HM Revenue
& Customs

2019 to 2020

Annual Report and Accounts

HM Revenue and Customs
Annual Report and Accounts 2019 to 2020

(for the year ended 31 March 2020)

Accounts presented to the House of Commons pursuant to Section 6(4) of the Government Resources and Accounts Act 2000 and Section 2 of the Exchequer and Audit Departments Act 1921

Annual Report presented to the House of Commons by Command of Her Majesty

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This is part of a series of departmental publications which, along with the Main Supply Estimates 2020 to 2021 and the document Public Expenditure: Statistical Analyses 2020, present the government's outturn for 2019 to 2020 and planned expenditure for 2020 to 2021.

This publication is available at **www.gov.uk/official-documents**

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Overview

About HMRC: our successes, structure, strategy and story, including our performance against our 2015 Spending Review commitments

Strategic objectives

We are the UK's tax, payments and customs authority

Our purpose is to collect the money for the UK's public services and give financial support to people. Our work touches the lives of almost everyone in the country.

Our strategic objectives in 2019 to 2020

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

Our values

We are professional
We are innovative
We show respect
We act with integrity

The difference we made in **2019 to 2020**

We collected tax revenues and gave people financial support

£636.7bn

total tax revenues (1.4% increase on 2018 to 2019)

95.3%

of tax due secured - highest ever figure (2018 to 2019; latest available estimate)

12.7m

children supported by Child Benefit

We helped customers to pay the right tax

850k
customers helped with Self Assessment queries by phone or webchat in January 2020

12.5m
post items responded to from customers

15,000+
customers supported through face-to-face appointments with our Extra Support team

We took action to make it harder to bend or break the rules

£36.9bn
generated in additional tax through tackling avoidance, evasion and other non-compliance

£3.0bn
raised since 2010 from tackling offshore tax evasion

1,958
supervisory interventions to prevent money laundering

We made progress in making HMRC a better place to work

2
new regional centres opened this year

5
new commitments for how we value and treat each other in HMRC

13.8%
HMRC colleagues from a Black, Asian or Minority Ethnic background, exceeding our target of 12.8%

Foreword by Chief Executive and Permanent Secretary

"We want to be a trusted, modern tax and customs department – operating an effective, resilient system that gives the public confidence in our ability to deliver."

It's a privilege to introduce HMRC's annual report and accounts for the first time as Chief Executive.

I'm proud to have spent my entire 36-year career in HMRC and its predecessor, Inland Revenue. I've seen first-hand how skilled and dedicated our people are, and what it takes at all levels to build and sustain a trusted, modern tax and customs administration system.

It's a task that always comes with new challenges, and few are bigger than the one we've seen in recent months. Since March, our work has been central to the government's response to COVID-19. We've implemented the Chancellor's emergency support measures in record time – including the Coronavirus Job Retention Scheme, Self-Employment Income Support Scheme and most recently the Eat Out to Help Out Scheme. And we're preparing to launch the new Job Support Scheme and Job Retention Bonus. We've also made temporary changes in tax policy and the way we operate – with thousands of colleagues delivering vital additional support through helplines and webchat. All this while keeping our usual services running and providing safe working environments for our people.

Building resilience and trust

It's a challenge our people are still rising to with pride and determination – but it's also changed some of the nature of what we do. We're now a vital part of the UK's national resilience and crisis response, as well as discharging our role as a tax authority.

It's right that we're focused on the urgent priorities the government has set for us – not only COVID-19 but also the critical work underway to prepare the border for the end of the UK transition period. It's also important to acknowledge the difficult choices and challenges involved. We need to carefully balance our resources to prioritise supporting businesses and individuals and help keep the economy moving, while continuing to protect vital revenue for the UK's public services.

Looking beyond financial year 2019 to 2020, this means we're likely to see sustained pressure on compliance yield, debt levels and customer service resourcing.

Giving confidence in our ability to deliver

We have the competence and capability to navigate these challenges - and this report shows the strong track record we're building on. The total revenue we collect increased in financial year 2019 to 2020 to £636.7 billion, representing an £8.8 billion increase on financial year 2018 to 2019. We've also seen the tax gap reduce to its lowest ever level of 4.7% in 2018 to 2019 (the latest estimate available) – and we've modernised the many systems we use to collect tax, such as Making Tax Digital for VAT. We've done this at a cost of 0.54 pence to collect every £1 in tax.

We are committed to ensuring the correct tax is paid and protecting the public purse – and we remain vigilant to the risk of error, tax avoidance and fraud across all our areas of responsibility.

We're also open about the more difficult issues we faced in 2019 to 2020. We experienced more demand than expected in our call centres. Coupled with resourcing challenges carried forward from 2018 to 2019, it meant we didn't meet all our full-year customer service targets, although our performance moved closer to where we needed it to be during the second half of the year.

We've also learned lessons from our experience of tackling disguised remuneration tax avoidance schemes. It's right that we act to ensure that those who use tax avoidance pay the tax they owe – but we understand that compliance investigations and tax debts are stressful and that we should keep in regular communication with customers under enquiry so they understand how we will deal with them and what support is available to them.

The future of the tax administration system

We want to be a trusted, modern tax and customs department – operating an effective, resilient system that gives the public confidence in our ability to deliver.

This means modernising what we do and how we do it. By increasing the use of real-time information we can, over the coming years, build a system that helps people get their tax right first time, reduces mistakes and makes it harder to bend or break the rules.

It's about fitting our systems around the way our customers run their lives and businesses and being on their side when they're trying to get things right, while tackling the small minority who set out to cheat the system. It's also about creating a great place to work in HMRC, with a culture of respect and inclusion for all our colleagues.

I'm confident HMRC has what it takes to achieve this vision. You can read more about our work to build a trusted, modern tax and customs administration system on page 16.

Jim Harra
Chief Executive and Permanent Secretary

How we are organised

We are led by Jim Harra[1], our First Permanent Secretary and Chief Executive, and are made up of three core customer-focused groups: Customer Services, Customer Strategy and Tax Design, and Customer Compliance. These groups are supported by a range of corporate services.

We have one Executive Agency, the Valuation Office Agency. Their role is to give the government the valuations and property advice needed to support taxation and benefits.

Our departmental group had 62,008 full-time equivalent employees at the end of financial year 2019 to 2020.

Our groups and corporate services – and their responsibilities – are outlined below:

Customer Services	Supports customers to pay the right tax and get the right benefits, helps those who have built up debt to pay what they owe, and helps businesses to run smoothly and within the law
Customer Strategy and Tax Design	Designs the tax, payments and customs system and leads on the delivery of policy changes
Customer Compliance	Ensures the right tax is paid and steps in with targeted intervention when there's a risk of that not happening
Chief People Officer Group	Supports colleagues and improves their working experience through our HR expertise and services
Chief Finance Officer Group	Provides the tools to bring in the money, deliver benefits, pay our suppliers and make sure the figures add up
Chief Digital and Information Officer Group	Creates innovative, joined up and reliable digital and information services for our people and our customers
Solicitor's Office and Legal Services	Provides legal services to the whole of HMRC
Borders and Trade	Responsible for the policy, design and delivery of our accountabilities for UK transition and delivery of customs revenue at the border, working closely with Border Force
COVID-19 Response Unit	Oversees our response to the COVID-19 pandemic
Communications	Provides professional communications advice, support and services to the whole of HMRC

+ Read more about the Valuation Office Agency on page 104.
+ Find out about our staff numbers and costs on page 134.

1 Jim Harra was appointed Chief Executive and First Permanent Secretary on 29 October 2019, having acted in the role on an interim basis since Sir Jonathan Thompson left on 30 September 2019.

How we're transforming HMRC and the tax administration system

The work HMRC does is vital – but the way we fulfil our purpose evolves as society changes.

In just a few months, the COVID-19 crisis has had a major impact on the way we work and on the needs of our customers. Longer-term social, economic and technological trends will also make it harder to get tax right using the same old systems and approaches. To keep delivering our purpose in a rapidly changing world, we need to put public trust and a modern approach to tax administration at the heart of everything we do.

Our progress since the 2015 Spending Review

At the government's 2015 Spending Review, we secured £1.3 billion of investment to transform into one of the most digitally advanced tax administrations in the world, and an additional £800 million for additional work to tackle evasion and non-compliance in the tax system. This signalled the start of the biggest modernisation of UK tax administration in a generation.

We faced challenges along the way and we haven't achieved everything we wanted to yet. Our ambitious plans, and the timeframe we set for them, pushed the limits of our technology and capacity. Preparations for EU exit also placed additional demands on our capacity, and we did not have the resources to do everything we had planned.

As a result, in 2017 and 2018, we undertook structured prioritisation exercises, so we could focus on our most vital transformation projects, reduce costs and release capacity for other urgent priorities. It meant closing some projects and pausing or deferring certain aspects of Making Tax Digital for individual customers, such as pre-population of data, Simple Assessment and further development on Personal Tax Accounts, as well as non-critical elements of other programmes. We also closed our Compliance for the Future programme, although critical elements of it continued. Overall, despite these challenges, we have made major achievements as a result of the investment we made (page 14).

Our commitments and key achievements during the Spending Review **2015** period

Our SR15 commitments

1

Bear down on avoidance and evasion

We committed to raise an additional £5 billion a year on financial year 2015 to 2016 by 2019 to 2020, by tackling tax avoidance and aggressive tax planning, evasion and non-compliance, and by addressing imbalances in the tax system.

2

Transform tax and payments for our customers

We committed to provide access to digital tax accounts for all small businesses and individuals by financial year 2016 to 2017, delivering an additional £480 million of tax revenue by financial year 2020 to 2021 and £46 million in sustainable efficiencies.

3

Make sustainable resource savings

We committed to make £717 million of sustainable resource savings a year by 2019 to 2020 by digitising tax collection and creating a smaller, more highly skilled workforce – achieving £1.9 billion of cumulative savings, or a 21% reduction in baseline resource costs, over the Spending Review period.

+ Read our performance update on the Spending Review 2015 at:
www.gov.uk/government/publications/hmrc-quarterly-performance-report-january-to-march-2020/hmrc-performance-update-spending-review-2015

What we achieved

£5bn
additional tax revenues raised this year by tackling non-compliance, compared to 2015 to 2016

4,123
people prosecuted

3,347
years of custodial sentences secured

12.7m
customers accessed their online digital services account for individuals

1.4m
businesses signed up to Making Tax Digital for VAT, the biggest change to VAT in a generation

£223.5m
Making Tax Digital additional tax revenues

£696m
sustainable cost savings per year by end of Spending Review period – [97% of our target] £1.9 billion cumulative savings

£200m
expected savings per year by 2020 to 2021 after successfully exiting our £10 billion Aspire IT contract

13 regional centres
12 sites secured, 9 centres being built and fitted out, 3 already open in Croydon, Bristol and Belfast

Rising to new challenges

As we enter a new decade, new and unexpected challenges have emerged. We're playing a vital role at the heart of the government's coronavirus response: helping people and businesses get through this difficult time financially, and supporting the economy through measures such as the Job Support Scheme, the Self-Employment Income Support Scheme and the deferment of VAT bills for up to half a million businesses.

We've become more than a tax authority, forming a vital part of the UK's national resilience and crisis response – with all the difficult choices and challenges this involves as we balance customer support with our core purpose.

At the same time, we're preparing for the end of the UK's transition period with the EU and building the border systems and infrastructure that traders need for the future.

In rapidly changing times, we want to continue moving in step with the society we serve: keeping pace with rapidly changing economic circumstances, new technologies and shifting social and employment trends to improve the customer experience, as well as learning from other high-performing tax authorities.

There's also work to do within HMRC itself: we need to take more steps to improve our employee engagement through the respect we show to each other, the pride in what we do and the skills we develop (see page 56). We also need to update IT systems where they're in need of modernisation, and build on what we're already doing to protect customer data by ensuring all our systems and processes are compliant with GDPR (see page 60). All this helps us to do the best possible job for our customers.

How we're supporting the government's response to COVID-19

By 30 September 2020, there had been:

£39.2bn

in grants claimed under the Coronavirus Job Retention Scheme (in support of staff furloughed to the end of August) and **9.6m jobs furloughed***

By 31 July 2020, there were:

£7.6bn

in grants claimed under the first phase of the Self Employment Income Support Scheme, with **£5.7bn in grants claimed** under the second phase by 30 September

By 27 August 2020, there were:

over 84k**

restaurants registered to the Eat Out to Help Out scheme, with **£522m in claims** as at 31 August 2020

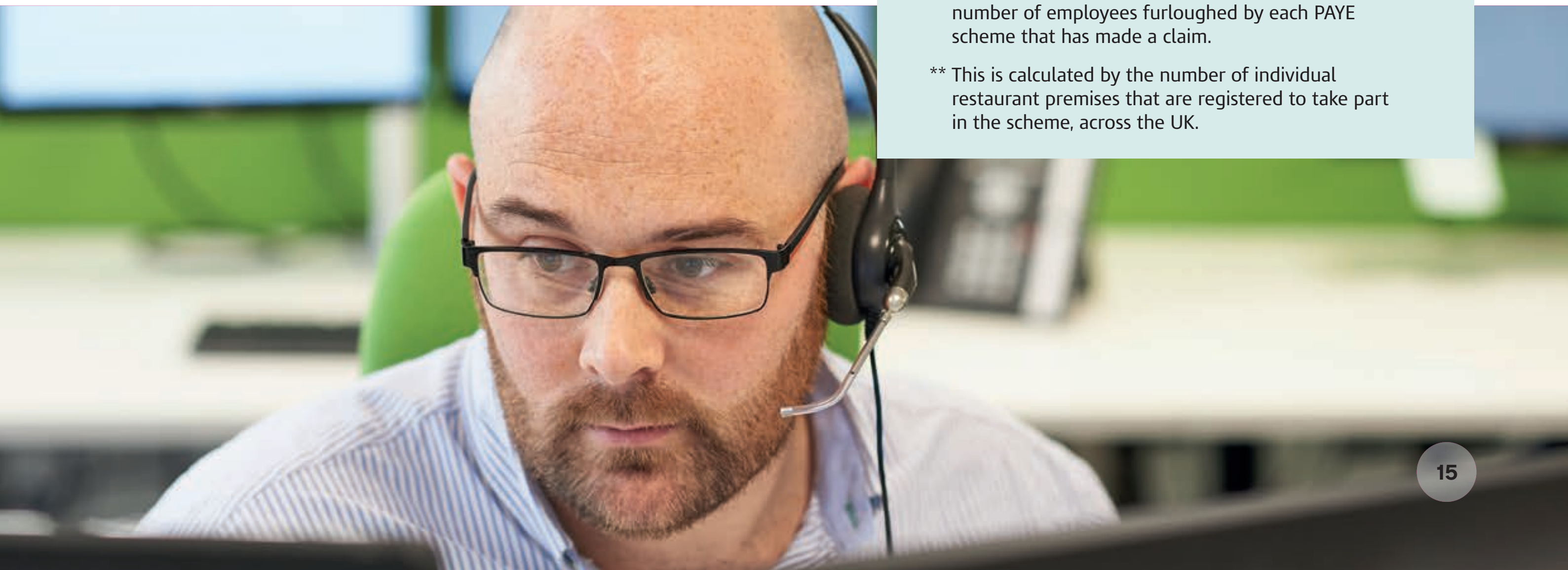
Between 11 March and 30 September 2020 there were:

over 1m

calls answered by call handlers and **over 366k webchats handled**

* This is calculated as the sum of the maximum number of employees furloughed by each PAYE scheme that has made a claim.

** This is calculated by the number of individual restaurant premises that are registered to take part in the scheme, across the UK.



Building a trusted, modern tax administration system

In the March 2020 Budget, the Chancellor highlighted the government's intention to create 'a tax system fit for the challenges and opportunities of the 21st century'. Tax administration needs to keep pace with rapid change in society, the economy and technology.

During the COVID-19 pandemic, we have been delivering internationally renowned employment support schemes in record time and with huge efficiency. However, the pandemic has further reinforced the need for a more flexible, resilient, responsive and effective tax administration system that can handle a vast and widening range of customer circumstances.

To tackle these challenges, as part of our wider HMRC strategy, we must reform the tax administration system to reflect the modern economy so that it works closer to real-time, allowing people and businesses to pay the right tax with ease as they live their lives and go about their business. This approach will also allow the government to provide increasingly targeted support in times of crisis.

In July 2020, the government published a 10-year strategy, 'Building a trusted, modern tax administration system', that sets out our commitments for delivering a modern tax administration system.

Our commitments

- **Extend Making Tax Digital**
  With the new VAT service now in place, from April 2022 smaller VAT-registered businesses will also be required to join. From April 2023, Making Tax Digital will be extended to Income Tax Self Assessment for businesses and landlords with income over £10,000. We will also consult on extending to Corporation Tax.
- **Use real-time information**
  At the core of an effective, modern system is real-time information – giving customers a more up-to-date understanding of and certainty over their tax position, with capacity for real-time risk assessment removing opportunities for error.
- **Explore options for timely payment of tax**
  Delays in the UK system can make it hard to manage cashflow, particularly for the newly self-employed. We will open the debate to explore bringing tax payment more in line with the increasingly real-time nature of tax reporting and other services.
- **Build a secure, easily accessible single digital account**
  Customers will be given one complete financial picture, bringing together their different taxes and data sources, enabling HMRC to provide more personalised services.
- **Improve services for agents and representatives**
  We will design in access from the outset, ensuring agents can see and do what their clients can.
- **Modernise the Tax Administration Framework**
  We will simplify and modernise the outdated legislative framework, so HMRC and customers can benefit from advances in use of technology and data - for example, only needing to register once for all taxes.

Our next steps

These reforms are the focal point for our work over the next 10 years – and they will need investment in the required technology and infrastructure. We're getting ready to redefine our strategic objectives over the coming months to reflect these and other new priorities and ambitions.

We will also follow through on our commitment to have an open dialogue and co-design and co-create this vision with customers and stakeholders.

+ This is an ambitious, transformational vision that is not limited to the steps set out here. Read more at **www.gov.uk/government/publications/tax-administration-strategy/building-a-trusted-modern-tax-administration-system**

Our performance

How we delivered against our plans and commitments in financial year **2019** to **2020**

Strategic objectives

Other work in focus

Objective 1: Collecting revenues due and bearing down on avoidance and evasion

We want everyone to pay the tax that is legally due, no matter who they are.

This means working to increase tax compliance by making it easier for customers to pay the right tax – and taking tough action against those who try to cheat the system.

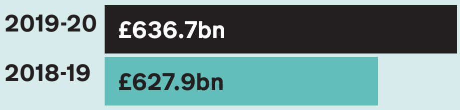
In the financial year 2019 to 2020, we generated total tax revenues of £636.7 billion, an £8.8 billion increase on last year, and exceeded our target for protecting revenue that would otherwise have been lost through non-compliance. We also achieved our commitment, made at Summer Budget 2015, to raise an additional £5 billion a year by financial year 2019 to 2020 by tackling tax avoidance and aggressive tax planning, evasion and other non-compliance, and addressing imbalances in the tax system.

Our customers need us to continue doing this successfully, so the tax administration system brings in the correct revenue, keeps costs down for everyone, and retains public trust.

The COVID-19 pandemic did not greatly affect our ability to achieve our targets for 2019 to 2020 because it began in the last few weeks of the financial year. Its impact will be much more visible during financial year 2020 to 2021. It has created challenges to the operational collection of tax, and a financial climate in which tax receipts are likely to be lower than previously estimated. As the UK rebuilds its economy, we will seek to carry out our vital work in a way that is sensitive to customers' altered needs and capabilities.

Key performance indicators*

1.4%
Increase in total tax revenues



£36.9bn
additional tax generated by tackling avoidance, evasion and non-compliance**

4.9%
Level of error and fraud within the tax credits system

4.7%
Estimated UK tax gap in 2018-19 – the difference between tax that should be paid and what is actually paid

0.3 percentage point decrease from **5.0%** in **2017-18*****

£3.6bn
protected or generated from tackling organised crime

608
criminals and fraudsters successfully convicted

* For a historical data series, go to: **www.gov.uk/government/publications/hmrc-annual-report-and-accounts-2019-to-2020**

** We have improved how we measure compliance yield. This is set out in supporting documents at: **www.gov.uk/government/publications/hmrc-annual-report-and-accounts-2019-to-2020**

*** Figures for previous years have been revised following methodological improvements and incorporating more up-to-date data.

How we performed against our public commitments

In the Single Departmental Plan we set out commitments to further improve the way we collect the revenues due and bear down on avoidance and evasion. In financial year 2019 to 2020 we made 11 public commitments on improvements to make in this area. The table below outlines the status of each one at the end of 2019 to 2020.

Status at the end of 2019 to 2020:			
	on track or complete	**risk to delivery**	**not on track**

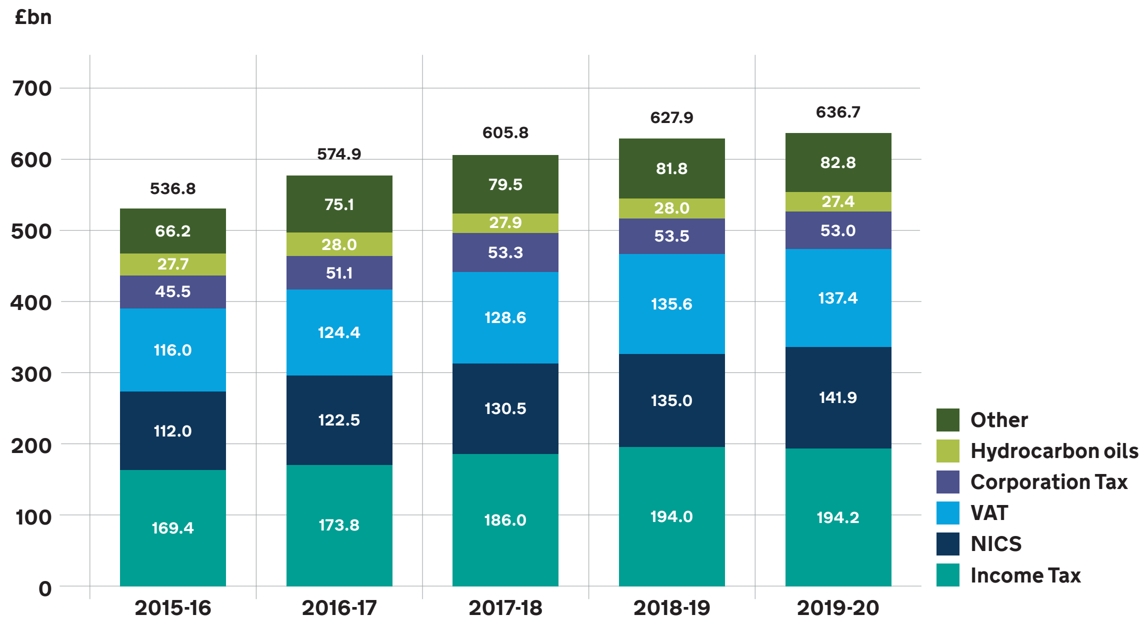
Commitment	Status
Build on our success in collecting £627.9 billion in total revenues over 2018 to 2019 and maintaining the overall long term downward trend in the tax gap over the past decade.	on track or complete
Deliver compliance revenues of £34.5 billion in 2019 to 2020 through our compliance activity.	on track or complete
Continue to identify and prevent losses in the tax credits system so that error and fraud is no more than 5% as we support the transition to Universal Credit. **As we no longer accept new claims to tax credits (with limited minor exceptions), our work to restrict error and fraud now focuses on existing awards. We continue to iterate and deliver our error and fraud strategy, including by supplementing traditional compliance interventions with an increasing range of proactive measures to educate and remind tax credits customers of their reporting responsibilities. The continuing need to divert compliance staff to support other departmental pressures means we expect not to meet the 5% maximum target for 2019 to 2020.**	not on track
Help customers to claim their full tax credits entitlement so that underpayments through error are no more than 0.7%.	on track or complete
Minimise the debt balance, reducing the amounts that become debt and making it as easy as possible for customers to pay what they owe. **Due to the impact of the COVID-19 outbreak, the end of year HMRC debt balance for March 2020 is £2.5 billion higher than forecast, coming in at £22.4 billion, significantly over the forecast of £19.9 billion. This is compared to a debt balance of £19.1 billion in March 2019.** **It is anticipated that the economic impact of COVID-19 will continue into financial year 2020 to 2021 as customers find it increasingly difficult to fulfil their tax obligations.**	risk to delivery
Continue to invest £800 million in additional work to tackle evasion and non-compliance in the tax system, with a further £155 million of investment announced at Autumn Budget 2017 for future years up to 2019 to 2020 (contributes to UN Sustainable Development Goal 17).	on track or complete
Raise an additional £5 billion a year on 2015 to 2016 by 2019 to 2020 by tackling tax avoidance and aggressive tax planning, evasion and non-compliance, and by addressing imbalances in the tax system.	on track or complete
We will tackle the hidden economy by: • developing options for legislation to make the renewal of some public sector licences conditional on applicants being appropriately registered for tax (conditionality) • implementing powers to tackle hidden UK businesses trading via online marketplaces (VAT Joint and Several Liability), and embedding new operational approaches to address the hidden economy. **Budget 2018 said that the government would consider legislating to introduce conditionality at Finance Bill 2019-20. However Budget 2020, which was delayed from autumn 2019, announced that the legislation would be included in Finance Bill 2020-21. Internal milestones were adjusted to work towards that revised timetable.** **We are adapting our approach to VAT Joint and Several Liability cases as we learn more about the population.**	risk to delivery
Increase our ability to prevent alcohol and tobacco smuggling including further funding to tackle illicit tobacco and illicit alcohol.	on track or complete
Continue to tackle tax avoidance, close schemes and collect yield of more than £170 million in 2019 to 2020 through the Accelerated Payments regime and collect yield of £1.3 billion in tax settlements.	on track or complete
Ensure global companies pay their fair share in tax by supporting the government's leading role in the reform of international tax rules.	on track or complete

Increasing total tax revenues

Total revenues represent all money received and due to us after accounting for money we repaid and owed. Total revenues are driven by the overall level of activity in the economy and the rates of taxation, allowances and reliefs set by Parliament. During financial year 2019 to 2020 we collected total tax revenues of £636.7 billion (£8.8 billion more than the previous year). Figure 1 shows how total tax revenues have increased steadily over the past 5 years.

