE) real-time information (RTI) system; and
 - systems for enabling, formalising and instituting lessons learned from internal and external feedback.

Data analysis

5 We analysed financial and other data and management information on costings and performance provided by HMRC, including some publicly available data, as well as quantitative and qualitative data published by third parties. As HMRC carries out limited assessments of factors driving its costs and variations in costs between taxes, we carried out analysis using cost data provided by HMRC. These included:

- HMRC's published annual report and accounts for 2019-20 to 2023-24;
- the detailed analysis underlying the 'Cost of Collection' metric published annually by HMRC. The 'Cost of Collection' metric is not included in HMRC's accounts and is not audited by us;
- mapping information linking centres where costs are allocated in HMRC's main accounting records to its operating segments (also referred to as business groups and including customer services and customer strategy & tax design), as presented in the annual accounts;

- HMRC's data which assigns its administrative costs to individual tax regimes and operational activities for example PAYE telephony, business planning management, cyber security or debt enforcement. This cost data reconciles to the figures in the 'Statement of operating expenditure by operating segment' in HMRC's annual accounts, which we audit. However, since overheads and digital costs are outside the administrative budgets managed by the operating segments, these costs are not included in the values reported for the costs of operating segments in the 'Statement of operating expenditure by operating segment' in HMRC's annual accounts. The allocation of overheads and digital costs to operating segment and tax regimes is management information and is not covered by our audit of HMRC's accounts;
- HMRC's reallocation workings to determine the proportion of digital costs that should be assigned to other operating segments;
- HMRC data on taxpayer numbers;
- HMRC performance data on responding to queries from customers;
- HMRC data on yield generated by compliance activities; and
- HMRC data on the tax gap.

Analysis methods

Cost analysis

6 Our cost analysis used HMRC data which recorded expenditure (including digital costs, overheads and depreciation) and the cost of staff time against a hierarchy of cost centres. The data are subject to quarterly assurance checks by HMRC's Costings and Data Team. We analysed these cost centre data by headline tax (for example, Corporation Tax) business group (for example, Customer Services Group) and by other HMRC functions (for example collecting tax, paying benefits). Our analysis included the attribution of digital costs from expenditure allocated to HMRC's digital services business group (the 'Chief Digital Information Officer' business group) to HMRC's policy and operational business groups such as the Customer Services Group. The inclusion of overheads, depreciation and digital costs means the values we provide for policy and operational business groups in this report are higher than the values reported by HMRC in the 'Statement of operating expenditure by operating segment' in its annual accounts.

Time-series comparisons

7 Our approach to time-series comparisons in this report was to compare the most recently available data (usually for 2023-24) to the last year before the COVID-19 pandemic had a major impact (2019-20) in order to allow for the distorting effects of the pandemic on behaviour and activity in the intervening years. We did not request detailed cost data for 2020-21 from HMRC because it would have limited value in assessing cost trends because of the impact of COVID-19 on the data collection process and to avoid the administrative burden to HMRC of generating that data.

8 We have generally presented historic costs in real terms (which is at 2023-24 prices using the GDP deflator published at September 2024), in order to provide meaningful comparisons of HMRC's costs and performance over time.⁴⁸ (The exceptions are Figure 12 where we use the ratio of compliance yield to tax revenues in cash terms to show performance over time and Figure 13 where we show changes in the split in upstream and downstream yield). This means that some values in this report will differ from those shown in HMRC's annual reports and accounts.

Cost per taxpayer and revenue per taxpayer

9 Unit costs were obtained by dividing costs of tax regimes by taxpayer numbers. Taxpayer numbers were obtained from published and unpublished HMRC data.