+ For more information on total revenues, with year-on-year comparisons, read the Trust Statement starting on page 185

Figure 1: Revenue (£bn)



Total revenues by type of tax

Income Tax, National Insurance Contributions and VAT make up the three largest elements of total tax revenue, but a wide range of other taxes and duties are also factored in. Here are the key elements of our total tax revenue in 2019 to 2020.

Income Tax and National Insurance

£336.1bn of total revenue

2.1% increase from 2018-19

The amount of revenue raised for these two taxes is closely linked to the number of people in employment and wage levels, both of which increased during this period. Rate changes also impact the amount of revenue collected. There were above inflation rises to the personal allowances and higher rate thresholds for Income Tax, as well as changes to the upper earnings limit for National Insurance contributions.

Value Added Tax

£137.4bn of total revenue

1.3% increase from 2018-19

Receipts tend to rise over time because of economic growth, inflation and consumer spending. A smaller increase than expected was seen, likely due to decreases in economic growth and consumer spending in the final quarter.

Corporation Tax

£53.0bn of total revenue

0.9% decrease from 2018-19

Corporation Tax has remained relatively static.

Hydrocarbon oils

£27.4bn of total revenue

2.3% decrease from 2018-19

Analysis of the impacts of COVID-19 on the oil and gas industry appears to explain the reduction in revenue. The increased fuel economy of vehicles and the growing popularity of electric cars could also be a contributory factor.

Stamp Taxes

£15.4bn of total revenue

1.8% decrease from 2018-19

Stamp Tax revenue is closely linked to the housing market. Sales of homes remain near their lowest point for a decade, coinciding with a sustained period of weak house price growth.

Alcohol

£11.9bn of total revenue

1.7% decrease from 2018-19

It is likely that the decrease is due to the effects of COVID-19, which initiated venue closures and the cancellation of sporting events in the final quarter.

Capital Gains Tax

£10.0bn of total revenue

7.1% increase from 2018-19

Movement in tax receipts is difficult to determine due to the underlying volatility of asset sales and the extent to which they generate capital gains. Timely information is not available due to the significant lag in declaration via Self Assessment.

Tobacco

£9.7bn of total revenue

5.5% increase from 2018-19

The number of smokers has continued to fall, reflecting an increase in health awareness. A rate change, effective from 11 March, had the effect of causing a short-term increase in revenue which is not expected to occur in the next financial year.

Insurance Premium Tax

£6.5bn of total revenue

1.7% increase from 2018-19

Movement in tax receipts is driven by changes in tax rates and the cost and number of insurance policies. Tax rates have remained the same since June 2017.

A number of other taxes, including Inheritance Tax, Bank Levy and customs duties, account for the remaining revenue.

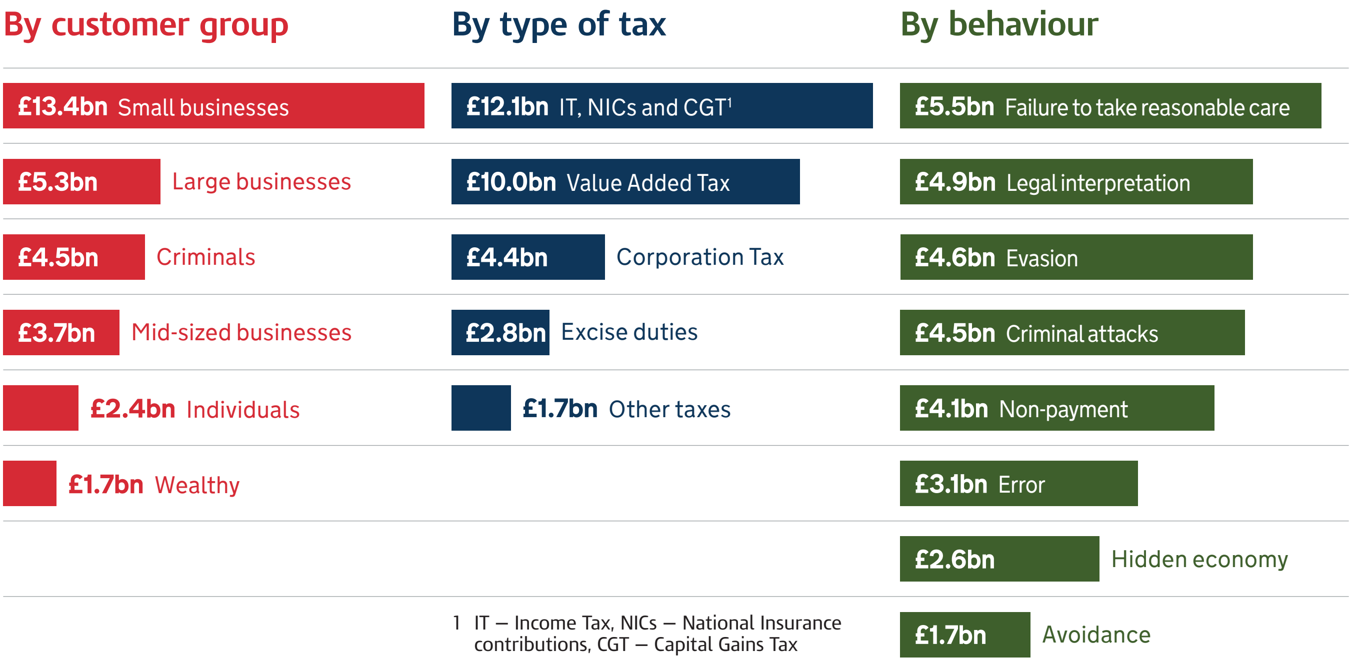
+ For more information, with year-on-year comparisons, go to the Trust Statement on page 185

Lowering the UK's tax gap

The tax gap is the difference between the amount of tax that should, in theory, be paid to HMRC and what is actually paid. The tax gap can never be zero – for example, we cannot collect all the outstanding tax from businesses that become insolvent. While the vast majority of customers pay the correct amount of tax, some make simple errors or do not take enough care in calculating the tax that they owe. A tax gap also results from differences in legal interpretation, avoidance, evasion and criminal attacks on the tax system.

The UK tax gap in tax year 2018 to 2019 (the latest figure available) is estimated to be 4.7% (£31 billion) of total theoretical tax liabilities, which means that HMRC secured 95.3% of all tax due. The tax gap has fallen from 7.5% in 2005 to 2006, showing a long term downward trend.

Figure 2: UK tax gap in 2018 to 2019



Our tax gap estimates are official statistics produced with the highest levels of quality assurance and adhere to the framework for the Code of Practice for Statistics. The Office for Statistics Regulation regulates all official statistics produced in the UK. Their compliance check in May 2019 found that 'HMRC is world-leading in measuring tax gaps'.

Tax gap estimates are calculated net of compliance yield – that is, they reflect the tax gap remaining after HMRC compliance activity. These are our best estimates, but there are many sources of uncertainty and potential error, which is why it is better to focus on the trend in results. Where possible, our estimates include a range, which helps to show some of the uncertainty in these statistics. We may revise previous years' tax gaps as more data becomes available, in order to show the long-term trend.[1]

1 For more details, including confidence intervals and trend analysis, see HMRC's Measuring tax gaps report and methodological annex at: **www.gov.uk/government/statistics/measuring-tax-gaps**

While we're proud that the tax gap is at its lowest percentage rate, the cash value of £31 billion is still a large sum that should be paid to fund our vital public services. The best way to reduce the tax gap is through the way we design the tax administration system. We promote compliance by helping customers to get things right, and prevent non-compliance by using data and system design to block fraud and prevent mistakes.

We recognise that to keep the tax gap low we must continue to adapt and grow with a changing world – one that will increase some tax risks, reduce others and throw new challenges at us. HMRC and the government are always exploring modern, innovative responses and we will continue to consider how best to use our resources to address these new challenges over the coming years.

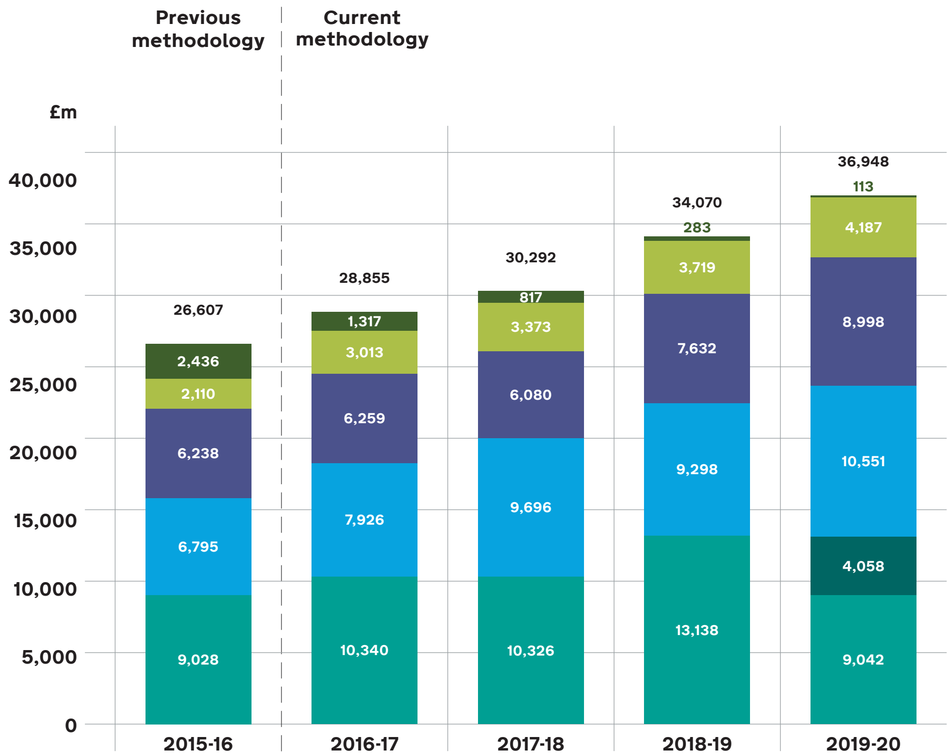
+ To see HMRC's Measuring tax gaps report go to: **www.gov.uk/government/statistics/measuring-tax-gaps**

Ensuring the correct tax is paid

Every year we take action to collect or protect billions of pounds of 'compliance yield' that would have otherwise been lost to the UK from non-compliance, whether through tax avoidance, evasion or simply error. There are a number of components that make up compliance yield, as shown in Figure 3.

For the majority of taxpayers who try to get their tax affairs right, our aim is to work with them if they make mistakes so we can get them back on the right track. Our approach is underpinned by cutting-edge data analysis to identify where tax is most at risk of not being paid, so we can design tailored, targeted and proportionate interventions. Decisions on when and where to intervene are not driven solely by the amount of money that we will recover; it's important for individuals and businesses to know we cover all parts of the economy impartially, so they can be confident they aren't being disadvantaged.

Figure 3: Compliance yield (£m)



Cash expected:
Additional revenue due when we identify past non-compliance, with a reduction to reflect revenue that we know will not be collected.

Upstream operational yield:
(Categorised with cash expected until 2019 to 2020) Estimated impact of operational activities undertaken to promote compliance and prevent non-compliance before it occurs. Does not include yield from legislative changes.

Revenue losses prevented:
Revenue that we prevented from being lost to the Exchequer.

Future revenue benefit:
Estimated effect of our compliance work on customers' future behaviour.

Upstream product and process yield:
Estimated annual impact on net tax receipts of legislative changes to close tax loop holes and changes to our processes which reduce opportunities to avoid or evade tax.

Accelerated payments:
Disputed amounts of tax that people using tax avoidance schemes are required to pay up front within 90 days, and an estimate of the behavioural change caused by this policy.

This year, we are publishing upstream operational yield as a distinct category for the first time, because it has become a more significant proportion of total yield. This yield represents the estimated impact of operational activities that have an impact on customer behaviour, promote compliance and prevent non-compliance before it occurs – such as education, nudges and prompt campaigns. These activities include working with specific sectors to prevent criminal activity (i.e. promoting good supply chain management by tobacco and alcohol suppliers and manufacturers), changing processes so it's easier for customers to get things right (e.g. improving HMRC forms) and introducing educational products, such as toolkits, to help customers comply.

+ To read more on how the methodology for measuring compliance yield changed in recent years, please view supporting documents at: **www.gov.uk/government/publications/hmrc-annual-report-and-accounts-2019-to-2020**

+ Read more on our compliance yield explanations at: **www.gov.uk/government/publications/hmrc-quarterly-performance-report-january-to-march-2020**

How we collect tax from different customer groups

We collect revenues, according to the laws set by Parliament, from millions of individuals and from businesses of all sizes. To help us do this, we segment our customers into groups so we can identify their needs and risks more accurately and tailor our responses accordingly – from support to help people get their tax right, to targeted action against avoidance, evasion and criminal activity.

The tables below show key performance data for our customer groups. There are some differences between the way we segment receipts between customer groups and how theoretical liabilities are segmented when calculating tax gaps; in particular, as employers operate PAYE schemes, we evaluate compliance in PAYE within the tax gaps for small, mid-sized and large business customer groups. We are continuing to develop improved methods to segment individuals and wealthy individuals for PAYE tax paid and compliance yield.

Individual customers: population 31 million (Income Tax payers)

£260bn	£15bn	£2.8bn	£360m	£2.4bn
Estimated PAYE and National Insurance Contributions (NIC) receipts collected (to nearest £5 billion)[1]	Estimated receipts – other taxes, such as Corporation Tax, VAT, excise duties, Capital Gains Tax (to nearest £5 billion)	Estimated compliance yield generated from our activities (to nearest £0.1 billion)[2]	Estimated spend on compliance activities (to nearest £10 million)	Tax gap estimate for 2018 to 2019 (to nearest £0.1 billion)

Individuals are by far our largest customer group and many claim tax credits and other entitlements from us, as well as paying taxes - in 2019 to 2020 they were defined as having incomes below £200,000 and assets below £2 million in each of the last 3 years.

We work with intermediaries to reduce the need for individuals to engage with us directly, such as PAYE customers paying tax through their employers. Our digital tax accounts help people manage their affairs online in real time.

We are committed to treating our customers fairly and provide tailored support at the right time to individuals who need extra help to manage their tax and benefit affairs.

Wealthy individuals: population: 700,000

£45bn	£40bn	£2.2bn	£190m	£1.7bn
Estimated PAYE and NIC receipts collected (to nearest £5 billion)	Estimated receipts – other taxes, such as Corporation Tax, VAT, excise duties, Capital Gains Tax (to nearest £5 billion)	Estimated compliance yield generated from our activities (to nearest £0.1 billion)	Estimated spend on compliance activities (to nearest £10 million)	Tax gap estimate for 2018 to 2019 (to nearest £0.1 billion)

Wealthy individuals often have complex tax affairs covering multiple different taxes. In 2019 to 2020 they were defined as having incomes above £200,000 or assets above £2 million in any of the last 3 years.

We assign specific teams to develop an in-depth understanding of the finances, behaviours and compliance risks of wealthy individuals.

We secure data and intelligence to identify who is not paying the right tax.

We intervene in a range of proportionate ways, including offering support where needed – but we take direct action against those wealthy individuals who fail to file, or incorrectly file, tax returns.

Small businesses: population 5.7 million

£80bn	£75bn	£7.6bn	£500m	£13.4bn
Estimated PAYE and NIC receipts collected (to nearest £5 billion)	Estimated receipts – other taxes, such as Corporation Tax, VAT, excise duties, Capital Gains Tax (to nearest £5 billion)	Estimated compliance yield generated from our activities (to nearest £0.1 billion)	Estimated spend on compliance activities (to nearest £10 million)	Tax gap estimate for 2018 to 2019 (to nearest £0.1 billion)

Small businesses represent more than 95% of businesses in UK. In 2019 to 2020 they were defined as having turnover below £10 million and fewer than 20 employees.

Our digital tax accounts allow small businesses and their tax agents to deal with their tax affairs online, so they can focus on running their business.

We provide educational material and guidance to help small businesses get their tax right from the outset.

We use a range of proportionate interventions for businesses who are non-compliant, depending on the size and complexity of the tax at risk of being lost to the economy.

Mid-sized businesses, charities and public bodies: population 200,000+ (CT live entities)

£115bn	£50bn	£5bn	£270m	£3.7bn
Estimated PAYE and NIC receipts collected (to nearest £5 billion)	Estimated receipts – other taxes, such as Corporation Tax, VAT, excise duties, Capital Gains Tax (to nearest £5 billion)	Estimated compliance yield generated from our activities (to nearest £0.1 billion)	Estimated spend on compliance activities (to nearest £10 million)[3]	Tax gap estimate for 2018 to 2019 (to nearest £0.1 billion)

Mid-sized businesses make up less than 5% of UK businesses, but some are growing rapidly making their tax affairs increasingly complex. In 2019 to 2020 they were defined as having turnover between £10 million and £200 million or 20 or more employees.

Our digital tax accounts allow them to deal with their tax affairs online and we're working closely with software developers to make sure business software is compatible with our systems.

We are committed to making better use of data to understand customers and their rapidly changing circumstances and needs, so we can support them to comply with tax legislation and address any risks to tax revenue.

We tackle non-compliant businesses according to the level of risk, the more complex the case, the more intensive the intervention.

Large businesses: population 2,000

£110bn	£150bn	£15.8bn	£210m	£5.3bn
Estimated PAYE and NIC receipts collected (to nearest £5 billion)	Estimated receipts – other taxes, such as Corporation Tax, VAT, excise duties, Capital Gains Tax (to nearest £5 billion)	Estimated compliance yield generated from our activities (to nearest £0.1 billion)	Estimated spend on compliance activities (to nearest £10 million)	Tax gap estimate for 2018 to 2019 (to nearest £0.1 billion

Large and complex businesses play a pivotal role in the UK economy. In 2019 to 2020, they were broadly defined as having turnover exceeding £200 million or £2 billion in assets, but we look at other factors such as complexity, level of risk and global mobility.

We actively investigate around half the UK's largest businesses at any one time – using litigation to resolve risks as appropriate. Our intensive resources are focused on these businesses because of the amounts of money involved, and complexity of their tax affairs. Our customer compliance managers and tax teams are specifically assigned to a large business, so they can better understand them and encourage voluntary compliance. We secure data and intelligence to identify non-compliance and seek national and international agreements on data-sharing to make large businesses more transparent.

To help us improve compliance in large businesses and work more efficiently with multinationals, we rolled out our Business Risk Review in 2019 to 2020.

+ Read more on our explanations of customer segmentation at: **www.gov.uk/government/publications/hmrc-annual-report-and-accounts-2019-to-2020**

[1] PAYE receipts are included in the total receipts for individual and wealthy customer groups, whereas the PAYE tax gap is reported as part of the tax gaps for small, mid-sized and large business customer groups.

[2] Compliance yield figures have increased under new methodology as all yield has been allocated. Previously, only Customer Compliance Group yield was allocated to customer groups. Some compliance yield and activities are directed towards organised crime, which is not included in this table.

[3] The increase in 'midsize' costs and reduction in 'large' costs for 2019 to 2020 is from a change in methodology, where large public bodies and charities, previously categorised in the 'large' customer segment, have been reallocated into the 'midsize, charities and public bodies' customer group. This allows for a consistent methodology between yield, receipts and costs.

How we're tackling avoidance and evasion

The best way to tackle non-compliance is to prevent it before it can occur. For the majority, our strategy is to help customers get tax right through educational material and customer service – but we don't hesitate to use our civil and criminal powers where we believe a business or individual is trying to cheat the tax system, or if the system is under attack by organised criminals.

Our job is to be impartial and ensure that everyone plays by the same rules. Honest taxpayers rightly want to know we will step in to enforce the rules where necessary, creating a level playing field for individuals and businesses.

We won't hesitate to act against contrived arrangements that seek to artificially minimise tax liabilities, whether it's multinationals diverting profits out of the UK or tax avoidance schemes used by individuals. We're increasingly focusing on measures to tackle issues at their source, including focusing on the small minority of those who make money by promoting tax avoidance and even enabling fraud.

We conduct criminal investigations and seek criminal prosecutions if it is in the public interest, particularly where the behaviour displayed is very serious or where a criminal prosecution will act as a strong deterrent. Our focus is on collecting the tax that is due, rather than simply chasing targets for arrests and prosecutions.

The hidden economy

The hidden economy includes individuals and businesses who fail to declare a source of income. It deprives the government of funding for vital public services, distorts competition and can be linked to wider rule breaking and criminality. However, many people operating in the hidden economy do so because they are unaware of – or do not fully understand – their tax obligations. Whether deliberately or not, if they have been hiding their income for a long period they are also likely to find it hard to come forward and tell HMRC about it.

Addressing the hidden economy is a crucial part of our role in supporting a level playing field for compliant businesses. This includes targeted support and guidance for new and start-up businesses, and new policy measures to prevent businesses from entering or sustaining activity in the hidden economy.

We are utilising powers to tackle hidden UK businesses trading via online marketplaces, and in July 2020 we published draft legislation to make the renewal of some public sector licences conditional on applicants being appropriately registered for tax. In recent years, we have also expanded our powers to obtain data from third parties, and we are using these to undertake focused compliance activity, making it increasingly difficult for a small minority of businesses to deliberately hide their income.

40,000

medium-sized businesses and other organisations written to, to provide support on implementing IR35 rules

11,000

people taken out of the loan charge following changes to its scope

350

interventions on tax avoidance promoters and their supply chains

In focus: Supporting customers with changes to off-payroll working (IR35) rules

Off-payroll working rules (known as IR35) make sure that workers providing their services to a client through their own limited company or another type of intermediary, who would have been an employee if they had provided their services directly, pay broadly the same tax and National Insurance contributions as employees.

From April 2021, responsibility for determining whether these rules apply will move from the worker's intermediary to medium-sized or large organisations engaging their services. This reform was originally due to take effect in April 2020 but was delayed as part of the government's response to COVID-19.

During 2019 to 2020, we have consulted on legislation, published updated guidance and undertaken a programme of education and support to enable businesses to successfully implement this change. This has included offering one-to-one calls to 2,000 of the largest businesses, writing directly to more than 40,000 medium-sized businesses and other organisations, and providing a programme of webinars and workshops. In November 2019 we launched a newly enhanced version of Check Employment Status for Tax (CEST), our tool to help employers.

Disguised remuneration and loan charge

Disguised remuneration schemes seek to avoid Income Tax and National Insurance contributions by paying scheme users their income in the form of loans. At Budget 2016, the government announced a new 'loan charge' on any disguised remuneration loans outstanding on 5 April 2019 where the tax had not been paid. Between Budget 2016 and 31 March 2020, around 11,000 employers and individuals settled their use of these schemes, to a value of around £2.6 billion.

In September 2019, recognising concerns raised about the loan charge, the Chancellor commissioned an independent review led by Sir Amyas Morse, which was published in December 2019. During the review period we continued to support customers who wanted to settle, but many chose to pause their engagement with us to await the outcome.

The government accepted all but one of the review's recommendations, including limiting the scope of the loan charge so that it no longer applied to loans taken out before 9 December 2010 or to loans taken out between 9 December 2010 and 5 April 2016 where a reasonable disclosure was made to us and we did not take action, for example by opening an investigation. We estimate that more than 30,000 people will benefit from these changes, including around 11,000 people taken out of the loan charge altogether. Parliament has now enacted the changes and we will implement them in financial year 2020 to 2021.

Despite years of action to put a stop to disguised remuneration schemes, they continue to be marketed and used. We remain committed to tackling new and emerging schemes and have launched a call for evidence to seek views on further interventions. We also understand that compliance investigations are difficult and worrying situations and we should keep in regular communication with customers whose tax affairs are under enquiry. We are continuing to help customers resolve their tax affairs and get out of tax avoidance for good - with extra support and additional time to pay for those who need it.

+ Guidance for those affected is published at:
www.gov.uk/government/publications/disguised-remuneration-independent-loan-charge-review/guidance

In focus: National Disclosure Improvement Plan

HMRC recognises the crucial part that disclosure - making sure all parties in a court case are aware of all documents that have a bearing on it – plays in the UK's criminal justice process.

Getting it right is a priority for any law enforcement organisation and we are no exception. The increase in use of digital media presents significant challenges and ones we did not face 10 or 15 years ago.

In response to these challenges, all partners across the Criminal Justice system are working to a National Disclosure Improvement Plan and HMRC is actively working in partnership with the Crown Prosecution Service to focus on four key areas:

- resources and procedures
- training and capability
- partnership working and governance
- digital and technology

We have also enhanced disclosure training, appointed dedicated disclosure officers and strengthened governance structures. We now play a key role across government in delivering a sustainable approach to meeting the challenges of disclosure in the modern criminal justice system.

+ Read the National Disclosure Improvement Plan at:
www.cps.gov.uk/publication/national-disclosure-improvement-plan

Tax avoidance promoters and enablers

A promoter of a mass-marketed tax avoidance scheme is generally someone who designs or markets the tax avoidance scheme or is responsible for its organisation. Promoters often use a network of enablers to sell their schemes.

Since 2014 we have seen around 20 promoters of tax avoidance leave the market. Now we're focusing on the 20 to 30 most challenging promoters that remain.

During financial year 2019 to 2020 we doubled our resources on this work, with over 350 interventions on promoters and their supply chains. In this year, our Fraud Investigation Service arrested 9 people on suspicion of promoting fraudulent arrangements claiming to get around the loan charge.

We have also been contacting customers as soon as we become aware that they may have entered into an avoidance scheme to highlight the risks they face and provide advice about how they can leave the scheme and pay the right amount of tax.

We will be introducing further measures that will reduce the scope for promoters to market tax avoidance schemes, as announced in the government's response to the independent loan charge review and in the 2020 Budget. In line with our Promoters Strategy published in March 2020 we continue to identify new approaches to disrupt promoter business models and the economics of tax avoidance.

+ Read our revised strategy for tackling promoters of tax avoidance schemes:
www.gov.uk/government/publications/tackling-promoters-of-mass-marketed-tax-avoidance-schemes

Offshore tax evasion

In recent years, extensive new powers, increased penalties and innovative measures have been introduced to tackle offshore tax evasion. These include tough new civil and criminal offences, such as the corporate criminal offence for companies that fail to prevent the facilitation of offshore and onshore evasion which allows us to tackle the problem at all levels. We have secured £3 billion since 2010 from those attempting to hide money offshore.

In September 2019 we took part in the third annual exchange of Common Reporting Standard data with 94 other jurisdictions. It provided us with information on over 8 million accounts relating to around 3.3 million UK taxpayers with offshore financial interests.

International data sharing and co-operation is improving our understanding of the nature and scale of offshore compliance risk. The 2019 'No Safe Havens' strategy addresses all forms of non-compliance across all customer segments reflecting the variety of behaviours, from simple error through to deliberate evasion, driving offshore non-compliance.

We deploy a range of interventions proportionate to the type of risk. We have improved education and guidance to limit opportunities for customer error and developed 'nudges and prompts' to help customers get their tax computation right. We also continue to develop intelligence gathering and international collaboration to tackle more serious and deliberate non-compliance.

The Worldwide Disclosure Facility, launched in September 2016 to enable customers to bring their tax affairs up to date has received more than 20,000 disclosures with more than £168 million recovered.

+ Read our 'No Safe Havens' strategy for offshore tax compliance: **www.gov.uk/government/publications/no-safe-havens-2019**

Tackling serious fraud and organised crime

We work hard to reduce the threat of serious fraud in cross-border smuggling, exploitative organised labour fraud, trans-national VAT fraud and other serious crimes. Whilst criminal investigation is an important part of HMRC's overall enforcement strategy, it's HMRC's policy to deal with fraud by use of the cost-effective civil fraud investigation procedures wherever appropriate. HMRC will conduct criminal investigations and seek criminal prosecutions if it is in the public interest, particularly where the behaviour displayed is very serious or where a criminal prosecution will act as a strong deterrent. HMRC aims to secure the highest level of compliance with the law and regulations governing direct and indirect taxes and other regimes for which they're responsible.

Last year 608 individuals were convicted of serious fraud and 1,195 organised criminals have been prosecuted since 2011.

Tax fraud is sometimes a global problem that requires a global solution, so we collaborate internationally in exchanging intelligence and participating in joint operational activity including taking a leading role in the Joint Chiefs of Global Tax Enforcement (J5) group. The J5 was formed in 2018 in response to a call to action from the OECD for countries to do more to tackle the enablers of tax crime and the alliance is made up of Australia, Canada, the Netherlands, the United Kingdom and the United States.

The J5's pooled resources and collective efforts means that there is increased insight, data and analytical capability available to the authorities of all 5 countries.

Customs fraud

Our activity to counter customs fraud includes:

- trader education on fraud risks
- regular monitoring of high-risk traders and their supply chains
- post-clearance audit activity across taxes, including raising duty demands or assessments with follow up debt recovery action

Money laundering and economic crime

Our capabilities as an anti-money laundering supervisor, tax authority and law enforcement agency make us uniquely placed to tackle economic crime.

As an anti-money laundering supervisor, we cover 33,000 businesses across 9 sectors: accountancy service providers, art market participants, high-value dealers, estate agency businesses, high-value letting agency businesses, money service businesses, trust and company service providers, digital and IT payment service providers, and bill payment service providers. We use the fees we charge to provide better support for these businesses, helping them to understand their obligations and protect themselves from being exploited by criminals.

For those who fail to meet their obligations, our work sends a clear deterrent message. We work with the National Economic Crime Centre and other law enforcement partners to identify, tackle and prevent illicit flows of money and take targeted action in the highest risk areas. In 2019 to 2020 we recovered £166.6 million in proceeds of crime and there were 31 convictions for money laundering offences.

1,958

supervisory interventions carried out to prevent money laundering in 2019 to 2020

£9.1m

issued in penalties for anti-money laundering failures

£168m

recovered from offshore through the Worldwide Disclosure Facility since 2016

608

people convicted of serious fraud

Rewards for information

There will be times when it is appropriate for us to make payments to individuals for providing us with information that helps us tackle avoidance and evasion. We make these at our own discretion, based on what is achieved as a direct result. A range of factors determine the exact amount, such as the tax recovered, how much estimated revenue loss was prevented and other benefits, such as time saved in working cases. In 2019 to 2020 we paid out £473,000 in rewards for information.

Our long-standing practice of paying rewards is well established across UK and overseas law enforcement agencies and many international tax authorities. Governance of the management of sources is administered under HMRC policy, which is derived from wider National Police Chiefs Council policy. The Investigatory Powers Commissioner's Office audits adherence to policy and practices, together with independent inspection by the National Audit Office.

+ Our powers incorporate a comprehensive suite of safeguards for customers, built into the tax administration and criminal justice frameworks. Read more about these in the Tax Assurance Commissioner's report on page 110.

Managing receivables, debt and tax losses

Receivables

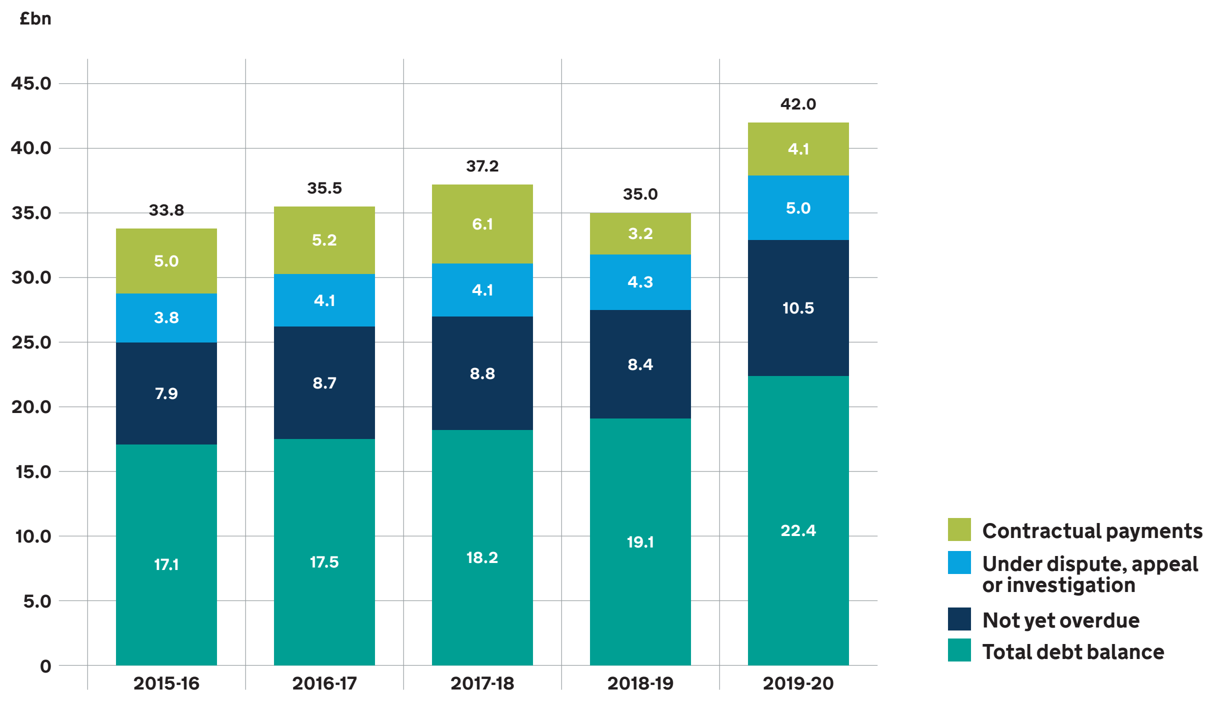
Receivables is the term we use to describe revenue we haven't received yet, but which we know is due to be received – whether or not it's currently overdue. It covers all liabilities, including taxes, duties, overpaid tax credits, penalties and interest charges owed by individuals and businesses. Receivables amounted to £42.0 billion as at 31 March 2020 compared to £35.0 billion at 31 March 2019. Tax receivables were gross £37.2 billion (see Trust Statement, starting on page 185) while tax credits receivables were gross £4.8 billion (see Resource Accounts, starting on page 210).

Impairment of receivables

Receivables in the Statement of Financial Position are reported after impairment to reflect an amount that is likely to be collected. We have considered how the adverse macro-economic conditions due to COVID-19 affect our collection rates.

+ For more information, read note 4.2 of the Trust Statement on page 194.

Figure 4: Breakdown of receivables and debt (£bn)



Debt

£52.7bn

new debt received to pursue by HMRC in 2019 to 2020

£34.9bn

debt collected

£7.8m

collected in debt per average debt management staff

£205

collected for every £1 spent

Although over 90% of revenue is paid on time, if a receivable becomes overdue for payment and is not under appeal, it becomes a debt. We work hard to collect debts as early as possible, with 70% of debts clearing within 12 months, which is best for the customer and for the public purse.

Our debt balance at the end of March 2020, which is both collectable and enforceable, was £22.4 billion. This includes £19.0 billion in total tax debt (which equates to 3.0% of tax revenues) and £3.5 billion in total tax credits debt[1]. This balance was impacted by the start of the COVID-19 lockdown, which led to £2.5 billion of additional debt. We expect there to be a further substantial increase in the debt balance during 2020 to 2021 due to the economic impact of COVID-19.

In 2019 to 2020 we continued to use private sector debt collection agencies, who collected £466.8 million, with more than £18 returned for every £1 of recovery cost. We do not use enforcement agents (bailiffs) but have our own team of collections officers, who conducted 394,000 visits in 2019 to 2020, recovering £3 billion of overdue debts. Only 27% of these visits resulted in further enforcement action and only around 1% involved us starting action to take control of goods. We received 83 complaints from these visits – equating to 0.02% of visits.

Where we encounter financial hardship or vulnerable customers, our collections officers are trained to refer cases to our Extra Support Team. We also support customers in vulnerable circumstances and those in temporary hardship who need more time to pay their debt. At the end of 2019 to 2020 we had £2.3 billion in Time to Pay arrangements, supporting 648,000 taxpayers.

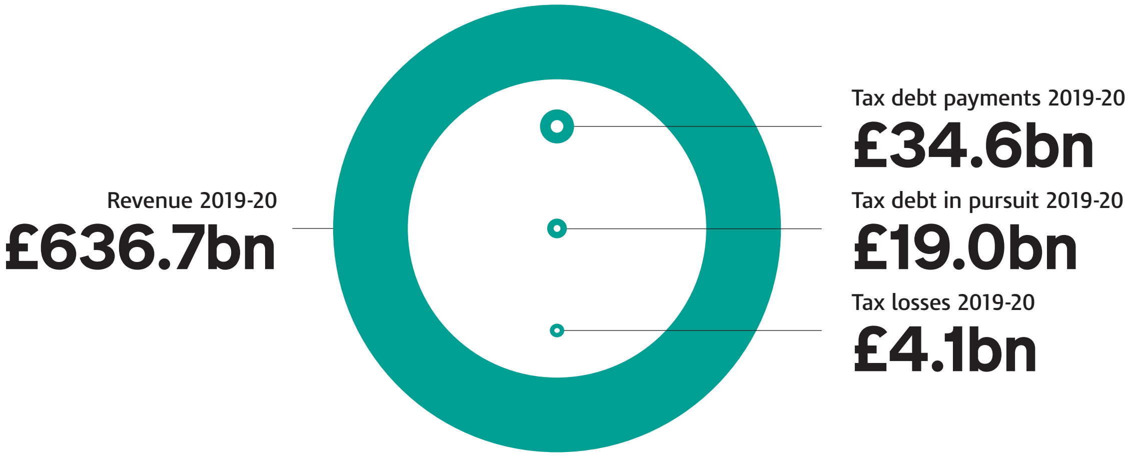
HMRC's commitment to being fair with debtors is further reflected in the low level of complaints received compared to the size of debt pursuit activity, where many millions of letters and SMS messages are sent throughout the year to encourage customers to file or pay. In 2019 to 2020 we received 13% less complaints than the previous year.

1 Figures may not sum due to rounding. £3.5 billion excludes debt being recovered through ongoing personal tax credits awards.

Tax losses

In certain cases we decide to stop debt collection activity if it becomes uneconomic for us to pursue the outstanding amount, or if there is no practical means to collect it. We take decisions on a case-by-case basis, for example if companies become insolvent. Tax losses were £4.1 billion in the financial year 2019 to 2020 and these were split between remissions of £0.6 billion and write-offs of £3.5 billion.

Figure 5: Tax debt in pursuit and tax losses compared to revenue (£bn)



Beyond 2020
Modernising to collect the right tax

- We will progress our digitisation of the tax system to keep pace with the changing world around us – improving tax administration and productivity for businesses. We're planning the extension of Making Tax Digital over the coming years, drawing on lessons learned to date and engaging widely with affected businesses.
- Our systems will focus on helping people to get their tax right first time. Better alignment with third-party suppliers to provide new and innovative services for taxpayers, single online customer accounts and real-time information so customers can manage their taxes and pay them promptly.
- We will explore options for creating a simpler, more transparent framework that helps build greater trust and provides greater certainty for taxpayers.
- We will continue to take a sympathetic approach to those who are struggling to pay their tax or file their returns on time due to COVID-19 and will offer longer periods to request a review or appeal the decision.

Objective 2: Transforming tax and payments for our customers

We are committed to making it easier for our customers to pay their taxes and claim their entitlements.

Our aim is to create a better customer experience for everyone, whatever their circumstances, so that compliance increases and we raise revenue more effectively for vital public services. Making Tax Digital is central to this, and our roll-out of Making Tax Digital for VAT was a major milestone – with around 1.3 million businesses signing up.

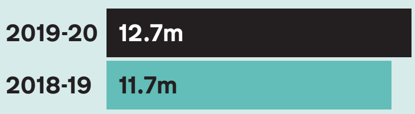
To provide greater transparency around our customer contact performance, we have also broadened our measurement of customer experience, published more supporting data on our telephone, post and customs processes and tested new customer experience measures.

In the first half of this financial year, we did not deliver the customer service we would have liked, due to resourcing challenges carried forward from financial year 2018 to 2019, plus higher than expected customer demand. In the second half of the year our performance improved steadily and was close to where we wanted it to be, but we couldn't meet all of our targets.

From March 2020, COVID-19 resulted in changes to customer behaviour and the introduction of new support schemes, which affected our ability to maintain performance. This impact on our customer service channels will continue into financial year 2020 to 2021. We recognise the challenges businesses and individuals face as the economy re-opens and will take them into account in our approach to collecting revenues due.

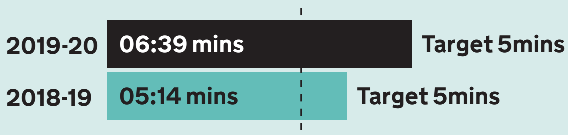
Key performance indicators*

12.7m
customers accessed their online digital services account for individuals



81.6%
customers satisfied or very satisfied with our digital services

06:39 mins
average speed of answering calls



87.6%
online iForms processed within 7 days

29.9%
callers waiting more than 10 minutes to speak to an adviser

70.3%
customer post which requires a response is cleared within 15 days of receipt

* For a historical data series, go to **www.gov.uk/government/publications/hmrc-annual-report-and-accounts-2019-to-2020**

How we performed against our public commitments

In the Single Departmental Plan we set out commitments to further transform tax and payments for our customers. In financial year 2019 to 2020 we made 10 public commitments on improvements to make in this area. The table below outlines the status of each one at the end of 2019 to 2020.

Status at the end of 2019 to 2020:	on track or complete	risk to delivery	not on track

Commitment	Status
Invest £1.3 billion to transform HMRC into one of the most digitally advanced tax administrations in the world, finishing the delivery of our multi-channel digital services so we become a 'digital-by-default' organisation.	on track or complete
Make it quicker and easier for businesses and landlords to get their tax right through the implementation of Making Tax Digital. **We have implemented Making Tax Digital (MTD) for VAT for those customers over the VAT threshold and this is now being used successfully by over 1.47 million of those customers. We continue to develop and enhance the VAT product. We have delivered a pilot for MTD Self Assessment businesses and landlords and intend to expand this over the coming years. Our confidence in delivering these changes is at amber.**	risk to delivery
By April 2019 most small businesses will be able to opt to keep their records digitally and send quarterly updates for income tax and VAT and those above the VAT threshold will be required to do so. **The VAT service has been open to the vast majority of VAT-registered businesses with taxable turnover above the VAT threshold since April 2019, with a small number deferred to October 2019. There are currently 1.47 million VAT customers using the service, the MTD Self Assessment pilot is also open to circa 1 million although take up is limited. We continue to deliver additional and enhanced service for these customers while managing risks and challenges caused by the impacts from COVID-19 and EU exit.**	risk to delivery
Continue to work with HM Treasury (HMT) and the Department for Work and Pensions (DWP) on the transition to Universal Credit, making this as smooth as possible for employees and claimants, in line with the migration plan led by DWP (contributes to UN Sustainable Development Goal 1).	on track or complete
Continue to monitor Annually Managed Expenditure risks and work with HM Treasury officials to develop operational and policy ideas to minimise fraud, error and debt.	on track or complete
Support the government to negotiate a successful EU exit and future partnership. **We exited the EU on 31 January when the withdrawal from the EU became law. There were immediate requirements to deliver key work, including the ratification of the Withdrawal Agreement Bill, the Northern Ireland Protocol and the Future Economic Partnership/Free Trade Agreement, within a very challenging timeframe, alongside the preparation for a potential Non-Free Trade Agreement for Great Britain at the end of the UK transition period.**	risk to delivery
Build and maintain specialist capability to deliver the requirements for EU exit and HMRC's future Target Operating Model. **Following the UK's exit from the EU, we have supported the government in its negotiations for free trade agreements with the EU and other countries, and prepared for the end of the UK transition period on 31 December 2020.**	risk to delivery
Deliver the Customs Declaration Service (CDS) through a phased approach, with flexibility and scalability to support our new UK customs regime. **We continue to work with our key delivery partners to ensure HMRC and traders are ready for the end of the transition period. We will continue to dual run CDS and CHIEF beyond the end of December 2020.**	risk to delivery
Ensure we have the IT, operational and policy requirements in place to support the UK's exit from the EU. **Delivery timescales remain challenging and have been further impacted by COVID-19. Further challenges are presented by the volatile nature of the changes required and the potential for further changes to scope as some requirements won't be finalised until negotiations conclude. We are assessing the deliverables which are at greatest risk to identify the contingency arrangements that need to be in place for the end of the UK transition period. Read more about our preparations to support the UK's exit from the EU on pages 68 to 69.**	risk to delivery
Support UK businesses by ensuring the flow of trade is preserved through cross-government contingency planning, while keeping our borders secure and ensuring collection of any tax and duties due (contributes to UN Sustainable Development Goals).	on track or complete

Improving the customer experience

We know that the most effective way to close the tax gap and ensure the correct tax is paid is to help customers get their tax affairs right quickly and easily – and at the earliest possible stage.