Data constraints

10 Gaps in HMRC data placed some limitations on our analysis:

- Data on HMRC's digital costs did not enable us to examine separately trends in the costs of introducing new digital systems and services, and remediating and modernising its legacy systems.
- Data on HMRC's staff did not enable us to assess how the seniority of those staff administering taxes had changed over time.
- Lags in HMRC's data on taxpayer numbers limited our analysis of its administrative costs per taxpayer. The recency of data varies across tax regimes.
- Data on compliance cases did not enable us to identify how the number of compliance cases opened and closed had changed by tax regime.
- HMRC's available data on the different categories of VAT traders and revenue restricted our analysis. As HMRC does not have data splitting traders between those that pay 'Home VAT' (which is covered by its cost of collection metric) and those that pay 'Import VAT' (which is not), our analysis of VAT cost per taxpayer and revenue per taxpayer is based on total VAT and all VAT traders. Also, HMRC's data did not enable us to estimate the impact on its cost of collection metric of the introduction of 'Postponed VAT Accounting' which since 2021 has led to VAT on some imports being included as part of 'Home VAT' rather than 'Import VAT'.

⁴⁸ HM Treasury, *GDP deflators at market prices, and money GDP, September 2024 (Quarterly National Accounts)*, September 2024. Available at: *GDP Deflators at Market Prices and Money GDP – September 2024*.

Appendix Two

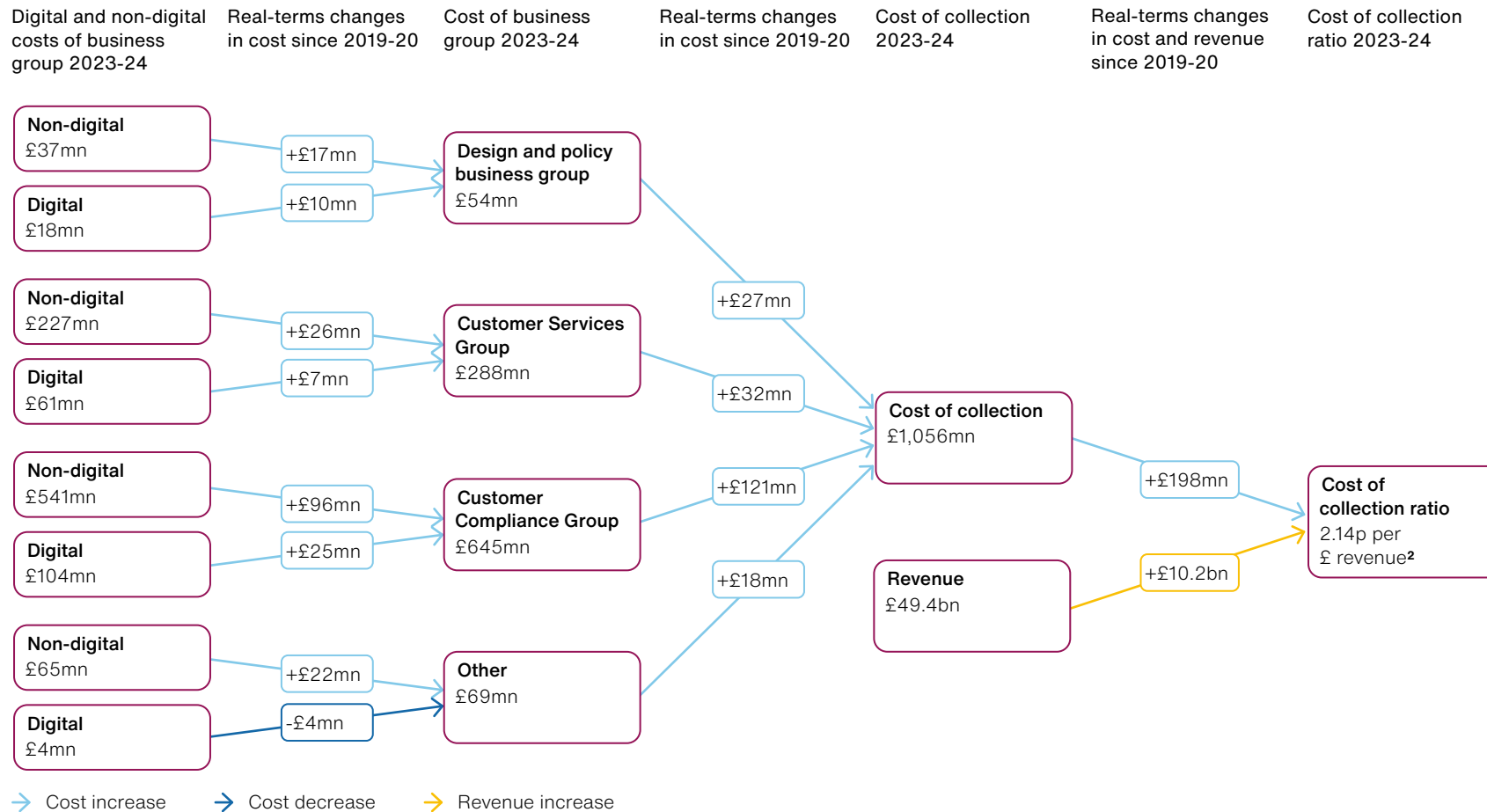
Breakdown of changes in the costs of collection for main taxes over time