That's why we see customer service and tax compliance as closely linked – and why improving customer experience is a key part of our strategy. It's good for customers but it also increases compliance and makes us better able to collect the revenue that helps fund UK public services.

We recognise that parts of our customer service performance haven't always been where they need to be, with challenges this year around phone and post (see pages 46 and 47) – but we're also reaching far more customers in new ways, such as webchat, and since the end of the financial year and the onset of the COVID-19 crisis, our digital customer satisfaction scores have reached new highs of over 85%.

We've also improved our existing online services during 2019 to 2020, such as for claiming employment expenses. We acted on customer feedback to enhance our Business Tax Account features and increase the visibility of the service. We've introduced better webchat services and an enhanced digital assistant, as well as the ability for customers to communicate with HMRC electronically where authorisation is required. All this helps to ensure customers have the support they need to meet their obligations and claim benefits.

Our work to improve customer experience is guided by our Customer Experience Committee, which advises on developing a customer-focused culture, introducing customer experience performance measures and addressing the needs of customers who need extra support.

+ Read more about the Customer Experience Committee on page **79**

How do customers rate their experience?

We conduct regular surveys of our customers to get a complete understanding of their experience with us. We use it to gain insight, understand what our customers need, and take action to improve the way we operate. Here's how businesses, individuals and agents rate their overall experience of dealing with HMRC.

Small businesses*

75% positive

Mid-sized businesses**

58% positive

Large businesses***

86% positive

Individuals*

63% positive

Agents*

51% positive

* HMRC Individuals, Small Businesses and Agents Customer Survey 2019

** HMRC Mid-sized Business Customer Survey 2019

*** HMRC Large Business Customer Survey 2019

Listening and improving

On 22 July 2019 HMRC and the Rt. Hon. Jesse Norman, Financial Secretary to the Treasury, made a commitment to increase transparency and enhance public trust by publishing more data and information about the exercise of our powers. As a first step, this year we expanded the range of performance and management information published in our monthly and quarterly performance publications on GOV.UK.

Previous reporting focused on specific aspects of telephony and post processes – call waiting and post turnaround times, as well as compliance yield figures. In 2019 to 2020 we experimentally published data on customer experience, debt management and our compliance activity.

For example, we introduced the 'Net Easy' measure, a new way for customers to assess their own experience when using our digital services. Assessment is against a five-point scale from 'very easy' to 'very difficult' and will be extended to our telephone service next year. Current scores suggest that significantly more customers find our online offerings easy to use than otherwise.

We saw positive performance across other new measures, such as 'Once and Done', where customers have their query resolved after one contact and don't need to get back in touch with us, for which we have seen scores consistently above 85% for digital and almost 80% for telephone throughout the year. This suggests that the services we offer are meeting the needs and expectations of most of our customers. We are now aiming to build on these positive scores.

+ Read our published experimental data at:
www.gov.uk/government/collections/hmrc-quarterly-performance-updates#reporting-year-2019-to-2020

Helping customers who need extra support

Our customers have different requirements, depending on their circumstances, and some may need extra support from us: perhaps because they are having difficulty with their tax affairs or because they are dealing with a major life event, such as family bereavement or preparing for retirement.

We provide an Extra Support Service to help these customers, including those who don't have access to digital technology. In financial year 2019 to 2020 this service supported 93,342 customers via all customer channels.

One area that can be particularly stressful is when we carry out checks into someone's tax affairs. We recognise compliance checks can be difficult for taxpayers, particularly unrepresented customers who may feel unable to cope – so, after undertaking pilots earlier in the year, we have now launched a new Extra Support Service for customers who are going through compliance checks. This new team provides advice to caseworkers on how they can best support customers and, where appropriate, provides direct support to the customer, including face-to-face visits. This builds on our established model for customers who need more support than is available via our normal helplines and recognises the particular issues that may emerge during a compliance check.

We've been engaging with stakeholder groups, particularly representative bodies on the Compliance Reform Forum, to understand which elements of a compliance check are the most difficult. We have also mapped customer journeys and identified ways to improve the experience of undergoing compliance checks for as many people as we can.

Working with agents and intermediaries

Good tax advisers make it easier to get tax right, for clients and for HMRC. We work in partnership with agents and their professional bodies to improve standards and provide support for our customers. We published a Call for Evidence on raising standards in the tax advice market to give taxpayers more assurance that the advice they are receiving is reliable. Where agents fall short of the standards expected, we take appropriate action to help agents improve their standards and protect customers from sub-standard advice. Where an agent is a member of a professional body and we believe their activities constitute misconduct, we will make a Public Interest Disclosure report to their professional body.

We've developed services which enable tax agents to deal with us digitally on behalf of their clients. The Agent Services online account now allows agents to act for their clients for Making Tax Digital for VAT, Capital Gains Tax and to register trusts. We're also updating agent guidance on GOV.UK following feedback via our Agent Forum. To further strengthen our engagement with agents and intermediaries, we reviewed our various stakeholder forums this year, relaunching the Representative Bodies Steering Group (formerly Joint Initiative Steering Group) and launching a new advisory body on digital services. We work with professional bodies to provide updates on areas of our work that impact agents and take on board their feedback and concerns.

In focus: HMRC's Charter

HMRC's Charter sets out the standards of behaviour and values our customers can expect. We began work to review the Charter in late 2019, to set out more clearly the experience we want to deliver to our customers, based on research about what is most important to them.

Between February and August 2020, we ran a public consultation on a new draft Charter. We formed a group of stakeholders from the tax community to advise us and ran consultation sessions with individual customers and HMRC colleagues. We received over 50 responses from our stakeholders and our own colleagues, which shaped the final version published in autumn 2020. The new Charter reflects what they told us: to make it sufficiently detailed but accessible and accompanied by increased visibility and strengthened oversight. HMRC's key principles of support for customers who need extra help are set out alongside the Charter.

HMRC's Customer Experience Committee oversees and monitors our performance against the Charter and produces the Charter annual report for the HMRC Commissioners. This year for the first time, the Committee will also review HMRC's performance quarterly throughout the year.

+ Read HMRC's Charter at: **www.gov.uk/government/publications/your-charter/your-charter**
+ Read HMRC's Charter Annual Report at: **www.gov.uk/government/collections/your-charter-annual-reports**

Serving customers on digital and traditional channels

In the final quarter of financial year 2018 to 2019, we reprioritised to meet the demands of our EU exit preparations, which combined with recruitment challenges, created a backlog of work. The recruitment position improved by the start of financial year 2019 to 2020, but many of our new customer service colleagues were not fully trained. We also saw greater demand and great complexity in our customer contact than expected.

The impact can be seen in our performance against targets for answering phones and responding to customer correspondence. We did not meet our first quarter targets. However, by the second half of the year we saw a clear improvement, including our most successful Self Assessment peak to date, with the help of EU exit staff that returned to support customer service functions. Unfortunately, this recovery did not enable us to meet all our full-year targets.

Figure 6: Average speed of answer

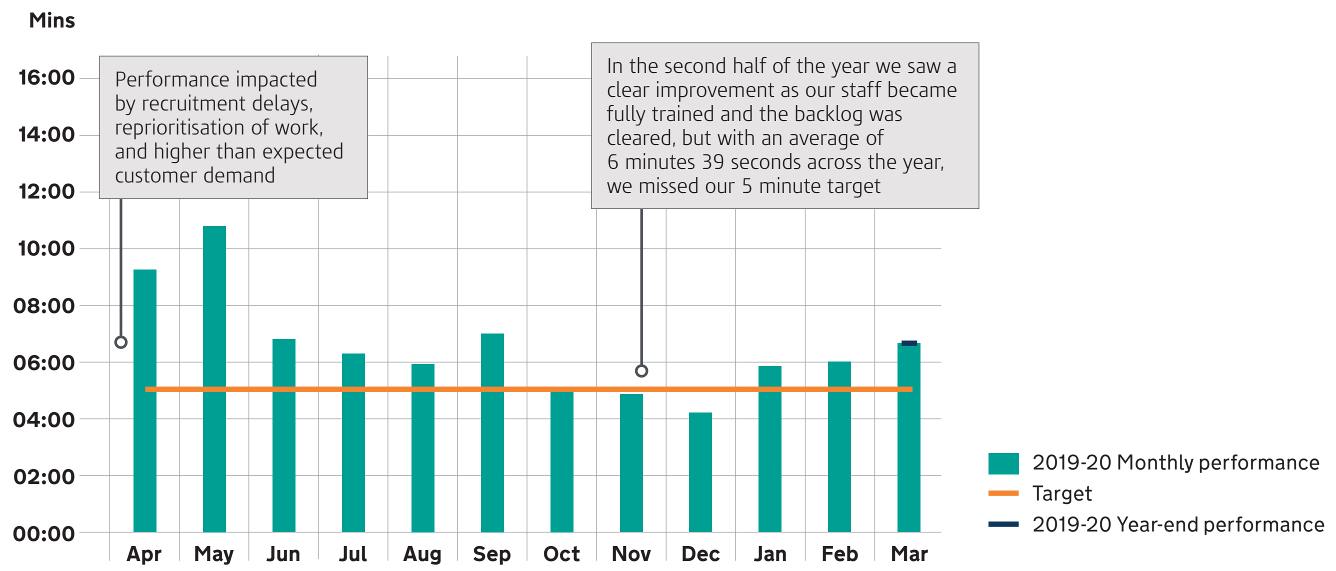
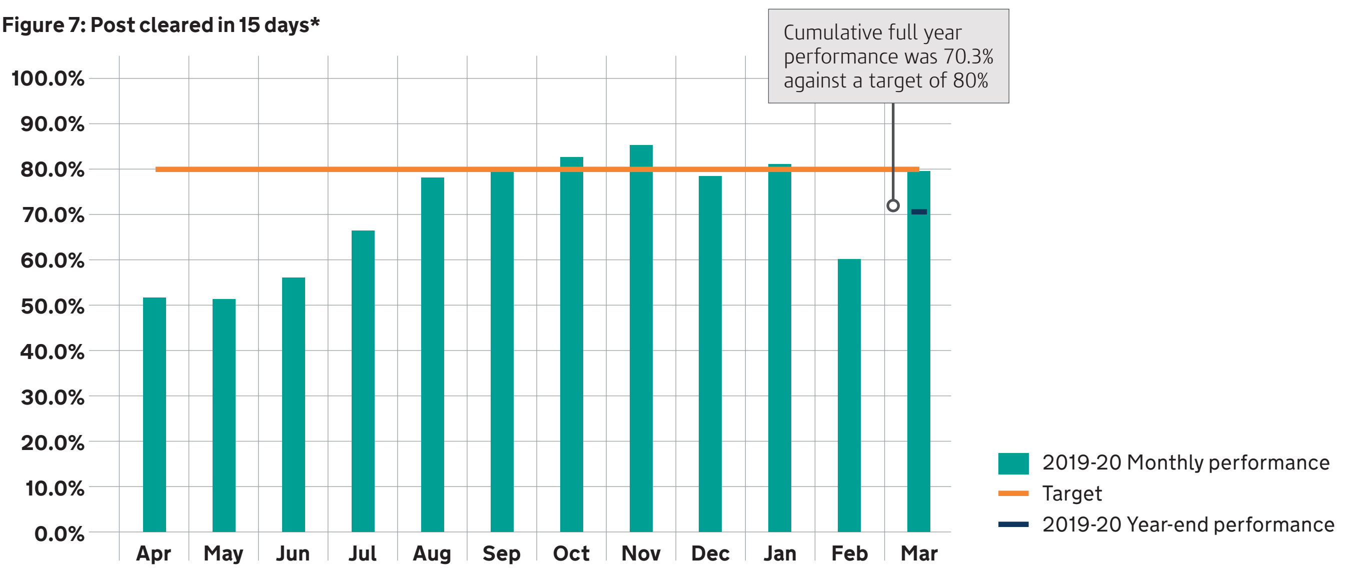


Figure 7: Post cleared in 15 days*



Out of 12.5 million post items where customers required a response, we missed our targets to turnaround 80% of post within 15 days and 95% within 40 days. For customers who needed to speak to an adviser after going through the automated telephone system, our average speed of answer was 6 minutes 39 seconds, outside the 5 minute target. 29.9% of customers waited longer than 10 minutes to be connected to an adviser, outside our 15% target.

This falls short of the service standards we want our customers to experience, and we have been working hard to bring the waiting times down. However, customer satisfaction with our digital services remains strong, improving steadily throughout 2019 to 2020.

Self Assessment peak

This year's Self Assessment peak filing period ended on 31 January 2020. We received more tax returns than ever before, with a higher proportion of them on time – over 11 million returns. 91.82% of returns that were expected were received by 31 January, compared with 90.52% last year.

Making Tax Digital for VAT

Under Making Tax Digital for VAT, businesses with a taxable turnover above the VAT threshold (currently £85,000) are required to keep their records digitally and submit their return digitally using Making Tax Digital (MTD) compatible software from their first VAT return starting on or after 1 April 2019.

The improved accuracy that digital records provide will reduce the amount of tax lost to avoidable errors and failure to take reasonable care, allowing customers to easily keep their information up-to-date. We've included other features in the system to help people manage their businesses and made enhancements such as the VAT Repayment Tracker service introduced at the end of 2019.

Around 1.3 million businesses signed up to MTD for VAT during 2019 to 2020, including over 280,000 businesses with turnover below the £85,000 threshold, who joined voluntarily.

This brings the current total sign up since launch to over 1.4 million businesses (as of September 2020). Of those that have signed up during 2019 to 2020, 1.2 million were active users (those who are not active may have ceased trading or deregistered from VAT).

17.3m
items of post compared to around 19 million in 2018 to 2019 - contact through phone and post has reduced as our digital offering expands

41.6m
calls to our customer services, down 2.5% from last year

81.6%
customer satisfaction with our digital services (target 80%)

94%
Self Assessment tax returns filed online

1.2m
active users of MTD for VAT and over 5 million submissions received

1.79m
calls to our VAT helpline

Over 2019 to 2020, the average speed of answer for the VAT helpline was 4 minutes 56 seconds, meeting the 5 minute target for the year.

+ On 21 July 2020, we announced that we will extend MTD for VAT to all VAT-registered businesses from April 2022. Read more on page 16.

Increasing access to our digital services

Our digital services offering has expanded since the introduction of Personal Tax Accounts in December 2015. Over 22 million customers have signed up for digital services for individuals, with the majority signing up to a Personal Tax Account. In 2019 to 2020, 12.7 million customers accessed their online digital services account, an 8% increase from the previous year. Of those customers accessing our online digital services for individuals, 3.6 million were new sign ups within the year. In 2019 to 2020 Personal Tax Accounts have been accessed over 44 million times, an increase of 18.7% on the same period last year. During 2019 to 2020 2.5 million digital repayments were claimed via the digital account, totalling nearly £1.4 billion. Customer satisfaction for the account in 2019 to 2020 was 80.0%, an increase of 2.7 percentage points on the previous year.

Managing the tax credits and Child Benefit system

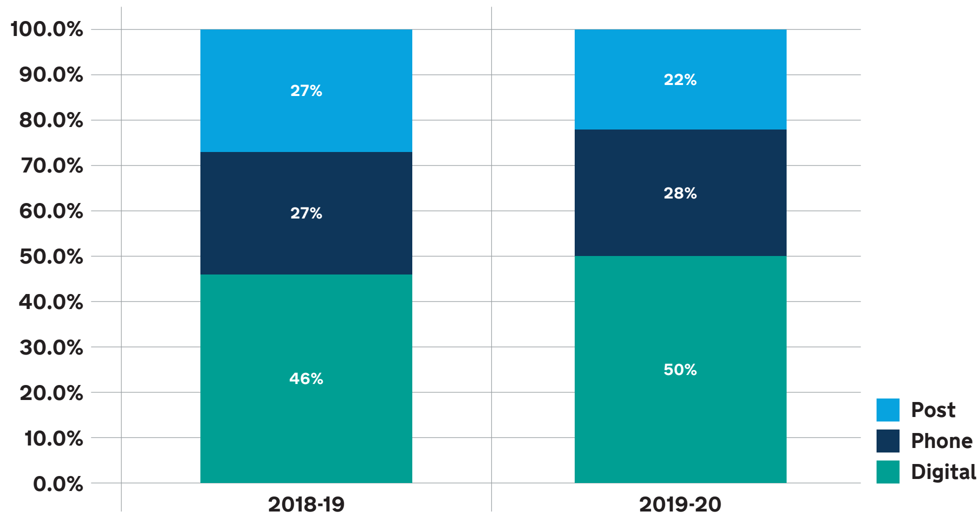
We are responsible for administering tax credits and Child Benefit, and we make it a priority to pay customers on time and make sure they receive their correct entitlement. Last year, tax credits helped around 2.3 million families and 4.4 million children, while Child Benefit supported around 12.7 million children in eligible families.

Since 1 February 2019 there have been no new claims to tax credits, except from claimants who meet certain restricted criteria. We continue to support customers by notifying them in writing and outlining details of our dedicated support lines as they gradually transfer from tax credits to Universal Credit, which is administered by the Department for Work and Pensions (DWP), or Department for Communities (DfC) in Northern Ireland.

As a result of this transition, we ended 447,412 claims during financial year 2019 to 2020, of which 373,689 involved active payments. We are working closely with DWP and DfC to help customers get their claims right ahead of moving across to Universal Credit.

We have maintained performance in processing new claims and changes. UK claims and changes took an average of 13.2 days against the 22 day target. For international customers, claims and changes took an average of 65.7 days against the 92 day target. 50% of tax credits customers renewed their tax credits online.

Figure 8: How customers renewed their tax credits



2.3m
families and

4.4m
children
helped through tax credits

4.9%
(5.0% target)
tax credits error and fraud in favour of the claimant is estimated to be £1.11 billion

12.7m
children supported by Child Benefit

Tackling tax credits and Child Benefit error and fraud

The government has given us a target to keep overpayments made through error and fraud within the tax credits system at no more than 5% of paid entitlement in 2019 to 2020. As it takes around 14 months after the end of the tax year until all tax credits claims are finalised, our latest estimate of error and fraud relates to 2018 to 2019.

Personal tax credits

We are committed to tackling error and fraud and continue to devote significant effort to doing so in a challenging delivery context. Our estimate of error and fraud in the tax credits system in 2018 to 2019 is 4.9% (£1.11 billion) of paid entitlement and compares to 5.5% (£1.41 billion) in 2017 to 2018. This decrease means that we have met the Ministerial target for the fifth time in the last six years, with significant pressures on the resources available stemming from the need to prioritise customer service, including preparations for EU exit.

We attribute the reduction in error and fraud to recent successes in our compliance efforts. Our analysis also suggests that the tax credits population was more stable in financial year 2018 to 2019 than in 2017 to 2018, with less scope for claimants to make mistakes or omissions in reporting changes. This is a consequence of customers with more frequent changes in employment and household composition being more likely to be amongst those already transitioned to Universal Credit.

We delivered an ambitious training programme in 2019 to 2020, equipping frontline colleagues with a wider range of tools and skills to deliver improved customer service and to identify and address error and fraud at an earlier stage. However, we forecast that error and fraud will increase above the 5% target in 2019 to 2020, largely from the need to redeploy compliance staff to key customer processing roles in response to COVID-19.

We have retained a target for 2018 to 2019 and 2019 to 2020 to keep tax credits underpayments no higher than 0.7% of finalised entitlement. The latest estimate for underpayments relates to 2018 to 2019 at 0.7% (£170 million), staying stable in percentage terms from the 2017 to 2018 estimate of 0.7% (£180 million).

Child Benefit

Our estimate of the overall level of Child Benefit error and fraud overpayment in 2019 to 2020 is 0.9% of total Child Benefit expenditure (£105 million), compared to the 2018 to 2019 estimate of 0.6% (£75 million).

This shows that Child Benefit error and fraud in 2019 to 2020 has returned to the level seen over the longer term, with the 2018 to 2019 figure being lower than a more typical result of around 0.9%. We are conducting further analysis to understand this and have commissioned external research to better understand one of the key risk groups: customers who do not report children leaving Full Time Non-Advanced Education.

In focus: High Income Child Benefit Charge

High Income Child Benefit Charge (HICBC) applies to anyone with an adjusted net income over £50,000 who claims Child Benefit, or whose partner claims it. The charge increases gradually for those with incomes between £50,000 and £60,000. Families can opt out of receiving Child Benefit, which means they do not have to pay the charge but retain the non-monetary benefits such as National Insurance credits.

Individuals who need to pay the charge must submit a Self Assessment tax return each tax year, even if they are employed and normally pay tax through Pay As You Earn (PAYE). We check each year and, where we hold all the relevant information, write to customers who may need to register for Self Assessment to pay HICBC.

Penalties may be due where customers fail to register for Self Assessment and pay HICBC at the right time. During the 2019 to 2020 tax year, we wrote to 73,668 customers to remind them what they needed to do to pay HICBC. We have also carried out compliance checks on those who either did not register for Self Assessment to pay the charge or paid the incorrect amount.

In 2019 to 2020 we focused on making even greater use of data to enable our compliance activity, including adding two major data sets from DWP following successful trials. We also saw a moderate level of success from testing Department for Education data to address the Full Time Non-Advanced Education risk group, and we continue to explore the ways we can use data to improve our risking.

For both tax credits and Child Benefit, we're increasingly focused on guiding customers to voluntarily meet their obligations and effectively manage their awards, through education and reminder campaigns.

+ Read more about what we're doing to address error and fraud in the Principal Accounting Officer's report on page 98.

Handling complaints

Although our aim is to get services right for our customers, we want to deliver an easy and accessible complaints process when people do experience difficulties. We want to reach the right outcome as soon as possible, acknowledging where we have made a mistake and seeking to learn from that feedback.

We operate a two-tier internal complaints process which gives our customers the opportunity for a second independent review of their complaint. If a customer remains dissatisfied with our decision, they can refer their complaint to the independent Adjudicator's Office and then to the Parliamentary and Health Service Ombudsman (PHSO).

In 2019 to 2020 we handled new complaints in an average of 17 days for Tier 1 level. We continue to focus on improving our responsiveness to dealing with complaints.

In comparison to last year, new complaint receipts have: decreased by 8% at Tier 1; decreased by 15% at Tier 2 and decreased by 6% for cases requiring a decision at Adjudicator level. 7% of new complaints escalated from Tier 1 to Tier 2; and 16% escalated from Tier 2 to the Adjudicator.

65,625
new complaints received

31%
of new complaints received through our online channel compared to 29% in 2018 to 2019

153
complaints escalated to the Adjudicator through our secure digital channel launched in January 2020

Upheld rates are unchanged in relation to Tier 1 (52%) and up in relation to Tier 2 (49% compared to 41%) and Adjudicator (44% compared to 35%) on last year's figures. 14 complaints were investigated by the PHSO in 2018 to 2019, the latest year for which figures are available. Of the 14, none were fully upheld and 2 were partially upheld, resulting in 2 recommendations for HMRC and the Adjudicator's Office, both of which we complied with.

We remain committed to learning from complaints, and the insight we receive from the Adjudicator, to support us in driving improvements in the service we offer and the way we interact with our customers. This year we launched our Complaints Insight Board, bringing senior leaders together to consider what we can learn from complaints.

In addition, we published for the first time our formal response to the Change to Adjudicator's Office annual report for 2018 to 2019. Our response focused on improving our approach to learning from complaints, facilitating a cultural shift to become increasingly customer-centred, developing a new operating model for complaints handling and building on our collaborative working with the Adjudicator.

+ Read the Adjudicator's Office annual report 2019 at:
www.gov.uk/government/publications/the-adjudicators-office-annual-report-2019

+ Read our formal response to the Change to Adjudicator's Office annual report at:
www.gov.uk/government/news/departmental-response-to-the-adjudicators-office-2019-annual-report

Beyond 2020
Treating everyone fairly and making it easy to get tax right

- As the COVID-19 crisis continues, we will support businesses and individuals to get back on their feet, fund our public services and help get the economy moving again. We will continue to respond to customers' particular needs and circumstances during this exceptional time.
- We want to design the tax administration system so taxpayers with simple tax affairs have an effortless experience and do not need to take any action to pay the right tax at the right time, as is currently the case for many individuals in PAYE. Building on existing Making Tax Digital initiatives, we will simplify tax obligations to make tax increasingly straightforward for businesses through integrated processes where information is provided by third parties and businesses' existing systems.
- We will continue work to maintain and build public trust in the administration of the tax system – reassuring taxpayers that our powers will be used fairly, carefully and consistently to ensure everyone pays the correct tax.

Objective 3: Designing and delivering a professional, efficient and engaged organisation

For the public and our own people to have confidence in HMRC, we need to continually improve the way we operate.

We have a strong track record in modernising our workplaces and IT, reducing costs and operating in more sustainable ways (see pages 63 to 65). In financial year 2019 to 2020, we met our cumulative savings target of £1.9 billion, including sustainable and one-off savings. We reduced greenhouse gas emissions by 69% and opened two new regional centres.

We're working hard to make HMRC a great place to work where we feel trusted, respected and confident in our roles. It's crucial to address issues we know exist in the way we live our values, so we've created new expectations of behaviour and strengthened our policies and support to help everyone in HMRC have a good working life.

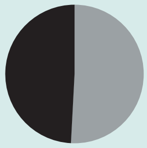
In the wake of the COVID-19 pandemic, we focused our Respect at Work programme on supporting all our people – whether working at home or in offices – through this difficult time. The extensive changes we have made to our IT systems put us in a strong position to move most of our people to home working. Our IT colleagues worked at tremendous pace to expand our virtual private network within a matter of days, enabling around 90% of our colleagues to work remotely when the national lockdown began in Spring 2020.

A number of colleagues are continuing to work in the office, following government guidance and under strict social distancing and cleaning practices, to complete critical work not possible to do in a home working environment. We will reflect on what we have learned from our response to the pandemic and how we build this into our future strategy.

Key performance indicators*

Nearly 6,000
(includes Valuation Office Agency) full-time equivalent employees recruited

49%
our employee engagement index score



4,110
employees promoted

£696m
total sustainable cost savings

2
new regional centres opened in Bristol and Belfast as planned – part of our eventual network of 13 regional centres

0.54p
how much it cost to collect each pound of tax revenue
2018-19: 0.52p

* For a historical data series, go to **www.gov.uk/government/publications/hmrc-annual-report-and-accounts-2019-to-2020**

How we performed against our public commitments

In the Single Departmental Plan we set out commitments to take us further on our journey to becoming a professional, efficient and engaged organisation. In financial year 2019 to 2020 we made 8 public commitments on improvements to make in this area. The table below outlines the status of each one at the end of 2019 to 2020.

Status at the end of 2019 to 2020:	on track or complete	risk to delivery	not on track

Commitment	Status
Continue to make consistent positive progress towards achieving the Civil Service Employee Engagement Index benchmark (62% in 2018). **Our engagement score remained at 49% in the 2019 People Survey. The insight from the survey has informed the programmes we are taking forward to improve the employee experience.**	risk to delivery
Increase the percentage of colleagues each year who feel they have the skills required to do their job effectively, working towards the Civil Service benchmark (88% in 2018). **HMRC's skills index has decreased by 1 percentage point to 79%. This reflects the pressure of work priorities across the department against a background of the need to reskill our workforce, for example for supporting EU exit.**	not on track
Continue to transform our estate into modern, adaptable workspaces, creating 13 new regional centres over the next 5 years, serving every part of the UK.	on track or complete
Ensure the regional centres bring colleagues into more cost-effective buildings, while making it easier for HMRC teams to collaborate and modernise the way we work.	on track or complete
Deliver £717 million of annual sustainable efficiencies by 2019 to 2020. **HMRC delivered £696 million of sustainable efficiencies against the target of £717 million missing the target by 3%.**	risk to delivery
Achieve £1.9 billion of cumulative sustainable savings over the period of the Spending Review.	on track or complete
Continue to support the Greening Government commitments to reduce our impact on the environment, working towards the 2019 to 2020 targets (contributes to UN Sustainable Development Goal 13).	on track or complete
Contribute to the Global Goals for Sustainable Development, reducing inequality through recruitment of a diverse workforce (contributes to UN Sustainable Development Goal).	on track or complete

Making HMRC a great place to work

If we're to get the tax administration system right, our people need to be equipped to do their jobs, as well as valued and respected for the work they do.

Respect at work

In February 2019 we published an independent review of what it is like to work in HMRC, led by Laura Whyte, former HR director at John Lewis. Following on from the report's recommendations, we created our standards and expectations of behaviours – 'Our Commitments' – which were formally launched in December 2019, followed by a reformed suite of key policies and a revised support offer. Our Commitments are that we will:

- be fair, kind and human
- not create fear in others
- include people, regardless of difference
- work together, recognising our common goal
- have honest conversations with respect.

We know that cultural change cannot happen overnight, and the focus of the next two years will be to embed Our Commitments, ensuring that they run through our training, recruitment and assessment processes.

There is still more to be done to address the negative employee experiences that we know some of our people have. When colleagues were asked to share their experiences, a recurring and concerning theme was that many don't feel safe to speak up at work – that's clearly unacceptable.

We're encouraging people to speak up about any behaviours they're concerned about. We've redesigned our policy on how to raise a concern, aiming to resolve issues more easily, as well as the policy on how we uphold our standards. We also provided information for people to learn what the changes mean and overhauled the casework support that is available for managers and their teams.

Following the review, we undertook a race disparity audit looking at the differences in outcomes for our Black, Asian and Minority Ethnic colleagues when compared to White colleagues. We then established a dedicated race project, and in July 2020 a Race Equality Action Plan, to address inequalities and tackle racist behaviours. We are focused on creating a culture where all our people feel respected, valued, supported and safe.

+ Read the Respect at Work Review report at:
www.gov.uk/government/publications/hmrcs-respect-at-work-review

3,860
new apprentices (3,038 in England and 822 in Scotland, Wales and Northern Ireland) (includes Valuation Office Agency)

1,192
tax apprentices – HMRC continues as an employer provider for the tax apprenticeship

373
people on our leadership and management apprenticeship

350
people completed one of our 3 in-house talent development programmes

89
people completed one of our Embrace personal development programmes for colleagues from our Black, Asian and Minority Ethnic (BAME) community

Changing our approach to management

Our managers have a vital role in creating a great place to work. Our collective ambition is to change the way everyone in HMRC thinks about the role of managers, giving them the direction – and permission – to use their judgement and put people at the heart of their approach to management. We have also identified key attributes we want to see in our managers and are prioritising activity to achieve this.

Pay and contract reform

Over summer 2019 we held an organisation-wide discussion to set out the need for pay and contract reform and understand the impact of existing arrangements on our people. We then submitted a business case for pay and contract reform in September 2019 to the Cabinet Office and HM Treasury seeking for a multi-year deal through collective bargaining with our trade unions. Our business case was approved by Cabinet Office and HM Treasury Ministers in July 2020, allowing us to begin negotiations with departmental trade unions.

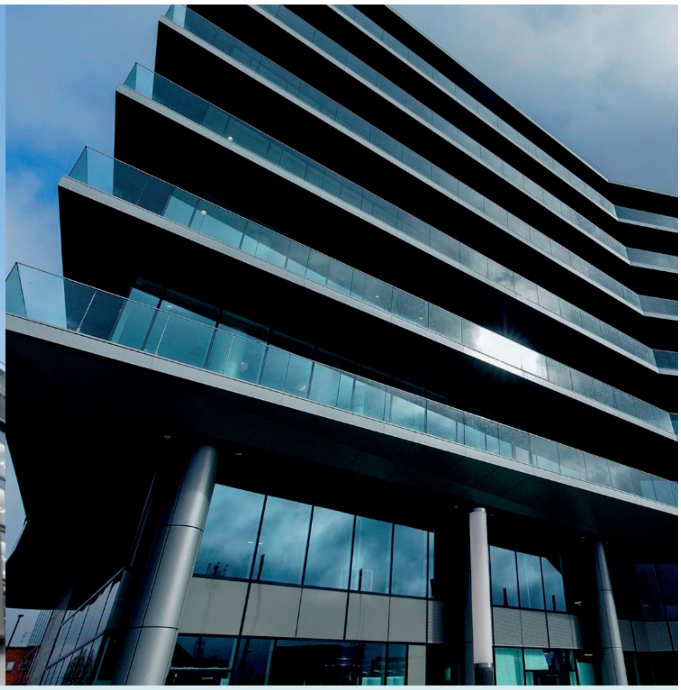
Training and professions

We aim to create a great range of training and career opportunities for all our people. We had 24 professions within HMRC in financial year 2019 to 2020, and we promoted 4,110 people. This year, 7,490 of our people undertook formal training in leadership and management, and 1,731 people registered as a coach, mentor or reverse mentor.

156 trainees joined our Tax Specialist Programme in September 2019 and we continue to partner with Manchester Metropolitan University to award a BA (Hons) in Professional Studies in Taxation. 131 trainees completed the programme and were promoted this year. The tax training we provide drives professionalism and enables our people to efficiently collect the revenue due and reduce the tax gap. We ensure that training of new recruits and learning for existing colleagues supports the capability plans to deliver our customer service and compliance strategy.

Smarter working locations

We are progressing with the largest property transformation programme in the UK – a new network of 13 regional centres which will save millions for the public purse by reducing our estate plus equip us with the IT infrastructure, workspaces and learning and development facilities a modern tax authority needs. This year we saw our Croydon Regional Centre mark its second year in operation, while colleagues moved into our Bristol and Belfast regional centres for the first time.



Belfast Regional Centre – opened January 2020

"It is such a transition moving from our old building to our new building, with new state of the art facilities."

Bristol Regional Centre – opened September 2019

"I'm really looking forward to using all the different workspaces. This is the first time we can all really start to work in a new way".

"I feel proud to come to work and I feel valued."

Moving to regional centres will save around £300 million cumulatively up to 2025 and the programme will deliver annual cash savings of £74 million in financial year 2025 to 2026, rising to around £90 million from 2028. They will also enable our people to work more effectively, develop more rewarding careers and do a better job for the taxpayer.

In the light of COVID-19, we remain committed to building and moving into regional centres and providing safe, high-quality workspaces for our people. COVID-19 has impacted the construction industry, and as a result, we now expect our regional centres to open later than originally planned. However, we still expect our Edinburgh, Cardiff, Leeds and Stratford centres to open before the end of financial year 2020 to 2021.

Managing our data and IT estate

Good management of data and our IT estate is central to operating a trusted and modern tax administration system. The scope and scale of our work means that we continually manage a number of serious risks and challenges in these areas. We recognise that there is significant work to do to address some of the most critical issues.

Cyber security and attacks

We are becoming more digitally advanced, and it has never been more important to manage and protect the risk to customer information from cyber attack. Trust in HMRC's online systems and services underpins our business and digital strategies.

Against the backdrop of an increasingly complex threat landscape, we are continually enhancing the range of activities which HMRC's Cyber Security Command Centre undertakes to guard against the risk of attack, malware, insider threats and hacktivism activities, learning from incidents to keep improving the security of our IT and processes.

We have introduced a vulnerability management and threat-hunting capability as well as a new, highly automated phishing email management tool, which now automatically initiates over 80% of malicious website takedown requests without human intervention.

A recent review of our cyber performance was conducted focusing on business critical and other HMRC services. As a result, we have developed a costed and prioritised plan for moving to and sustaining an appropriate cyber security posture in line with specified frameworks of cyber security for HMRC standards. A 12 to 18 month rapid remediation programme will reduce cyber risk exposure to tolerable levels.

In the last five years we've moved from being the 3rd to the 146th most phished brand globally as a result of innovative work in security and customer protection – work recognised with our winning 'Innovation of the Year' at the Government Security Awards, 'IT Project of the Year over £250k' in the Real IT Awards, and 'Highly Commended' in UK IT Industry Awards for Security Innovation of the Year and Best Public Sector IT Project categories.

In focus: Smarter working technology

We're working to ensure that we operate as a modern organisation – one which uses the latest technology to deliver an excellent service through improved smarter working for our people, while keeping costs low for HMRC and the UK taxpayer.

We have deployed 22 Office 365 applications to allow us to work more collaboratively, operate flexible working patterns and work in different locations. This includes Microsoft Teams as our main tool for communication and collaboration across HMRC, which meant that our colleagues have been able to work effectively from home during the COVID-19 pandemic, delivering vital government support schemes as well as keeping our usual work going.

Microsoft Teams has been a successful tool for holding large internal events virtually – and using it for online calling is expected to result in financial savings as we move away from our current telephony provider. We have also successfully used Skype to conduct 200 interviews per day – and we have increased capacity on our network and on the Office 365 applications to ensure that access to systems is more stable.

General Data Protection Regulation (GDPR)

We hold a vast quantity of data to run the tax and benefits system effectively. We recognise the responsibility we have to ensure we collect, process, manage and protect that data appropriately. This includes adherence to Data Protection legislation and meeting our obligations under GDPR.

We have made initial progress in meeting our GDPR obligations. Since the introduction of GDPR, we have set up a Data Protection Office, introduced training to raise awareness across HMRC, and undertaken extensive discovery of the compliance risks across some 850 legacy processes and IT systems.

Despite making progress in identifying our GDPR risks, insufficient progress has been made to remediate those risks, leaving HMRC and the tax and benefits system exposed.

Significant focus needs to be given to:

- ensuring all new processes and technology are GDPR compliant
- progressing the remediation of legacy processes and technology
- dealing with information held in paper or microfiche

We are implementing a risk-based approach, focusing on the remediation of identified key GDPR risks. It's vital that we take a holistic approach to remediation that focuses on the process, data and technology together. Understanding and controlling process and data ownership across the business will be key to remediation and ongoing compliance.

The Chief Executive, Executive Committee (ExCom) and Audit and Risk Committee have a full understanding of their GDPR obligations and the risks of non-compliance, and will invest to meet those obligations.

In focus: Addressing statistical errors

In autumn 2019, we identified an error in our published Corporation Tax receipt statistics. We carried out an internal audit of the circumstances around this error, to fully evaluate the issue and to mitigate the risk of it happening again in the future.

We corrected the Corporation Tax estimates for the period in our 'Tax and NIC receipts: information and analysis (August 2019)' publication on 24 September 2019.

In September 2019, we proactively invited the Office for Statistics Regulation to carry out a review of the principles and processes underpinning the quality of our official statistics. The review concluded in April 2020 and we welcomed and accepted its recommendations.

Delivering resilient services by tackling technical debt

Technical debt refers to platform or estate-wide capabilities that have not been built, infrastructure that has not been updated, old services that have not been retired and builds that have not been completed. It can result in an IT estate that is expensive to run, inflexible and increasingly out of date.

HMRC now has critical levels of technical debt on the IT estate and is more vulnerable to cyber and security threats. We commissioned Deloitte to conduct The Deloitte Technical Debt and Cyber Review of HMRC which concluded in April 2020.

For the technical debt element, the report acknowledged the good progress made to date, achieved through the Securing our Technical Future Programme (SOTF). This programme is focused on remediating high priority technical debt and migrating our services out of existing data centres. However, it is acknowledged that there remains significant work to do to if we are to address the levels of technical debt identified across the estate and create a more flexible, secure and scalable IT environment.

Recommendations from the Deloitte review included continuing with the same delivery vehicle (SOTF) to address the most urgent technical debt, via a 12-month Rapid Remediation Programme, which focuses on our most critical priorities. We continue to mature long term plans (5+ year plans), initially focused on our most critical services, but ultimately seeking the fundamental transformation of our remaining core services. This will include setting out well-evidenced options for investment at the next Comprehensive Spending Review.

As well as investing to tackle technical debt, we are making sure that we have arrangements in place to ensure that we do not allow problems to reoccur. For example, we have established a specialist team to ensure that we manage our IT assets effectively and address all critical issues identified through audit. We have made excellent progress in deploying a new asset management tool, with most of our IT estate now recorded. We are now planning an update on our Patch Management policy which will result in improvements to security and functional patching across HMRC, expected to complete during 2020 to 2021.

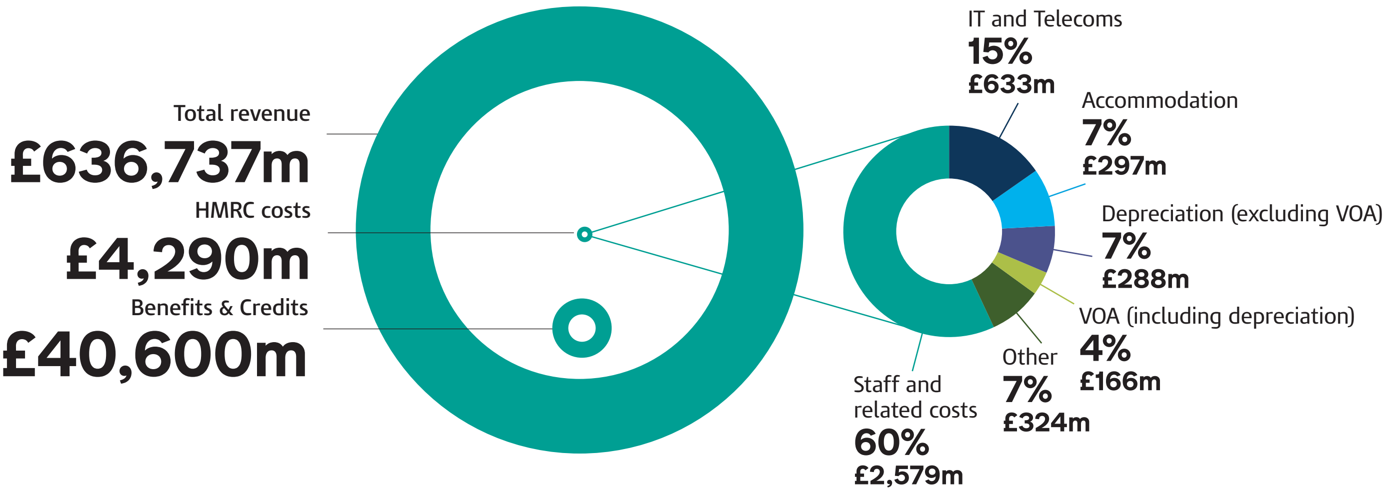
Business continuity management

We have business continuity plans to ensure that our key services continue to run in the event of major disruption. These have been tested in recent months and our response to COVID-19 has been strong. Nonetheless we are pushing to make our arrangements better. Following improvements to the way we record IT service data, we have a clear view of which business critical functions support IT services, and we need to do more work during 2020 to 2021 to ensure fully-recorded disaster recovery, resilience and back up capabilities are in place for business critical services. Linking to our technical debt and cyber risk work, we are working to ensure business and IT service continuity arrangements are always considered when making any changes to the IT estate.

Increasing our efficiency

We are driving down our day-to-day running costs to deliver better value for money for taxpayers and the country. In addition to our baseline funding, we receive additional funding for specific new areas of work requested by ministers. Figure 9 shows what it cost to run HMRC in the financial year 2019 to 2020. For a running cost of £4.3 billion, we raised £636.7 billion for the UK's public services.

Figure 9: Expenditure, benefits and credits relative to total revenue, 2019-20*



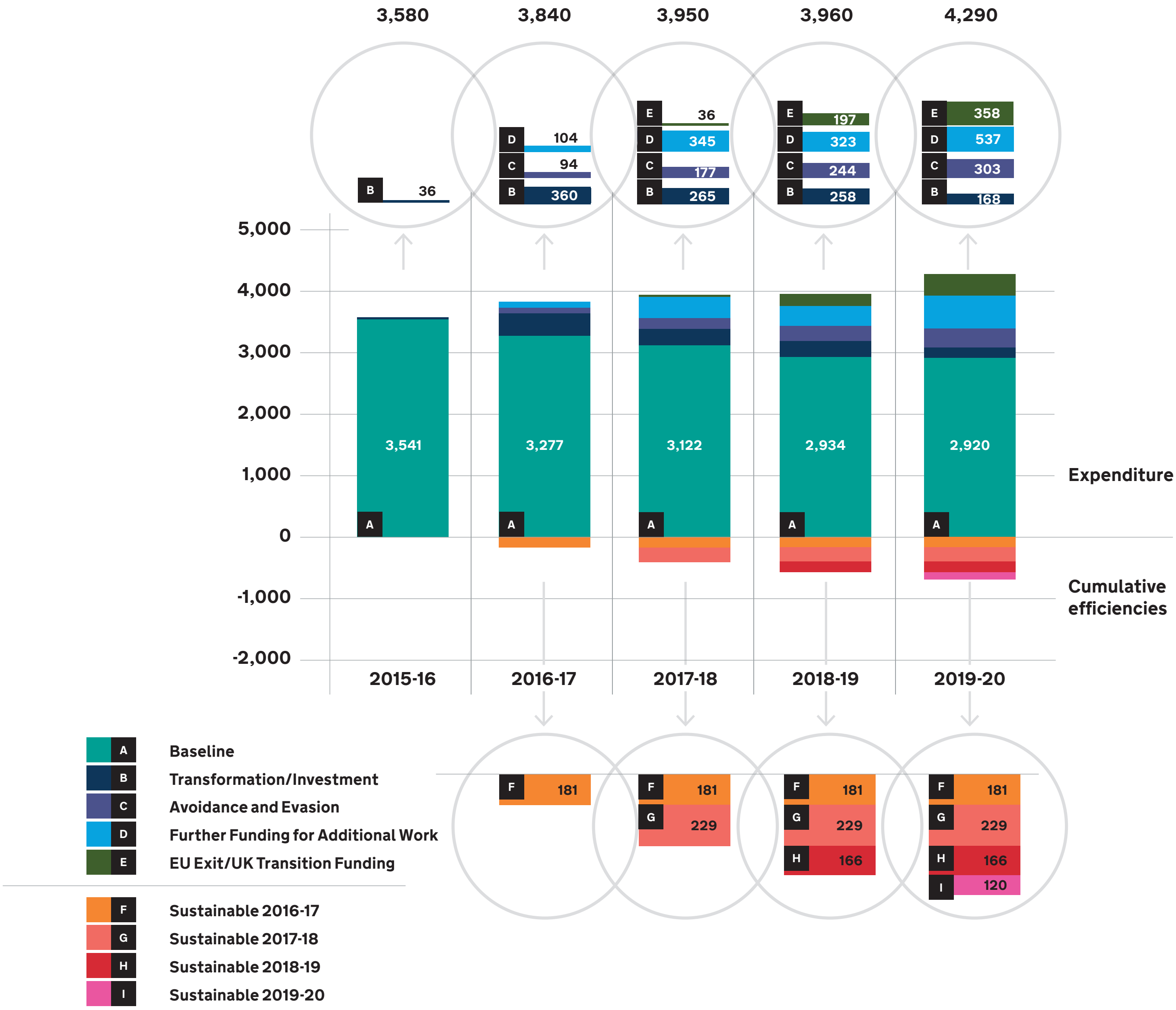
* The figures are based on budgeting treatment as opposed to accounting treatment as represented in the Resource Accounts. Numbers may appear not to sum due to rounding.