1 For the largest taxes, we used HMRC cost data to identify the main drivers of cost changes between 2019-20 and 2023-24 and present these in the following diagrams (**Figures 14 to 18** on pages 56 to 60).

Figure 14

Breakdown of Income Tax Self Assessment cost of collection 2023-24, and real-terms changes since 2019-20

The cost of collecting Income Tax Self Assessment has increased by 23% between 2019-20 and 2023-24: the largest absolute increase was for customer compliance (£121 million, 23%); digital costs have increased for design and policy, customer service and customer compliance



Notes

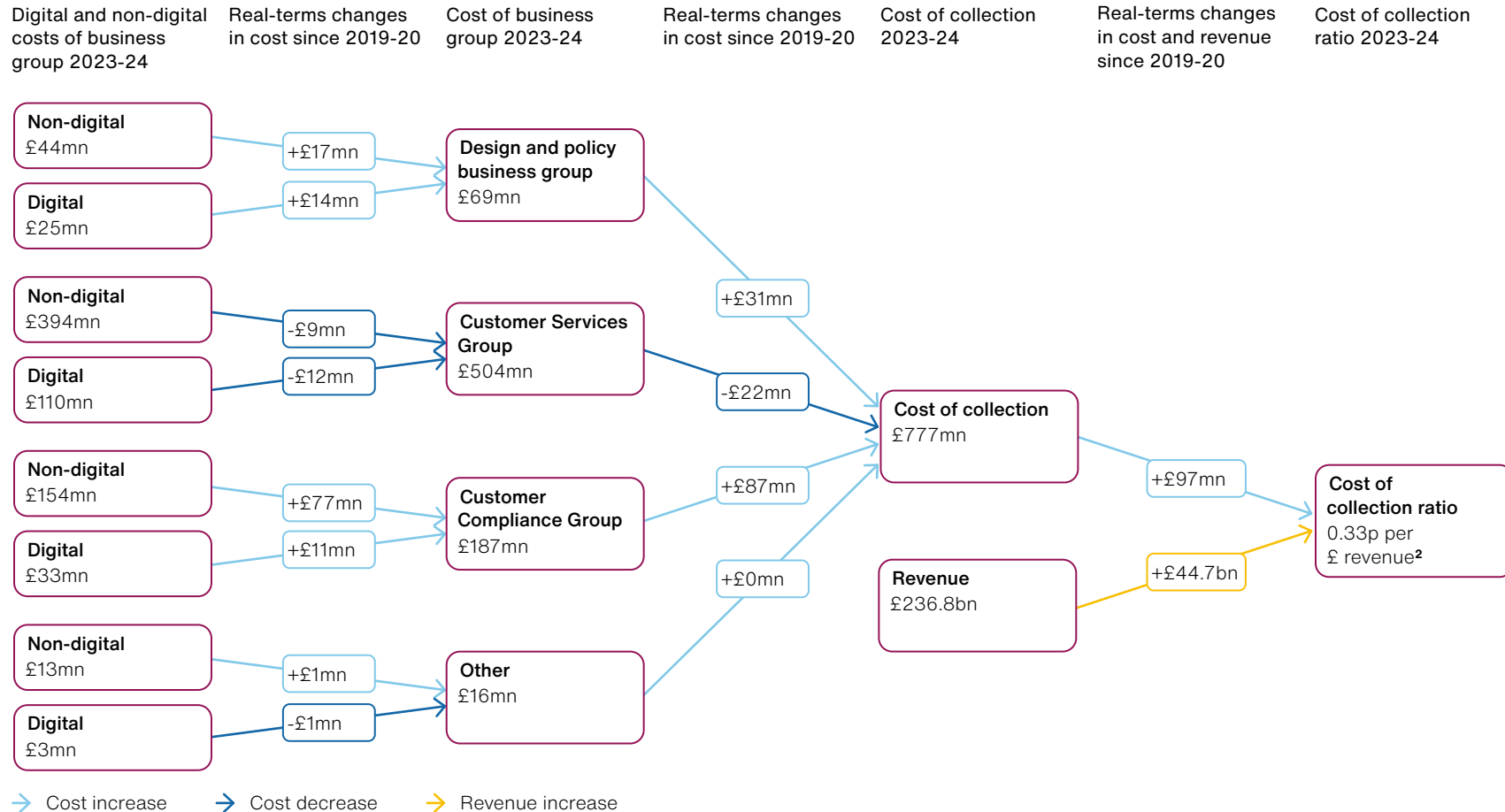
- 1 All changes compare costs in 2023-24 with those in 2019-20. Costs in 2019-20 have been adjusted to 2023-24 values using the GDP deflator, in order to provide meaningful comparisons over time. See Appendix One for explanation.
- 2 In 2019-20, the cost of collection ratio was 2.24p per £ of revenue.
- 3 Non-digital costs consist of staff costs and overheads.
- 4 Components may not sum to total due to rounding.

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

Figure 15

Breakdown of Income Tax Pay As You Earn cost of collection 2023-24, and real-terms changes since 2019-20

The cost of collecting Income Tax Pay As You Earn has increased by 14% between 2019-20 and 2023-24: the largest absolute increase was for compliance (£87 million, 87%); digital costs have increased for design and policy, customer service and customer compliance



Notes

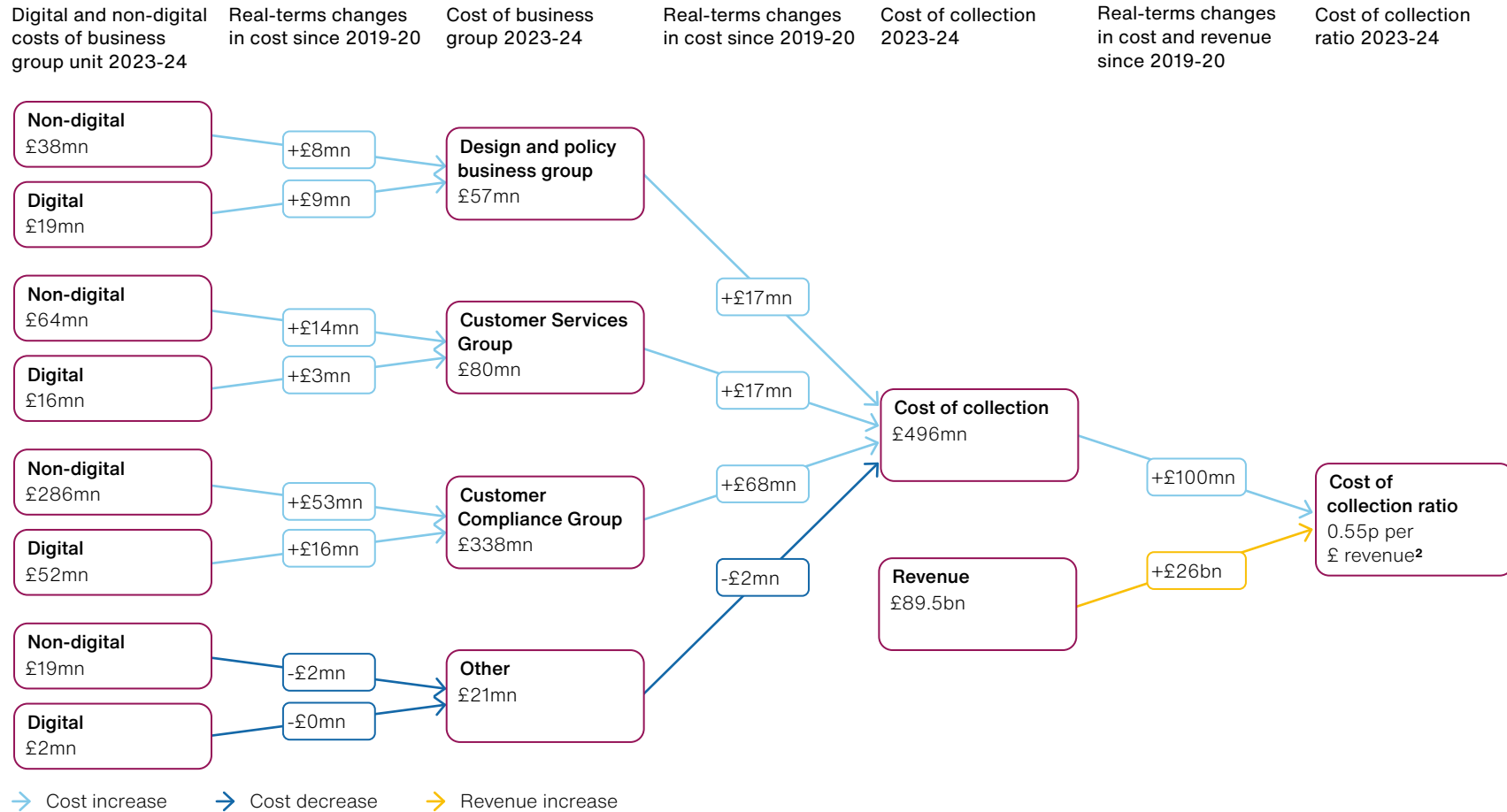
- 1 All changes are in real terms and compare costs in 2023-24 with those 2019-20. Costs in 2019-20 have been adjusted to 2023-24 values using the GDP deflator, in order to provide meaningful comparisons over time. See Appendix One for explanation.
- 2 In 2019-20, the cost of collection ratio was 0.36p per £ of revenue.
- 3 Non-digital costs consist of staff costs and overheads.
- 4 Components may not sum to total due to rounding.

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

Figure 16

Breakdown of Corporation Tax cost of collection 2023-24, and real-terms changes since 2019-20

The cost of collecting Corporation Tax has increased by 25% between 2019-20 and 2023-24, the largest percentage increase of any of the main taxes: the largest absolute increase was for compliance (£68 million, 25%); digital costs have also increased for customer service and customer compliance