Figure 10 shows how our expenditure and budget are changing over time. Over the Spending Review 2015 period, covering financial years 2014 to 2015 through to 2018 to 2019, our baseline funding from the government has reduced due to the sustainable efficiencies we've delivered.

At the government's Spending Review in 2015, we were given funding to invest in our transformation for financial year 2016 to 2017 onwards. Since then, further funding has been provided at every fiscal event for tackling avoidance and evasion. In financial year 2018 to 2019, we received funding for work related to EU exit, which continued into 2019 to 2020.

An additional spending round took place during 2019 to 2020 whereby departments were provided with a financial allocation consistent with 2018 to 2019 funding levels. As our funding was consistent with previous years, we will be looking to review our funding settlement as part of negotiations at the next Comprehensive Spending Review.

Figure 10: HMRC's expenditure 2015-16 to 2019-20 (£m)*



* HMRC resource spending, which is money that is spent on day-to-day resources and administration costs, includes depreciation and VOA. Numbers may appear not to sum due to rounding.

Saving money for the UK taxpayer

We committed to making £1.9 billion of cost savings cumulatively across the Spending Review 2015 period. The changes we made in the last few years to our IT and digital services, as well as to systems and processes within HMRC, were vital to achieving these cost savings. We're also making it easier for customers to get their tax affairs right without having to contact us - for example, using online services rather than calling or writing to us.

Over this Spending Review period we have been presented with a number of opportunities and challenges, ranging from preparing for EU exit to taking on additional work for the government. HMRC has delivered high levels of continuous improvement, but to ensure challenges were met we have had to reprioritise some of our transformational work, which has had an impact on our ability to deliver sustainable cost savings.

As a result, we delivered new sustainable cost savings of £120 million in 2019 to 2020, lower than our expected £151 million target. However, our total cumulative savings were £1.93 billion against our target of £1.9 billion across the Spending Review 2015 period.

Looking forward into the next financial year, 2020 to 2021, there is a likelihood COVID-19 will significantly affect the amount of sustainable savings that can be made.

Becoming more sustainable

The 2016 to 2020 Greening Government Commitments set a challenge for us to reduce the environmental impact of our estate and operations. They also form part of our contribution to the UN Sustainable Development Goals. Due to COVID-19 these commitments have been extended to 2020 to 2021. We are meeting or exceeding all 8 of the Greening Government Commitments, as shown below in Figure 11.

Figure 11: Greening Government Commitments Summary

	Government target (2009 to 2010 baseline)	2019 to 2020 performance against baseline
Greenhouse gas emissions	**54%** reduction	**69%** reduction
Domestic flights	**30%** reduction	**49%** reduction
Waste arising	Reduce overall waste generated	**63%** reduction
Waste to landfill	Less than **10%**	**1%** to landfill
Waste to recycling	Increase proportion recycled	**73%** recycled
Water consumption	Continue **2014** to **2015** reductions	**46%** reduction
Water efficiency	Reduce to **7m³ per** FTE	**6.72m³ per** FTE
Paper purchased	**50%** reduction	**83%** reduction

Since financial year 2009 to 2010 we've made significant strides in greening the operations of HMRC. This includes reducing greenhouse gas emissions from our buildings and domestic business travel by 69%, reducing our paper consumption by the equivalent of 351 million sheets, increasing waste recycling to 73% compared to 57% in 2009 to 2010 and diverting 99% of waste away from landfill, compared to 59% in 2009 to 2010.

We make sure that the Government Buying Standards (GBS) are embedded in our contracts and, where possible, encourage our suppliers to go beyond these minimum GBS requirements to meet GBS best practice standards. This includes the new facilities management and catering contracts for our new regional centres.

Since 2009 to 2010, we have used a sustainability assessment tool to measure the environmental, social and economic impact of our supply chain. Suppliers are scored annually against a number of themes, including modern slavery, anti-corruption, environmental management and performance, diversity, health and safety, labour standards and social values.

We've incorporated climate change impact assessments into the design of our new regional centres and sought Building Research Establishment Environmental Assessment Method (BREEAM) credits for flood risk assessment, which demonstrate that we have considered the impact of climate change on our estate. These BREEAM credits contribute to our regional centres being rated as 'excellent' for new builds and 'very good' for refurbishments, in line with the Government Buying Standards for construction. To support biodiversity, we are incorporating green spaces within our regional centres and at our legacy estates, including green roofs and landscaped water features.

+ Read more about our sustainability at **www.gov.uk/government/publications/hmrc-and-valuation-office-agency-sustainability-report**
+ Read about the UN Sustainable Development Goals at **www.un.org/sustainabledevelopment/sustainable-development-goals**
+ Read more about details of our commitments in this area on page 55

Beyond 2020
Becoming a great place to work

- We will build and maintain an engaged and productive workforce with the right skills and capabilities to meet our current and future challenges.
- To draw in people who share our vision and are attracted to our purpose, we are building a fair and kind workplace where everyone can thrive and deliver the best possible service for customers.
- We will continue to evolve how we use our technology, data and processes to create more interesting and rewarding jobs for all of us, and our jobs will be designed to give flexibility in how, when and where we work. We are also supporting our people to work safely during the COVID-19 pandemic.
- As we continue working to live up to the promises we made in response to our Respect at Work review, our Race Equality Action Plan will address inequalities and tackle racist behaviours in the workplace. This will form the basis of a major workstream under the Respect at Work Programme for 2020 to 2021, and indeed for future years, until we have eliminated disparities.

Our work across government

HMRC plays a key role in delivering the government's wider objectives. Here are some of the key ways our work supported people, businesses and the wider economy during financial year 2019 to 2020.

Economic crime

We are the lead agency for tackling tax and fiscal fraud impacting on the UK economy, and we are an active partner in cross-government work to tackle economic crime. We are core members of the Economic Crime Strategy Board and the National Economic Crime Centre, to which we contribute intelligence and investigation personnel towards this work. Our Fiscal Crime Liaison Officer Network has 47 diplomatically accredited officers posted in key locations across the world covering over 100 countries. They act as our link to customs and tax authorities, law enforcement, public prosecutors and other partners in preventing and tackling fiscal crime. The network also has 24 officers embedded within regional crime units and multi-agency hubs in the UK, linking us directly with UK law enforcement partners. In 2019 to 2020 this prevented loss to the Exchequer of over £596 million, helped disrupt 30 organised crime groups and contributed to the arrest of over 200 criminals worldwide.

National Minimum Wage

We enforce the National Minimum Wage and National Living Wage in line with the law and policy set by the Department for Business, Energy and Industrial Strategy. We also work closely with other government departments and agencies – including the Gangmasters and Labour Abuse Authority, Home Office Immigration and Enforcement, and the Health & Safety Executive – where there is evidence of wider labour exploitation risks. In 2019 to 2020, we made guidance and support available to almost 900,000 employers. We also completed investigations into more than 3,300 businesses, identifying almost £21 million in National Minimum Wage arrears for more than 263,000 workers.

Tax reliefs

We publish statistics on tax reliefs annually, including information on costs, claimants, descriptions, and links to evaluations. This year we moved our publication date to the autumn, so it could be based more extensively on final revenue figures, rather than estimates.

In October 2019, we published costings for 196 tax reliefs. We expanded the publication to better align with our central management of tax reliefs, so it now includes 111 tax reliefs which we class as 'non-structural'. These 'non-structural' reliefs are designed to help or encourage particular types of individuals, activities, or products, to incentivise or achieve specific economic or social objectives. They are different from 'structural reliefs' that are regarded as structural elements of the tax system.

We aim to continuously improve our understanding of the cost of tax reliefs. We are undertaking a project to provide more information on the cost of tax reliefs where none are currently available – and we published the first 47 cost estimates for these reliefs in a new publication on 20 May. We also published cost estimates for further 25 tax reliefs in October 2020 and will continue to expand coverage into financial year 2021 to 2022.

To improve transparency around the effectiveness of tax reliefs, we are implementing a proposal for a more systematic evaluation programme for tax reliefs. The programme starts this financial year and will apply a prioritisation framework to focus on non-structural reliefs, which are designed to incentivise certain behaviours.

As the number of claims for tax reliefs increase, so we must and will remain vigilant that increased uptake is not driven by error and fraud. We remain committed to tackling this and we are devoting significant effort to doing so in a challenging delivery context – for example, by improving our understanding of and response to the level of error and fraud for research and development tax reliefs.

+ Read our latest tax relief statistics and cost estimates www.gov.uk/government/collections/tax-relief-statistics
+ Read more about what we're doing to address error and fraud in the Principal Accounting Officer's report on page 98

Our relationship with devolved administrations

The devolved legislatures of Northern Ireland, Scotland and Wales have a variety of powers over taxation. We work closely with their governments and tax authorities to help ensure effective tax administration across the UK, and on the implementation of responses to COVID-19.

The map below shows taxes already devolved and those that the UK Parliament has legislated to be devolved.

Land transactions and landfill tax

The Scottish and Welsh parliaments have full legislative powers over taxes on land transactions and disposals to landfill. The Scottish equivalent of Stamp Duty Land Tax and Landfill Tax are administered by Revenue Scotland, while the Welsh equivalents are administered by the Welsh Revenue Authority. We continue to work closely with them on sharing data, knowledge and experience.

Northern Ireland

Corporation Tax

Legislation was passed in 2015 to enable devolution of Corporation Tax rate-setting powers to Northern Ireland – but this hasn't yet started as the government was not sitting for three years. We have undertaken preparatory work to enable Northern Ireland's rate-setting powers for Corporation Tax.

Air Passenger Duty

Northern Ireland has full legislative powers to set the rate of Air Passenger Duty for direct long-haul flights. The Northern Ireland Assembly set the rate to zero in 2013.

Scotland

Scottish Income Tax

The Scottish Parliament has the power to set rates, bands and thresholds for Scottish taxpayers, which HMRC administers. Since 2018 to 2019, Scotland has had five income tax bands, compared to three in the rest of the UK.

Air Passenger Duty and Aggregates Levy

The UK government has committed to devolving Air Passenger Duty and the Aggregates Levy to Scotland. Dates for the transition are still to be confirmed.

VAT

We are working with HM Treasury and the Scottish government on assigning a proportion of Scottish VAT receipts directly to the Scottish government, from a date to be agreed.

Wales

Welsh Income Tax

The Welsh Parliament has the power to set Welsh rates of income tax, which HMRC administers. Welsh rates of income tax were introduced in 2019 to 2020 and set so that overall income tax rates for Welsh taxpayers effectively matched the UK rates.

Supporting the UK border and future trade

We have played a central role in preparing for UK transition following our exit from the EU, and in building the systems and infrastructure that our UK traders and border need for the future.

£516.9m

total HMRC spent on UK transition work

6,100

FTE people available to work on UK transition, including 650 contractors

We were allocated £557.6 million to support preparations for UK transition in financial year 2019 to 2020. We spent this predominantly on staffing and IT costs to make sure HMRC could respond to a number of scenarios, while continuing to perform our core functions. By the end of 2019 to 2020, we had spent £516.9 million. These figures include HMRC and the cross-government Border and Protocol Delivery Group (BPDG).

We continued to prepare for a no-deal EU exit, from April to December. We re-planned our delivery following the series of extensions, while making critical improvements to the no-deal model. This work included:

- improving functionality of our IT systems, including increasing the volume of declarations that can be processed
- carrying out extensive targeted communications and engagement with businesses and other stakeholders to help them prepare and increase their readiness
- providing grants to help customs intermediaries prepare for increased declarations
- preparing transit sites to help enable traders to move goods
- setting up an EU exit import and export helpline providing information to traders
- supporting negotiations and advising ministers on the policy, legal, IT and operational implications of leaving the EU under the revised deal.

Following the December 2019 general election, preparations have focused on a negotiated EU exit and being ready for 31 December 2020 – the end of the UK transition period.

Timescales are challenging, and the difficulty is increased by the need to adjust delivery plans to the outcome of ongoing EU negotiations.

Resources

By the end of 2019 to 2020, we had the equivalent of 6,100 full-time employees (FTE) funded to support UK transition changes. This included 650 FTE contractors, contingent labour and temporary support from other government departments. Continued UK transition uncertainty during 2019 required continuous review of our workforce plans. Following the second extension of the Article 50 period to 31 October 2019, and third extension to 31 January 2020, approximately a third of people brought in to support UK transition customer service operations were deployed onto priority 'business as usual' work, with the expectation that we could remobilise them as required.

We also conducted an extensive recruitment campaign within our Customer Services Group (CSG) to ensure we could maintain our business as usual performance after UK transition because CSG colleagues are the first point of contact for our customers, handling most of our customer enquiries.

We set up a Command, Control and Coordination structure to respond to any issues from day one of a no-deal scenario, ahead of both 29 March 2019 and 12 April 2019 extensions. Following a 'lessons learned' exercise, this was improved and reintroduced for 31 October 2019, with key staff returning. The change of focus, in early 2020, to a negotiated exit, required further planning and personnel changes to reflect new requirements and these changes are reflected in the numbers above.

EU infractions

In March 2018, the EU Commission opened infraction proceedings against the UK, alleging that over the period 2011 to 2017, the UK failed to prevent undervaluation fraud involving Chinese textiles and footwear. This is a long-standing risk, being managed as part of our EU exit work due to its wider EU exit diplomatic and political implications.

The UK is contesting the infraction as it does not accept the commission's estimate of alleged evaded duty. The government has taken reasonable and appropriate steps to address suspected undervaluation fraud and complied with its legal obligations. The UK is tackling the highest risk traders, examining goods suspected to be undervalued and taking securities which are also part of the UK's end to end approach to tackling customs fraud risks.

Jim Harra
Chief Executive and Permanent Secretary
27 October 2020

Our accountability

How we operated HMRC in financial year **2019** to **2020**

Governance statement

"The outstanding work HMRC has done to design and deliver completely new COVID-19 response schemes with great speed has demonstrated what is possible."

Foreword by HMRC's Lead Non-Executive Director

HMRC has continued to deliver its core purpose of collecting the taxes that pay for the UK's public services and providing targeted financial support to people in a very demanding year. At the same time, HMRC has made progress on its transformation for the future, preparing for EU exit and, at the end of the year, responding to the new challenges presented by COVID-19.

As HMRC's Lead Non-Executive, I chair the HMRC Board. The role of the board is to provide support, challenge and assurance to HMRC's Executive Committee (ExCom). We seek to ensure that HMRC has:

- the right strategy to fulfil its purpose
- robust and realistic plans for delivery
- the resources and capability it needs for success

We also scrutinise performance, to make sure that HMRC is on track to achieve its key targets and objectives.

HMRC's agenda for the year has again been very ambitious and challenging. The board's main areas of focus have been:

- the further development of HMRC's strategy
- the progress of HMRC's transformation programme
- HMRC's work on EU exit and future borders and trade strategy
- support and challenge on customer service performance
- at the end of the year and beyond, HMRC's COVID-19 response work

The board has continued to champion the importance of transforming the way in which HMRC serves its customers. The outstanding work HMRC has done to design and deliver completely new COVID-19 response schemes with great speed has demonstrated what is possible. The capability and commitment of HMRC colleagues, who have responded magnificently to the new challenges they have faced, augurs well for the future.

HMRC's non-executives, who sit on the board with the Chief Executive, Deputy Chief Executive and Chief Finance Officer, bring a wide range of expertise and experience in areas relevant to HMRC's business and transformation. They help HMRC achieve its objectives by bringing independent perspectives which complement the considerable expertise and experience of HMRC's executives.

We are supported by three board committees – the Audit and Risk Committee, the Customer Experience Committee and the People and Nominations Committee. These committees undertake detailed work in the areas within their remit and include additional non-executives and independent advisers who bring specific relevant expertise and experience to the table.

The non-executives are also actively involved beyond the formal board and committee structures, providing support in a range of areas across the department and visiting operational areas. As well as being valuable in its own right, this broader involvement helps to ensure that our board and committee work is founded on a solid understanding of HMRC's business.

During the year John Whiting retired from the board, having served for six years as an excellent chair of our Audit and Risk Committee. I would like to thank both John and all my other board and committee colleagues who served during the year.

You can read more about the work of the board and ExCom, together with a fuller picture of HMRC's governance structures and processes, on the following pages.

Mervyn Walker

Mervyn Walker
Lead Non-Executive

Our governance arrangements

This governance statement sets out HMRC's governance, risk management and internal control arrangements. It applies to the financial year 1 April 2019 to 31 March 2020 and up to the date of approval of the annual report and accounts, and accords with HM Treasury guidance. It also contains the elements required for the Accounting Officer System Statement for HMRC.

Ministerial arrangements

HMRC is a non-ministerial department established by the Commissioners for Revenue and Customs Act (CRCA) 2005, which gives the legal powers and responsibilities for managing the department's function day-to-day to commissioners appointed by the Queen. Our status as a non-ministerial department is intended to ensure that the administration of the tax system is fair and impartial, with no political decision making in the affairs of individual taxpayers. We comply with directions of a general nature given by Treasury ministers, for example on our strategies, operational policies and targets.

HMRC is accountable to the Chancellor of the Exchequer for how we conduct our business. The chancellor has delegated the responsibility for oversight of the department to the Financial Secretary to the Treasury, as departmental minister for HMRC. The current departmental minister is the Rt Hon Jesse Norman MP.[1]

We work in partnership with HM Treasury to advise ministers on development and delivery of tax policy. HM Treasury leads on strategic policy development, supported by HMRC. HMRC leads on policy maintenance and delivery, supported by HM Treasury. The policy partnership covers all direct and indirect taxes and duties, National Insurance, tax credits and Child Benefit for which HMRC has legal responsibility.

Commissioners of Revenue and Customs

The commissioners are responsible for the collection and management of revenue and the payment and management of tax credits. They are entitled to appoint officers of Revenue and Customs who must comply with their directions. The way in which the commissioners conduct their business is governed by the CRCA. During the financial year 2019 to 2020, HMRC had seven commissioners; these were Sir Jonathan Thompson[2], Jim Harra, Angela MacDonald, Justin Holliday, Penny Ciniewicz, Melissa Tatton[3] and Ruth Stanier.

First and Second Permanent Secretaries

Our First Permanent Secretary and Chief Executive, Jim Harra, is the Principal Accounting Officer for HMRC. Jim is responsible for the delivery of HMRC's strategy and is accountable to Parliament for the management of HMRC's resources. Jim chairs the Executive Committee (ExCom) and is a member of HMRC's Board. Jim's Accounting Officer responsibilities are set out on pages 98 to 99. Jim began his career at Inland Revenue as an Inspector of Taxes in 1984 and held a number of senior compliance, policy and operational posts, before being appointed Chief Executive and First Permanent Secretary on 29 October 2019, having acted in the role on an interim basis since Sir Jonathan Thompson left on 30 September 2019. Our Second Permanent Secretary and Deputy Chief Executive is Angela MacDonald. Angela joined the Civil Service in 2009 following a career in financial services. She spent eight years in the Department for Work and Pensions as a senior leader before joining HMRC in January 2017 as Director of Operational Excellence. She was made Director General of Customer Services in August 2017 and appointed as Deputy Chief Executive and Second Permanent Secretary on 1 August 2020.

1 The Rt. Hon Jesse Norman was appointed Financial Secretary to the Treasury on 23 May 2019, taking over from The Rt. Hon Mel Stride.

2 Sir Jonathan Thompson was a commissioner of HMRC until he left on 30 September 2019. He had held the position of Chief Executive and First Permanent Secretary since 13 June 2016.

3 Melissa Tatton was a commissioner of HMRC until she left on 6 September 2020.

Tax Assurance Commissioner

The role of Tax Assurance Commissioner (TAC) was introduced by HMRC in 2012 as part of a package of measures designed to strengthen the governance of tax disputes. The TAC provides assurance and transparency and has an explicit challenge role in decision-making in the largest and most sensitive disputes, and in a sample of smaller cases. Decisions relating to the resolution of our largest and most sensitive cases are decided by three commissioners, chaired by the Tax Assurance Commissioner. A report on how HMRC's tax dispute resolution governance operated during the year is prepared by the TAC on an annual basis (see pages 110 to 124).

Non-executive directors

Non-executive directors bring external experience and expertise to HMRC, playing an important role in providing advice, challenge and scrutiny to the work of ExCom and HMRC more widely, both within and outside of formal board and sub-committee meetings. For example, they work closely with executives on specific initiatives and undertake in-depth examinations of risk. Non-executives also support the effectiveness of programme boards for HMRC's most significant transformation programmes.

Mervyn Walker, HMRC's Lead Non-Executive Director, has chaired HMRC Board meetings since 15 January 2018. As Lead Non-Executive Director, Mervyn meets regularly with the HMRC non-executive directors and the First and Second Permanent Secretaries, acting as a sounding board where necessary. Mervyn also takes an active role across government, liaising with the government-wide lead non-executive directors. In addition, he is responsible for the development and appraisal of non-executives as effective board members.

Our governance committee structure

HMRC has two top-level governance committees:

- **HMRC Board**
- **HMRC Executive Committee**

This framework enables our Executive Committee (ExCom) to undertake effective and transparent decision-making and provides appropriate challenge and assurance by our non-executives.

Figure 12: HMRC committee structure during 2019-20

Executive Committee

Oversees HMRC 's performance and transformation, both in terms of immediate and future objectives

Executive Committee (Brexit)[1]

Oversees the development and delivery of HMRC 's work programme to support the UK's exit from the EU

ExCom sub-committees

Strategy and Design Committee
Ensures HMRC is on track strategically and that we have the right business and operating model in place to deliver, develop and agree strategy and design

Organisational Capabilities Committee
Ensures HMRC has the required capabilities to fulfil our strategic ambitions

Strategic Performance and Resources Committee
Ensures that performance is on track relative to the five year business plan and decides on the prioritisation of investment resources

Quarterly Business Reviews[2]

Provides advice and challenge from the Chief Executive to lines of business on delivery of the HMRC business plan, targets and transformation at an operational level

HMRC Board

Provides challenge and advice on HMRC strategy, performance and capability

Board sub-committees

People and Nominations Committee
Provides advice and scrutiny on nominations, succession planning, leadership and HR strategy

Audit and Risk Committee
Provides assurance and scrutiny on financial control, risk and governance

Customer Experience Committee
Provides challenge and support on customer experience related issues and monitors departmental performance against HMRC Charter

New governance structure from April 2020

To improve governance arrangements, in February 2020 ExCom agreed to restructure its sub-committees with effect from April 2020. The three existing ExCom sub-committees were replaced by the Strategy Committee, the Resources and Performance Committee, and the Change Investment and Design Committee. ExCom has also agreed to establish a Professional Standards Committee to provide oversight of how HMRC administers the tax system. In April 2020, ExCom COVID-19 held its first meeting to oversee the development and delivery of our work programme relating to COVID-19.

[1] ExCom (Brexit) was disbanded in July 2019. Its work was transferred to the EU Transition Portfolio Board with items escalated to ExCom as necessary.

[2] Quarterly Business Reviews were reintroduced in December 2019.

HMRC Board

Purpose: The HMRC Board helps to guide HMRC strategically by drawing upon wide-ranging public and private sector expertise. It also provides challenge, advice and assurance to the First and Second Permanent Secretaries and the executive team on developing and implementing their strategy, business plan and performance. The board is advisory and does not have a role in operational decision-making, tax policy or individual taxpayer matters.