Notes

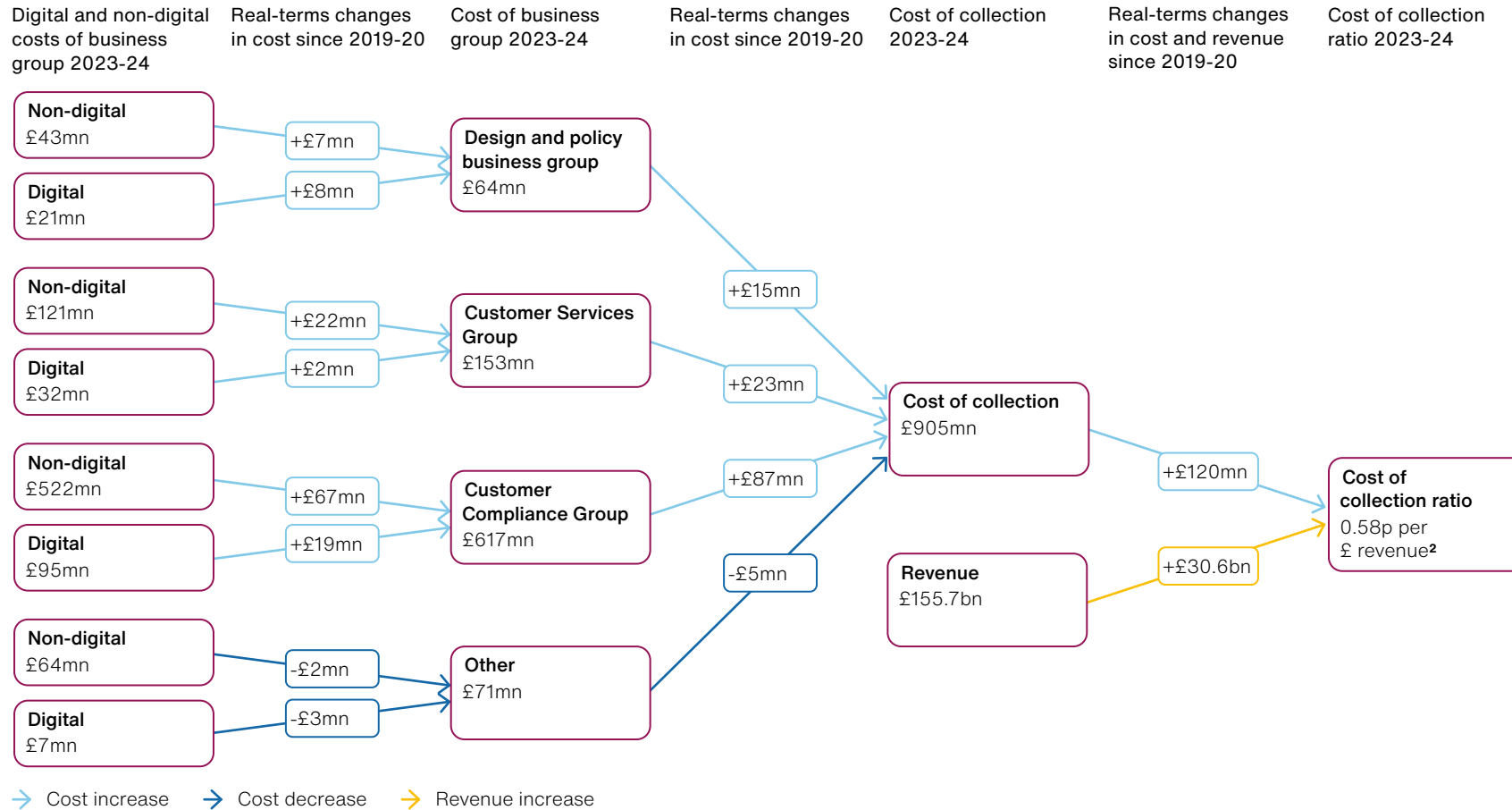
- 1 All changes compare costs in 2023-24 with those in 2019-20. Costs in 2019-20 have been adjusted to 2023-24 values using the GDP deflator, in order to provide meaningful comparisons over time. See Appendix One for explanation.
- 2 In 2019-20, the cost of collection ratio was 0.57p per £ of revenue.
- 3 Non-digital costs consist of staff costs and overheads.
- 4 Components may not sum to total due to rounding.

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

Figure 17

Breakdown of VAT cost of collection 2023-24, and real-terms changes since 2019-20

The cost of collecting VAT has increased by 15% between 2019-20 and 2023-24: the largest absolute increase was for compliance (£87 million, 16%); digital costs have increased for design and policy, customer service and customer compliance



Notes

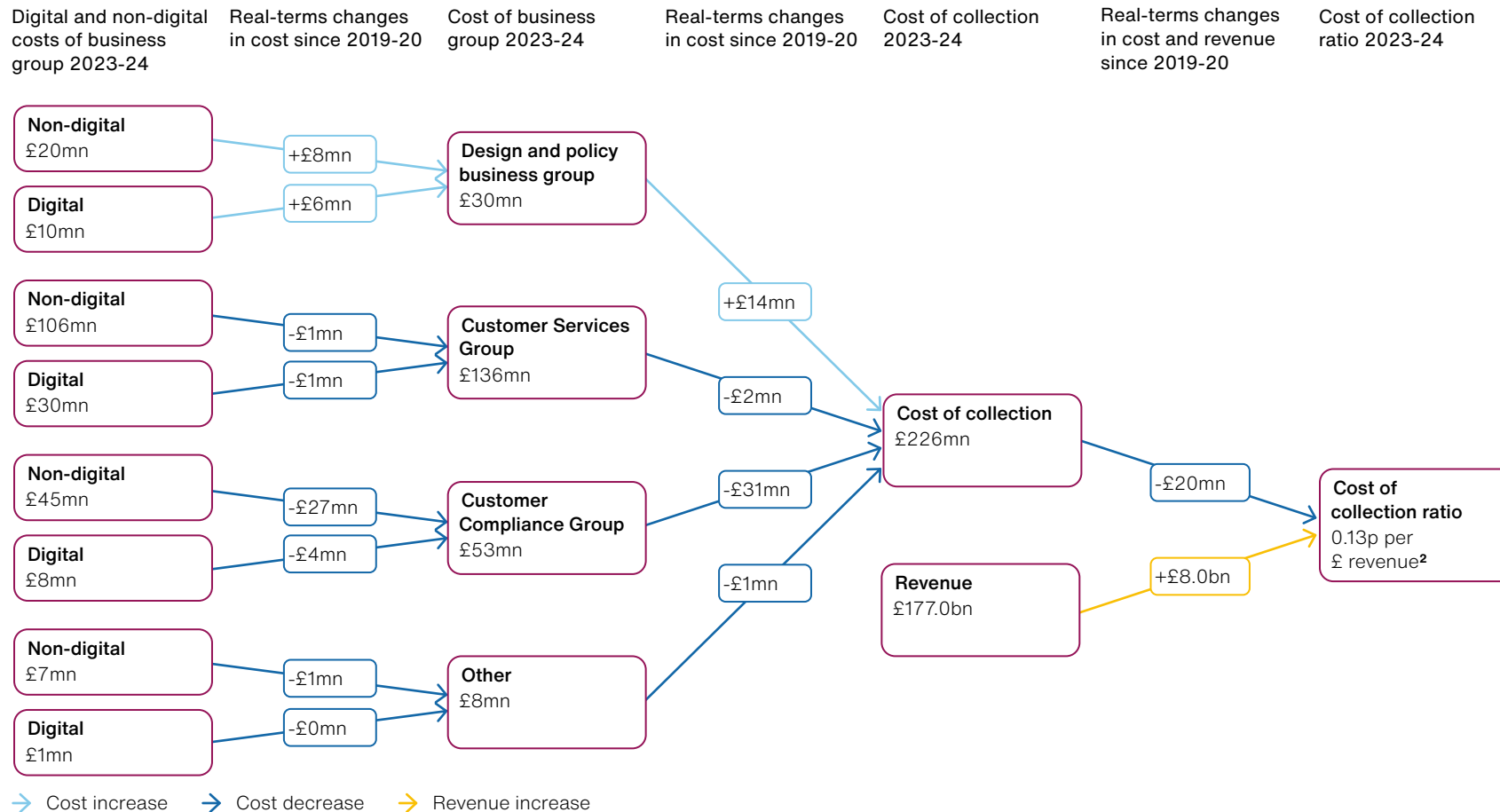
- All changes compare costs in 2023-24 with those 2019-20. Costs in 2019-20 have been adjusted to 2023-24 values using the GDP deflator, in order to provide meaningful comparisons over time. See Appendix One for explanation.
- In 2019-20, the cost of collection ratio was 0.63p per £ of revenue.
- Non-digital costs consist of staff costs and overheads.
- Values are for 'Home VAT' only.
- Components may not sum to total due to rounding.

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

Figure 18

Breakdown of National Insurance Contributions cost of collection 2023-24, and real-terms changes since 2019-20

The cost of collecting National Insurance Contributions has decreased by 8% between 2019-20 and 2023-24: the largest decrease was for customer compliance (£31 million, 37%); digital costs have decreased for compliance and customer service



Notes

- All changes compare costs in 2023-24 with those in 2019-20. Costs in 2019-20 have been adjusted to 2023-24 values using the GDP deflator, in order to provide meaningful comparisons over time. See Appendix One for explanation.
- In 2019-20, the cost of collection ratio was 0.15p per £ of revenue.
- Non-digital costs consist of staff costs and overheads.
- Components may not sum to total due to rounding.

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

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