Chair: Mervyn Walker

Members: Lead Non-Executive, non-executive board members, First and Second Permanent Secretaries, Chief Finance Officer. Other executives attend as relevant to the agenda.

Number of meetings in 2019 to 2020: 10

Highlights in 2019 to 2020

- contributing to the development of HMRC's long-term strategy and delivery plans
- monitoring performance against targets and challenging on customer service delivery
- reviewing and challenging HMRC's annual business plan
- reviewing progress on Making Tax Digital and the other elements of HMRC's transformation programme
- supporting work on EU exit and future borders and trade strategy
- reviewing work on powers and safeguards
- reviewing plans to modernise the IT estate
- supporting the Respect at Work agenda and the strategy to make HMRC a great place to work

Board effectiveness

Our board assesses the quality of its discussions at the end of each meeting. The board also conducts a thorough review of its effectiveness each year, through a combination of completion of the structured Cabinet Office questionnaire and individual discussions. The review is used as an opportunity for the board to assess progress against recommendations from previous reviews and to ensure there is continuous improvement in the board's effectiveness and impact. The 2019 to 2020 review included independent input from a non-executive from another government department.

The 2019 to 2020 review found that the board is very engaged and clear on its responsibilities. There is a good mix of skills on the board and non-executives feel that their skills and contributions are valued. There is an open atmosphere at board meetings, with good engagement from both non-executives and executives. Newer board members feel very positive about the induction they received. The board was satisfied with the quality of data provided but there is work ongoing to further improve the management information used by both the board and the Executive Committee (ExCom). The review identified further improvements that would build on progress made in 2019 to 2020. These include:

- fostering continuous improvement through increased challenge from the non-executives to ExCom
- further expanding the contact with the members of ExCom who are not board members through improved organisation of the board agendas and enhanced integration between the board and its committees
- continuing to strengthen the relationship with the Financial Secretary to the Treasury

+ Board compliance with the Corporate Governance Code is dealt with in the same way as for previous years. Read about how we comply on page 109.

HMRC Board sub-committees

The HMRC Board is supported by three sub-committees:

Audit and Risk Committee

Purpose: To provide independent assurance to the board and Principal Accounting Officer on the integrity of financial statements and the comprehensiveness and reliability of assurances across HMRC on governance, risk management and the control environment.

Chair: Michael Hearty (since July 2019), John Whiting (prior to July 2019)

Members: At least three members drawn from the non-executive team normally to include two board members.

Number of meetings in 2019 to 2020: 6

Highlights in 2019 to 2020

- scrutinising the production and integrity of the 2019 to 2020 Annual Report and Accounts for HMRC, National Insurance Fund for Great Britain, National Insurance Fund for Northern Ireland and Revenue and Customs Digital
- advising and providing assurance on annual statements made by ExCom members and the National Audit Office Planning and Completion Reports for 2019 to 2020
- regulating and ongoing monitoring of the processes for whistleblowing, the adequacy of the control framework, the review of Arm's Length Bodies, quality assurance of business-critical models and GDPR

People and Nominations Committee

Purpose: To provide advice and scrutiny for the HMRC Board on the HR function's support for HMRC's strategic direction. This includes HMRC's ability to meet its legislative responsibilities to its people, including health and safety, the Equality Act and equal pay opportunities, and the effectiveness of nominations arrangements within HMRC.

Chair: Alice Maynard

Members: The committee has at least three members, all of whom must be non-executive. In addition to the committee's members, meetings are normally attended by the Chief People Officer, the Director General for Customer Services Group, the Director General for Customer Compliance Group and the Director General for the Solicitor's Office and Legal Services.

Number of meetings in 2019 to 2020: 4

Highlights in 2019 to 2020

- shaping the workforce planning, location, diversity and inclusion strategies
- advising on how the results from the Civil Service people survey can support HMRC in providing an improved staff experience
- providing input from experience in developing future and regional leadership capability across the department

Customer Experience Committee

Purpose: To support and challenge ExCom on customer experience-related issues and to help HMRC deliver on its strategic objectives.

Chair: Mervyn Walker

Members: The committee has one permanent ExCom member – the Director General of Customer Strategy and Tax Design – as well as four non-executive directors (including the chair) and five external independent advisers with expertise in customer experience.

Number of meetings in 2019 to 2020: 4

Highlights in 2019 to 2020

- running workshops on customer experience issues in key parts of the business such as customer services, compliance, policy and IT
- advising on the development of a customer-focused culture in HMRC
- contributing to the 'Customers who need extra help' strategy
- developing a revised HMRC Charter
- providing recommendations on effective complaints handling and customer communication and guidance

Executive Committee and sub-committees

Purpose: The Executive Committee (ExCom) is HMRC's most senior decision-making body. ExCom oversees and assures all of HMRC's work and is responsible for setting and delivering our strategic objectives. ExCom is also responsible for improving our performance, customer service and change agendas. Every month, ExCom considers HMRC's performance against key performance indicators.

Chair: Jim Harra

Members: The First and Second Permanent Secretaries, the Directors General for Customer Service, Customer Compliance and Customer Strategy and Tax Design, General Counsel and Solicitor, Chief People Officer, Chief Finance Officer, Chief Digital and Information Officer, and Chief Executive of the Valuation Office Agency. Other executives and the lead non-executive attended as the agenda on risks and decisions dictated.

Number of meetings in 2019 to 2020: 21

Highlights in 2019 to 2020

- considering ways to improve performance in all areas, including both customer service and value for money through the Performance Framework
- supervising delivery of work on the transition period, following the UK's exit from the EU
- reviewing the status of, and management actions for, departmental risks and issues
- overseeing work on preparing for the next Spending Review
- developing people priorities and workforce culture enhancements, including Respect at Work and workforce planning

ExCom (Brexit)

ExCom (Brexit) was disbanded in July 2019. Its work was transferred to the EU Exit Portfolio Board with items escalated to ExCom as necessary.

Chair: Jim Harra

Members: The First and Second Permanent Secretaries, the directors general, General Counsel and Solicitor, Chief People Officer, Chief Finance Officer, Chief Digital and Information Officer. Other executives and the lead non-executive attended as the agenda on risks and decisions dictated.

Number of meetings in 2019: 3

Highlights in 2019 to 2020 :

- overseeing deal/no deal readiness, controlling the implications of the extension and the Command, Control and Coordination structure
- leading on the planning and delivery of the work on borders, transition period risk and issue management
- managing EU exit recruitment, resourcing and capability

Strategy and Design Committee

Purpose: This committee provided high-level oversight and direction of HMRC's corporate and functional strategies and their implementation across HMRC. It also acted as the corporate design authority that masters HMRC high-level design.

Chair: Ruth Stanier

Members: Representative directors from across HMRC including Director of Strategy, representatives from Customer Insight Design and Tax Strategy and directors from Customer Compliance and Customer Service Groups. Other executives attended as the agenda dictated.

Number of meetings in 2019 to 2020: 9

Highlights in 2019 to 2020:

- championing and developing the work on a healthy tax administration system which has fundamentally challenged the way HMRC administers tax
- strengthening the performance framework to support delivery of HMRC's strategic ambition
- agreeing a new approach for customers who need extra help
- raising the profile of our work with devolved administrations

Organisational Capabilities Committee

Purpose: The Organisational Capabilities Committee was disbanded in November 2019. It led the identification, definition and development of the organisational capabilities required to fulfil HMRC's strategic ambitions; responsible for reviewing the effectiveness of organisational capabilities.

Joint Chair: Esther Wallington and Jacky Wright[1]

Members: Representative directors from across HMRC including the Chief People Officer, the Chief Digital and Information Officer, directors from Strategy, Organisational Capabilities, Estates, HR Policy & Ops, Process Design and Strategic Finance. Other executives attended as the agenda dictated.

Number of meetings in 2019 to 2020: 6

Highlights in 2019 to 2020:

- developing an approach and framework for capabilities, agreeing a comprehensive map of HMRC's capabilities and using these capabilities to understand HMRC holistically
- scoping the best possible packages of change to develop the capabilities
- understanding and articulating organisational priorities to develop HMRC's strategic ambitions
- giving our people clarity about change and helping them make sense of it

[1] Jacky Wright left in October 2019

Strategic Performance and Resources Committee

Purpose: This committee provided strategic oversight of the resources available to HMRC and strategic performance against the HMRC business plan. It provided oversight of key corporate performance, efficiency, productivity and highlights opportunities, strategic gaps and issues. It also oversaw the strategic investment process.

Chair: Justin Holliday

Members: Representative directors from across HMRC, including all finance directors.

Number of meetings in 2019 to 2020: 10

Highlights in 2019 to 2020:

- shaping and informing 2020 to 2021 planning, and Spending Round 2019 and the next Spending Review
- providing advice to ExCom on workforce planning
- approving complex Investment Board business cases and those over the Investment Board threshold
- supporting and informing the delivery of the new Performance Measures Framework

Register of interests

HMRC maintains a register of interests to ensure that potential conflicts of interest can be identified, in line with the Code of Conduct for Board Members of Public Bodies. HMRC board members and sub-committee members are required to declare any potential conflicts of interest on appointment and on an annual basis. No significant company directorships or other interests were held by board members which may have conflicted with their responsibilities. Note 13 to the Resource Accounts confirms that no member of the board, including non-executives, had any related-party interests.

HMRC's non-executive directors (end of March 2020)

Mervyn Walker
Lead Non-Executive
Committees: Audit and Risk, People and Nominations, Customer Experience

Patricia Gallan
Committees: People and Nominations, Customer Experience

Michael Hearty
Committees: Audit and Risk

Alice Maynard
Committees: People and Nominations, Customer Experience

Paul Morton
Committee: Customer Experience

Simon Ricketts

Juliette Scott
Committee: Customer Experience

Non-executive and board sub-committee members

Elizabeth Fullerton-Rome
Committee: Audit and Risk

Diane Herbert
Committee: People and Nominations

Tom Taylor
Committee: Audit and Risk

HMRC's Executive Committee (end of March 2020)

Jim Harra
Commissioner of Revenue and Customs, Chief Executive and First Permanent Secretary, Principal Accounting Officer, and member of the board

Penny Ciniewicz
Commissioner of Revenue and Customs, Director General Customer Compliance

Sophie Dean and Katherine Green
Interim Director General Borders and Trade (job share)

Mark Denney
Interim Chief Digital and Information Officer

Alan Evans
General Counsel and Solicitor

Justin Holliday
Commissioner of Revenue and Customs, Chief Finance Officer, and member of the board

Angela MacDonald
Commissioner of Revenue and Customs, Director General Customer Service

Ruth Stanier
Commissioner of Revenue and Customs, Director General Customer Strategy and Tax Design

Committee: Customer Experience

Melissa Tatton
Commissioner of Revenue and Customs, Chief Executive of the Valuation Office Agency, Tax Assurance Commissioner and Director General of the COVID-19 Response Unit

Esther Wallington
Chief People Officer

+ The information on this spread is correct at March 2020. Further information about ExCom and board membership is available on **GOV.UK**

Table 1: Meeting attendance by executives and non-executives[1]

		Board	Audit and Risk Committee	People and Nominations Committee	Customer Experience Committee	ExCom	ExCom (Brexit)
Non-executive board members	**Date started or left role**						
Mervyn Walker[2]		10 (10)[3]	6 (6)	4 (4)	4 (4)		
Patricia Gallan	From 15 Jul 2019	7 (7)		2 (3)	2 (3)		
Michael Hearty[4]	From 15 Jul 2019	5 (7)	6 (6)				
Alice Maynard		10 (10)		4 (4)	4 (4)		
Paul Morton	From 15 Jul 2019	7 (7)			3 (3)		
Simon Ricketts[5]		10 (10)					
Juliette Scott		10 (10)			2 (4)		
John Whiting[6]	To 31 Jul 2019	4 (4)	4 (4)		1 (1)		
Non-executives							
Elizabeth Fullerton-Rome			6 (6)				
Diane Herbert				4 (4)			
Thomas Taylor			6 (6)				
Executives							
Sir Jonathan Thompson	To 30 Sept 2019	4 (5)				8 (10)	0 (2)
Jim Harra		7 (10)			2 (2)	18 (21)	2 (2)
Penny Ciniewicz						20 (21)	1 (2)
Martin Coombs[7]						1 (1)	
Sophie Dean/Katherine Green[8]	From 02 Dec 2019					6 (7)	
Mark Denney[9]	From 11 Nov 2019					9 (9)	
Alan Evans							2 (2)
Justin Holliday		9 (10)				20 (21)	1 (2)
Angela MacDonald						19 (21)	2 (2)
Ruth Stanier[10]					2 (2)	20 (21)	2 (2)
Melissa Tatton[11]						20 (21)	
Esther Wallington						17 (21)	1 (2)
Karen Wheeler	To 15 Sept 2019					2 (6)	0 (2)
Jacky Wright[12]	To 13 Oct 2019					6 (11)	1 (2)

1 This table sets out meeting attendance by each committee or board member. It does not include other attendees or presenters.
2 Mervyn Walker's contract was due to end on 30 June 2020 but was extended to 31 December 2020.
3 Number outside parenthesis refers to meetings attended; number inside parenthesis refers to number of meetings that could have been attended.
4 Michael Hearty joined HMRC as a non-executive and board sub-committee member on 13 July 2018, having previously been an Independent Advisor to the Audit and Risk Committee (ARC) from 26 January 2017. He joined the HMRC Board and became ARC Chair on 15 July 2019.
5 Simon Ricketts' contract was due to end on 31 August 2020 but was extended to 28 February 2021.
6 John Whiting left the board on 31 July 2019 and left HMRC on 30 September.
7 Martin Coombs covered the post of Chief Digital and Information Officer between Jacky Wright and Mark Denney.
8 Sophie Dean/Katherine Green were made permanent on 7 May 2020; prior to that they carried out the role in an interim capacity.
9 Mark Denney was Interim Chief Digital and Information Officer (CDIO) from 11 November 2019 to 14 September 2020, when Daljit Rehal took over as CDIO. Mark remains at HMRC until 31 December 2020.
10 Ruth Stanier replaced Jim Harra as the formal Executive Customer Experience Committee member in December 2019.
11 Melissa Tatton took over as Tax Assurance Commissioner from Jim Harra on 15 October 2019 following his appointment as HMRC Interim Chief Executive. She was made Director General of the COVID-19 Response Unit on 20 March 2020. Melissa retained oversight and Accounting Officer responsibility for the VOA and Jonathan Russell was appointed interim CEO of the VOA on 25 March 2020. Justin Holliday replaced Melissa Tatton as Tax Assurance Commissioner on 4 August 2020.
12 Jacky Wright was appointed on a two year fixed term on assignment from Microsoft to HMRC with effect from 16 October 2017 and subsequently resigned 13 October 2019. During this time, Jacky was a Senior Civil Servant bound by the Civil Service Code and did not participate in commercial decisions specifically concerning Microsoft.

Risk management and assurance processes

To deliver our strategic objectives, it's vital we manage risks throughout HMRC, from decision making on individual cases through to delivering large-scale change and strategic policy making. Everyone in HMRC, from board level down, has a clear role to play in capturing and managing risks and this year we have started the rollout of a new digital control and risk tool which will enable greater analysis, collaboration and transparency of risks and controls across HMRC. We manage our risks through a risk management and control framework, shown on page 86, and through an integrated data analysis process with our performance and strategic objectives. More on this, including the risk profile and our key mitigating activity during the year, is in the 'Managing risks to our delivery' section on page 87.

The Executive Committee (ExCom), HMRC's Board and the Audit and Risk Committee review risks regularly. Information on the risks and framework is readily available in HMRC, enabling a culture of integrated governance and continual improvement.

Our sub-committees scrutinise and assure our risk and assurance processes. In particular, our Audit and Risk Committee provides independent assurance to the board and Principal Accounting Officer on the integrity of financial statements and the comprehensiveness and reliability of assurances across HMRC on governance, risk management and the control environment. Protective security, including data losses, is a particular focus for the Audit and Risk Committee, ensuring customers' data is protected. More on the security of information risks and a summary of data losses over the year can be found in the Public, stakeholder and Parliamentary accountability section on page 152.

HMRC's three lines of defence

ExCom and the board also take assurance from a range of activities across our 'three lines of defence' that HMRC is able to deliver on its overall strategy and objectives.

Figure 13: HMRC's three lines of defence

1

First line of defence
(business process)

This is having controls in place that mitigate the risks to the delivery of HMRC's objectives and front-line operations. These controls stop things going wrong while the activity is underway.

2

Second line of defence
(internal assurance)

This is the activity that provides managers with assurance that the controls in place are sufficient and operating as intended. This activity can be undertaken in the business, centrally by specialist assurance teams, or be automated in systems. It takes place after the work has been completed. Assurance activity provides reports which senior managers or other review bodies, for example HMRC's Audit and Risk Committee, use as a basis to improve the controls and management of risks.

3

Third line of defence
(independent assurance)

This covers independent assurance undertaken by Internal Audit who directly report to the Accounting Officer and HMRC's Audit and Risk Committee. Further independent assurance is provided by external bodies, mainly conducted by the National Audit Office.

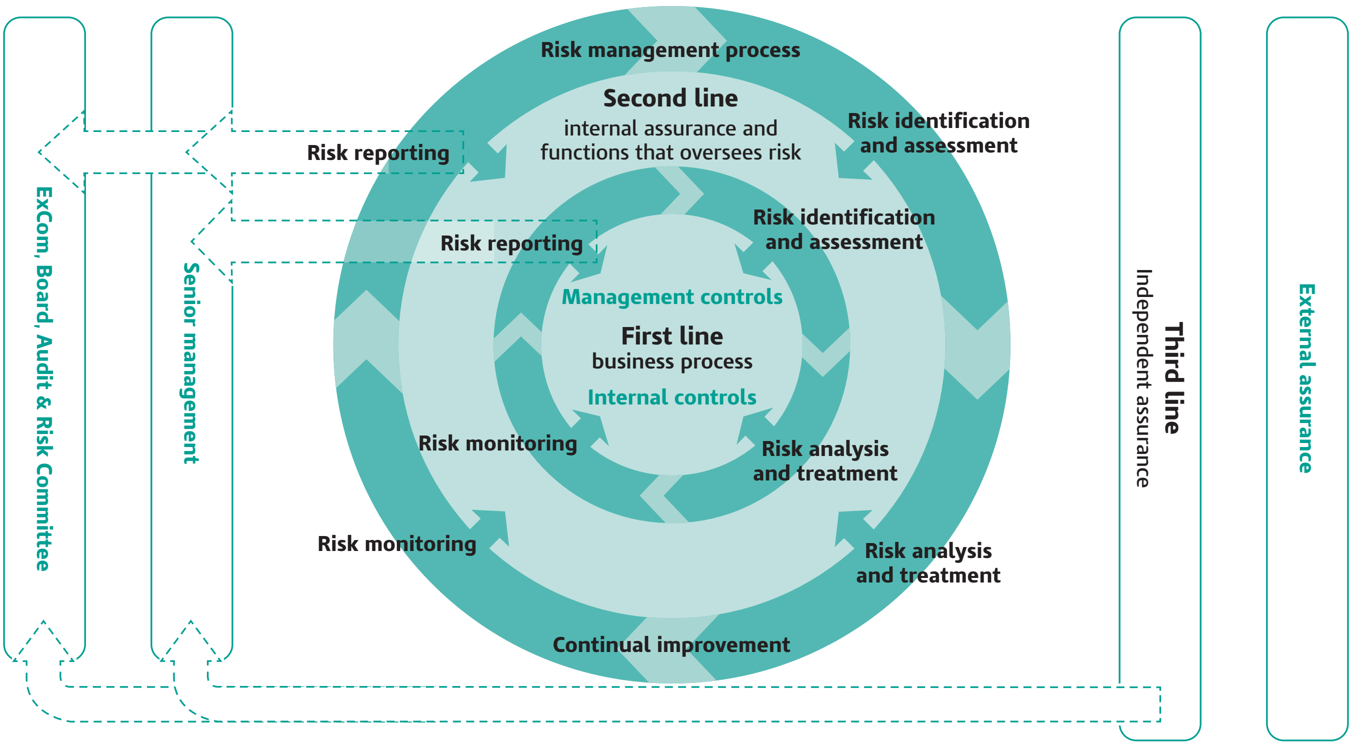
Risk management and control framework

We continually improve our risk management and control framework for managing risks to the delivery of our objectives. The four-step risk management process shown in Figure 14 is operational throughout HMRC and used to manage risks across all areas of the department.

The risk control effectiveness is tested at each of the three lines of defence. During financial year 2019 to 2020 we worked to further integrate risk with the wider HMRC control and assurance environment to improve risk insight and provide an overarching view of the effectiveness of HMRC controls. We achieve this through our involvement with the HMRC Control Board and wider assurance community. The new control and risk tool ensures digital links with our processes and control environment.

We have increased our risk management capability through constantly striving to ensure that our risk management processes align with the revised HM Government Orange Book principles and concepts, identifying any improvements needed. This is enhanced by arrangements for managing our top ten strategic risks and through the creation of a portfolio of short-term risks. We will be undertaking a thorough assessment of HMRC's risk management capability during 2021 and have devised a framework to measure and track our capability.

Figure 14: Our risk management and control framework



Our plans to improve risk management in financial year 2020 to 2021

We will continue to ensure that risk management is embedded within, and fundamental to, the development and operation of business processes and controls. These are tested through integrated risk-based assurance plans conducted by the HMRC business groups. This will optimise our internal control defences and increase our ability to analyse the risks to our performance and assure, revise and improve all first line risk controls.

In addition, we will take into account all the issues, risks and opportunities that the COVID-19 pandemic and its impact continues to present, and incorporate those within our strategic risk portfolio. Specifically, our priorities for the year 2020 to 2021 are:

- reviewing our strategic risk portfolio, as a result of the COVID-19 pandemic, so that we focus on activities which bring a controlled and opportunistic delivery through the recovery period and into the future – in particular, there is an inherent risk of error and fraud incurred from the COVID-19 schemes
- improving our risk reporting through an increased information base and in-depth analysis which increases our exposure and tolerance assessment capability
- increasing our capability and effectiveness to prevent internal fraud, bribery and corruption using integrated and vigorous control management
- assessing all aspects of our risk management governance and judgement to continually improve and enrich our reporting to the board and its sub-committees
- continuing to embed the new control and risk tool throughout HMRC which will deliver enhanced risk visibility, maximise our risk integration capability and strengthen strategic decision-making

Managing risks to our delivery

In order to optimise performance, protect public money and make sure we are likely to achieve our objectives, we identify and manage closely our portfolio of strategic risks, shown below in Table 2. This portfolio is continuously reviewed to ensure we keep pace with our delivery of a modern tax administration system and identify and respond to the risks now and in the future.

During the COVID-19 pandemic, we have ensured all our strategic risks are mitigating the full impacts on our customer delivery as well as impacts on our people. These mitigations are varied and widespread and include the rapid prioritisation of our IT change programme to deliver the internationally renowned employment support schemes - as well as new policy and optimised, secure collaboration and connectivity to support the remote capability needed for our people to work from home. The impacts continue to be assessed, new ones identified and our risks adjusted to ensure an effective strategic portfolio.

Table 2 includes the primary and secondary relationship that each risk has with the strategic objectives and how it therefore supports each key performance indicator, as shown in the 'Our Performance' section of this annual report. Each risk is linked to the strategic objectives, ensuring the mitigating activity is focused efficiently on securing the achievement of objectives. Where sub-optimal performance within those objectives is indicated, the risks are adjusted to regain the appropriate mitigating focus.

We take the issue of data security extremely seriously and our strategic personal data risk, shown at number 8 in the table below, outlines some of our key mitigating activity that protects customer data. We investigate and analyse all security incidents to understand and reduce security and information risk. The number of centrally-managed incidents impacting on protected personal data in HMRC rose from 13 to 15 in 2019 to 2020. The number of customers potentially affected by these centrally-managed incidents was 3,616 (2018 to 2019: 694). The figures quoted for the number of customers affected can change over time, as new information becomes available as a result of further enquiries and ongoing security incident investigations. More detail is provided in the Public, stakeholder and Parliamentary accountability section of this report.

The portfolio consists of ten long-term risks, with each sponsored by a director general on behalf of our Executive Committee (ExCom). These are underpinned by associated short-term risks, all of which were identified since May 2019. The list below shows the long-term and short-term risks.

Table 2 reflects the position over the first few months of financial year 2020 to 2021. This table uses the standard red, amber, green (RAG) colouring to reflect their remaining risk exposure level.

Long-term and short-term risks

Long-term risk	Short-term risk[1]
Capacity, capability and engagement of our people	Workforce pay Workforce moves to regional centres Workforce impacts of moves to regional centres
Catastrophic loss of buildings and services	Management capability for software assets
Delivering transformation	Capacity and capability reform
Exploiting information	
External perception / loss of trust	Disguised remuneration (jointly mitigated under Relevance of the tax system to the economy) Off-payroll reform (jointly mitigated under 'Relevance of the tax system')
Impact of EU negotiations on tax administration	
Improving customer experience	
Management of personal data	
Relevance of the tax system to the economy	Disguised remuneration (jointly mitigated under External perception / loss of trust) Off-payroll reform (jointly mitigated under 'External perception / loss of trust')
Funding and affordability	Funding and affordability within 2019 to 2020 budget

1 Short-term risks underpin our strategic risks. These are identified and managed to help reduce overall risk exposure. They are dynamic with new risks being identified throughout the year and others being managed to tolerance and de-escalated. Table above shows highest priority short-term risks at March 2020.

Table 2: Long-term risk trends and key activities

Key

Risk trajectory

- **Risk increasing**
- **Risk decreasing**
- **Risk stable**

Risk RAG (based on probability/impact)

- **Red**
- **Amber**
- **Green**

Objective 1:
Collecting revenues due and bearing down on avoidance and evasion

Objective 2:
Transform tax and payments for our customers.

Objective 3:
Design and deliver a professional, efficient and engaged organisation.

Risk (and strategic objective)	Actions taken to mitigate this	Trend
1. **Capacity, capability and engagement of our people** Securing high business performance (productivity) by ensuring capability, capacity and engagement. - We may not achieve high levels of business performance if we do not ensure our people have the skills, capability and working experiences which mean they and our organisation can thrive. Sponsor: Chief People Officer **Strategic objectives** Primary: Objective 3 Secondary: Objective 1, Objective 2	We continued to deliver our people strategy for a great employee experience: • We recruited the required numbers at the right time to enable planning and readiness for EU exit, improving our recruitment process to reduce the time taken to hire. We also supported around 2,500 people who moved into the 2 regional centres to open this year, including launching more flexible policies to help people move to regional centres • We launched our smarter working standard for 'tools and technologies' and 'spaces and places' and My Digital Know-how SharePoint site, sharing resources to build digital capability. We set up new digital classrooms to lead us into a smarter way of learning. Most of our people were able to work remotely from home as we responded to the COVID-19 pandemic - putting smarter working into practice • In response to the Respect at Work review, and working with around a quarter of our people, we drew up and launched 'Our Commitments', a suite of overhauled policies and learning, as well as transforming the casework support we offer. We also reviewed our work to improve the experience of our managers	Risk stable (Amber)

2. Catastrophic loss of buildings and services

As a result of unexpected catastrophic event or an incident there is a risk that our business systems, people, buildings or suppliers will be unavailable resulting in significant disruption to our tax collection, payments out and other customer services and corresponding loss of public confidence in HMRC.

Sponsor: Chief Digital and Information Officer

Strategic objectives

Primary 

Secondary 

We are:

- procuring and configuring new business continuity software, which will be used to roll out the new HMRC Business Continuity Planning Operating Model which aligns with the International Standard (ISO22301) and focuses on strategic priorities
- conducting trials of the software to test and evaluate the functionality
- working with the chosen supplier to configure and prepare the software for the business areas

Business continuity planning is undertaken in HMRC, by concentrating on the most time critical high level responsibilities. This model:

- defines priorities for restoring business as usual after a business continuity incident
- clarifies accountability and visibility right up to director general
- reduces the impact of a Catastrophic Loss of Buildings and Services (the HMRC CLoBS risk), by identifying and safeguarding the delivery of HMRC's Business Critical Functions and Single Points of Failure, and informing the UK Critical National Infrastructure
- aligns with professional best practice and the International Standard (ISO22301)

Our improved business continuity preparation will decrease the probability of exposure to risks and improved management will reduce the impact of incidents.

HMRC's Securing Our Technical Future (SoTF) programme aims to migrate more than 600 of our services (underpinned by over 6,000 servers) out of their current 3 data centres to either the cloud or a physical government part-owned facility called Crown Hosting.

Using portable services, not reliant on a single location (or even cloud provider) will mean that incidents of system-wide downtime are reduced. This will need to be applied across all departmental business impact analysis services to provide effective mitigation.

We are developing our capability to manage HMRC's cyber vulnerability by effectively scanning and establishing the number of these over the estate. By increasing visibility of any vulnerabilities in HMRC's estate, we increase our ability to assess the impact of new cyber threats.

We will review and improve HMRC's personnel security, known as 'personnel security maturity' to meet revised Cabinet Office minimum personnel security standards.

We will incorporate, where proportionate to do so, best practice from the Centre for the Protection of National Infrastructure (CPNI) in the 7 core elements of effective 'PerSec' processes – leadership and governance, insider risk assessment and management, pre-employment screening, ongoing personnel security, monitoring and assessment of our people, investigation and disciplinary, security culture and behaviour change.

Risk (and strategic objective)	Actions taken to mitigate this	Trend
3. Delivering transformation We may not deliver a more modern tax administration with service improvements and efficiencies that allows us to: exploit digital channels to improve customer service; tackle more quickly those who do not engage with us or bend or break the rules; and live within our financial allocations. Sponsor: Chief Executive Officer **Strategic objectives** Primary Secondary	Managing this portfolio effectively is crucial to our future success. We have: • taken effective steps to measure and forecast our use of resources, particularly in view of the increased demands on HMRC as a result of EU exit • embedded robust controls to manage our finances and enable us to maintain a balanced transformation portfolio that remains within funding limits • responded to emerging environmental threats by conducting timely reviews of the scope of transformation, safeguarding our most critical deliveries while maintaining a balanced and deliverable portfolio	
4. Exploiting information There is a risk that we fail to effectively exploit data, resulting in reduced revenue collection, tax gap widening and/or weaker customer service by failing to build capability effectively. Sponsor: Director General Customer Compliance Group **Strategic objectives** Primary Secondary	We have taken steps to improve how we exploit information: • through tighter governance and management of third-party data acquisition and sharing, we have enhanced the use of information from information notices issued by the department and information exchanged under international agreements. We have also reviewed our governance around commercial data acquisition to improve cost efficiency and widen access to the exploitation of commercial data across HMRC where required in the period ahead • through our new Data Sharing Service, we have enhanced governance, speeding up our processes and enabling proportionate and secure access to our data. We have provided a wide range of data shares to other government departments as well as researchers, improving the delivery of services, national statistics and the quality of policy advice. Significant milestones include sharing PAYE Real Time Information (RTI) records for 30+ million employees with the Office for National Statistics (ONS) as part of the drive to use administrative data in producing government statistics and longer term ambitions to reduce their reliance on the 10-year Census	

- we have embedded a data studio process to drive our data science activity. Data exploitation from this work has underpinned significant revenue and non-revenue benefits across the period. This has also driven improvements in how we access, process and use windfall data the department receives
- our annual data science conference has been central to building data science capability across HMRC
- as we have rolled out Office 365 across the estate, we established a Centre of Excellence for the use of the analysis and reporting tools being made available which has provided guidance and extensive support to operational performance analysts across HMRC to drive access to and use of the tool
- our capability building programme has designed a data skills framework relevant for all staff and conducted a benchmarking exercise targeting 27,000 data leaders to assess existing data capability, using the findings to influence learning and development initiatives. To develop foundational knowledge and build data literacy we have designed and rolled out a core learning product which has been promoted to all staff

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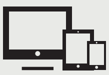
5. External perception/loss of trust

We may be seen by our stakeholders as ineffective, inefficient or as not treating everyone impartially, leading to weaker compliance and potentially an increase in the tax gap.

Sponsor: Chief Executive Officer

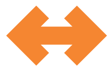
Strategic objectives

Primary 

Secondary  

We have:

- worked internationally to close tax loopholes and cut tax avoidance
- developed our online services to help individuals and small businesses
- worked to ensure fair media treatment of our work in tackling non-compliance, addressing misconceptions and inaccuracies



<table>
<tr><th>Risk (and strategic objective)</th><th>Actions taken to mitigate this</th><th>Trend</th></tr>
<tr><td>

6. Impact of EU negotiations on tax administration

HMRC fails to design and deliver robust policy and operational changes that meet the outcome of EU exit negotiations leading to an inability to secure revenue, make payments and meet customer needs on exit from the EU.

Sponsor: Borders and Trade Group

Strategic objectives

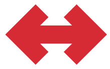
Primary 

Secondary  

</td><td>

To ensure we understand and proactively prepare for the UK's new relationship with the EU, we:

- were ready to deliver a minimum 'day one' model by 31 October 2019, with further work planned post-exit to move to a sustainable model
- have developed and are delivering the detailed plans required for HMRC to meet the government's ambition for the end of the transition period
- continued to maintain a strong presence across Whitehall at senior levels, feeding into and participating in EU exit negotiations
- managed risks to delivery of various scenarios, reviewing risks monthly at senior levels, and strengthening existing governance structures to monitor and drive delivery

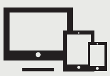
</td><td></td></tr>
<tr><td>

7. Improving customer experience

We fail to act effectively on our learning about customer behaviours, leading to a poor customer experience, an increase in demand, a reduction in voluntary compliance and any resulting revenues and an inability to demonstrate value for money in the administration of the tax and benefits systems.

Sponsor: Director General Customer Services Group

Strategic objectives

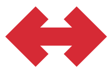
Primary 

Secondary  

</td><td>

We have:

- introduced a direct customer communications programme that looks at how we communicate with customers, improving the quality of the written material we send out and helping customers to use digital communications
- worked across HMRC to build our understanding of customer behaviour into customer journeys that support our compliance vision, liaising across our Customer Strategy and Tax Design Group, Customer Compliance Group, HMRC's Customer Insight Steering Group, and Strategy colleagues. We worked on 6 areas of policy reform - PAYE, Inheritance Tax, Stamp Duty on shares, trusts, our paperless outputs and uncollectable charges
- identified opportunities to help the customer get it right first time, pushing compliance 'upstream'. Customer Compliance Group and Customer Services Group worked together on opportunities for enhancing an HMRC-wide view of customers, to better understand customer behaviour and tailor interactions accordingly. For example, activity known as 'Test and Learn' is further helping us to understand how customers respond to proactive engagement from HMRC
- developed a framework for health of the tax system that will better help us understand how we are delivering the right customer experience

</td><td></td></tr>
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8. Management of personal data

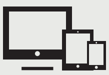
As a result of poor management of individual, business customer and HMRC staff personal data and through a successful malicious external attack, a motivated insider or accidental action, there is a risk of unauthorised access, disclosure, modification, deletion or loss – from within HMRC's control or from a third party with whom we have legitimately shared the data – of personal data to the public domain.

The loss may result in financial or reputational damage to or threat of harm to an individual, group of individuals, organisation or HMRC, including harming our ability to manage the tax and customs systems; fraudulent activity and revenue loss; a loss of public confidence or public/government scrutiny; and potential regulatory and legal action against the department.

Sponsor: Chief Digital and Information Officer

Strategic objective

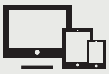
Primary



Secondary

We are:

- capturing HMRC's personal data footprint through our General Data Protection Regulation (GDPR) programme and associated risks with the completion of core documentation, particularly the record of processing activity and data privacy impact assessments - to understand where it is, how it used and how it is protected
- ensuring that where a supplier exits a contract, following data migration activity, there is secure disposition of HMRC's data to reduce the risk of a future data breach. Also, as we vacate premises when we move to regional centres, ensuring that any personal data held in physical format including paper, microfiche and microfilm is managed in line with our data retention policies and either destroyed or suitably stored and secured
- improving our technical and boundary security controls through the Cyber Security and Information Risks (CSIR) Technical and Infrastructure Change programme and working closely with our Securing our Technical Future programme, to understand and prioritise the personal data moves and ensure we minimise data and carry out retention action as part of data migration
- ensuring that HMRC has a strong process to identify, manage and respond to subject access requests and provides a response within the 28-day deadline

Risk (and strategic objective)	Actions taken to mitigate this	Trend
9. Relevance of the tax system to the economy As a result of HMRC not recognising and addressing the opportunities and risks arising from the wider environment on its business and tax base, there is a risk that our product and process design, decisions and the tax system become out of step with social, economic, technological and demographic developments. This could lead to a loss of confidence in the tax system, a reducing tax base, and, ultimately, a reduction in tax revenues. Sponsor: Director General Customer Strategy and Tax Design **Strategic objectives** Primary  Secondary  	We are: • keeping external trends under review and ensuring these feed into work to consider policy options and improve processes. This work is overseen by HMRC's Strategy Committee. Examples of work undertaken to address external changes include measures to tackle VAT online fraud, and implementation of new rules on off-payroll working • undertaking ongoing horizon scanning and scenario planning work, drawing on Political, Economic, Social, Technological, Environmental and Legal ('PESTEL') analysis, to identify new changes that may require mitigating action. This has helped inform our immediate responses to COVID-19. We are learning the lessons from the COVID-19 response to help enable further adaptability and responsiveness to change across HMRC • monitoring estimated potential tax losses or gains by head of duty, reflecting changes in the external environment. This work is undertaken by our Risk and Intelligence Service (RIS) and Knowledge, Analysis and Intelligence (KAI) specialists but has been impacted by COVID-19	

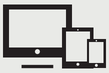
10. Funding and affordability

There is a risk that HMRC is unable to deliver its strategic objectives and / or live within its budget.

Sponsor: Chief Finance Officer

Strategic objectives

Primary



Secondary

Our work in financial year 2019 to 2020 included:

- quarterly reviews to agree solutions to any funding gaps and internal challenge
- implementing agreed cost-reduction proposals
- working with HM Treasury to secure further funding
- making early funding decisions for financial year 2020 to 2021, enabling HMRC to end the financial year within our revised Parliamentary control totals

In our business planning analysis for 2020 to 2021, we produced a refined, affordable and deliverable business plan. Savings of £55 million, agreed by our Executive Committee, enabled us to start 2020 with a revised funding pressure of £95 million. We have identified clear options on which activities to stop or delay and their impact on performance.

Principal Accounting Officer's report

HMRC's Chief Executive, Jim Harra, has been appointed by HM Treasury as Principal Accounting Officer for HMRC. In this report, he sets out how our accounts are prepared and reviews the effectiveness of our governance, risk management and internal control.

How we prepare the accounts

HMRC is responsible for collecting the majority of the UK's tax revenue, including income for the Scottish and Welsh governments, and its financial information is reported in two separate accounts. The Trust Statement reports the revenues, expenditures, assets and liabilities related to the taxes and duties for the financial year. The Resource Accounts reports the costs of running HMRC including making payments of Child Benefit and tax credits. The Valuation Office Agency (VOA) and Revenue and Customs Digital Technology Services Limited (RCDTS Ltd) are consolidated into the Resource Accounts. Both sets of accounts are prepared under HM Treasury direction on an accrual basis.

Trust Statement

The HM Treasury 'accounts direction', issued under section 2 of the Exchequer and Audit Departments Act 1921, requires HMRC to prepare the Trust Statement to give a true and fair view of the state of affairs of the collection and allocations of taxes and duties, the revenue income and expenditure, and cash flows for the financial year.

Resource Accounts

The HM Treasury 'accounts direction', issued under the Government Resources and Accounts Act (GRAA) 2000, requires HMRC to prepare consolidated Resource Accounts to give a true and fair view of the state of affairs of HMRC and the departmental group and of the income and expenditure, Statement of Financial Position and cash flows of the departmental group for the financial year.

Principal Accounting Officer's responsibilities

HM Treasury has appointed me, as HMRC's Chief Executive, to be Principal Accounting Officer of HMRC, VOA and RCDTS Ltd, with overall responsibility for preparing the Trust Statement and Resource Accounts and for providing them to the Comptroller and Auditor General.

In preparing these accounts, I am required to comply with the requirements of the Government Financial Reporting Manual and in particular to:

- observe the accounts directions issued by HM Treasury, including the relevant accounting standards and disclosure requirements, applying suitable accounting policies on a consistent basis
- ensure that HMRC has in place appropriate and reliable systems and procedures to carry out the consolidation process

- make judgements and estimates on a reasonable basis, including those judgements involved in consolidating the accounting information provided by the Valuation Office Agency and RCDTS Ltd
- state whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the accounts
- prepare the accounts on a going concern basis

As Principal Accounting Officer, I confirm that this annual report and accounts is fair, balanced and understandable. I take personal responsibility for the annual report and accounts and the judgements required for determining that it is fair, balanced and understandable.

Accounting Officers for the Resource Accounts

For the financial year 2019 to 2020, from 1 April to 30 September 2019, Sir Jonathan Thompson was the Principal Accounting Officer. Following his departure, he was replaced between 1 October and 28 October 2019 by myself, Jim Harra, as Interim Principal Accounting Officer. I was appointed permanently to this position on 29 October 2019. Melissa Tatton[1], Chief Executive of the Valuation Office Agency, was an Additional Accounting Officer and was accountable for the parts of HMRC's accounts relating to specified lines of the Estimate and the associated assets, liabilities and cash flows. This appointment does not detract from my overall responsibility for the department's accounts.

The allocation of Accounting Officer responsibilities in the department was as follows:

- Estimate sections A, C-I and L-N: Jim Harra, Chief Executive and Permanent Secretary
- Estimate sections B, J and K: Melissa Tatton, Chief Executive of the Valuation Office Agency

More detail about the performance against the Estimate can be found in SoPS notes 1.1 and 1.2 in the Parliamentary Accountability disclosures section on pages 161 and 162.

In addition to being the Accounting Officer for HMRC, I am also the Accounting Officer of RCDTS Ltd, a sponsored non-departmental public body. As Accounting Officer of HMRC I am responsible for ensuring that appropriate systems and controls are in place to ensure that any grants we make to our sponsored bodies are applied for the purposes intended. And in addition, that such expenditure and the other income and expenditure of the sponsored bodies are properly accounted for, for the purposes of consolidation within the Resource Accounts. As Accounting Officer of the sponsored body, I am accountable for the use, including the regularity and propriety, of the grants received and the other income and expenditure of the sponsored body.

My responsibilities as Accounting Officer – which include the propriety and regularity of the public finances for which I am answerable, keeping proper records and safeguarding the assets of the department or non-departmental public body for which I am responsible – are set out in Managing Public Money published by HM Treasury.

Auditors

Both sets of accounts are audited by the Comptroller and Auditor General. The Trust Statement is audited under section 2 of the Exchequer and Audit Departments Act 1921. The Resource Accounts are audited under the Government Resources and Accounts Act 2000. The notional charge for both these audit services is disclosed in the Resource Accounts (see note 2 on page 223). No non-audit work was carried out by the auditors for HMRC. As far as I am aware, there is no relevant audit information of which the auditors are unaware. As the Accounting Officer, I have taken all the necessary steps to make myself aware of any relevant audit information and to establish that the auditors are aware of that information.

[1] Justin Holliday replaced Melissa Tatton as Tax Assurance Commissioner on 4 August 2020.
Jonathan Russell became Accounting Officer for the VOA on 7 September 2020.

How we comply with the code of good practice for government departments

Financial responsibilities within HMRC

As HMRC's Principal Accounting Officer, I delegate financial authority to each of HMRC's directors general, through annual letters of delegation, to manage the budget for their business areas within agreed financial limits and Managing Public Money guidelines. Our directors general are supported by their finance directors and finance business partners and operate a cascade of delegations of these financial authorities within their business areas. Financial authority limits and HMRC policy requirements are set at each stage of delegation.

This scheme of delegations is supported by HMRC's financial controls framework, developed in 2017, which ensures that we adhere to control standards in all our financial processes and enhances financial control within HMRC. The framework helps mitigate the risk of financial loss through error or fraud. It also helps ensure the integrity of our financial statements.

Statements and reports made by Executive Committee (ExCom) members

Each member of ExCom provides an annual statement of assurance setting out the governance, risk and control arrangements in their business areas. These statements are reviewed by Internal Audit, Corporate Governance and Corporate Risk Management. HMRC's Audit and Risk Committee also provides assurance of these statements. The Tax Assurance Commissioner prepares a tax assurance report, which can be found on pages 110 to 124.

We focus on delivering our core government objectives through a process of robust planning and governance. For instance:

- we have a mature business planning process which balances our financial resources against our performance and transformational objectives
- our business planning process is supported by full transparency of our planning and delivery commitments via the single departmental plan and performance reporting
- we have a well-established performance and risk framework into which we are incorporating the principles and practice of the Public Value Framework, further enhancing our decision making and planning
- we have a proven track record of managing the department's performance whilst remaining within our expenditure limits, including robust in-year financial management and regular reprioritisation exercises
- we also regularly and proactively engage with HM Treasury to help identify and manage long term or emerging financial risks
- we are ensuring that we are fully prepared for next Spending Review, with multi-year investment and saving options already in development

Additional Accounting Officers

I receive assurance from HMRC's Additional Accounting Officers:

- Melissa Tatton[1] had responsibility for the Valuation Office Agency (VOA) administration
- Ruth Stanier[2] has responsibility for the Scottish and Welsh rates of Income Tax

1 Jonathan Russell became Accounting Officer for the VOA on 7 September 2020.
2 Ruth Stanier took over responsibility from Jim Harra for Scottish and Welsh rates of Income Tax from 6 December 2019.

- Justin Holliday has responsibility for the signature of the Account of Duties Collected in the Isle of Man
- Patrick Whittome, HMRC Director of Finance Operations, has responsibility for the signature of the Account of R.N. Limited

The VOA provides a separate governance statement and I take assurance from this and from the review which underpins it.

Security

ExCom receives weekly security incident reports, which include details of any personal data-related incidents we report to the Information Commissioner's Office, as specified on page 155. A regular security incident report is also presented to the Audit and Risk Committee.

I also receive formal assurance from HMRC's Senior Information Risk Owner that information risk has been appropriately managed in the conduct of HMRC business.

National Insurance funds

There are two National Insurance funds, one for Great Britain and one for Northern Ireland. Each has its own annual report and accounts, including a governance statement, which I sign separately. Many of the activities relating to the transactions of the two funds are carried out by other departments and agencies (for example, the Department for Work and Pensions and the Department for Communities in Northern Ireland) and I receive letters of assurance from the accounting officers of each of these.

Quality assurance of business-critical models

A departmental framework including central guidance has been developed to underpin quality assurance of business-critical analytical models, and a register of these models is maintained, consistent with the recommendations of the 2013 Macpherson review, which can be read at **www.gov.uk/government/publications/review-of-quality-assurance-of-government-models**. Management and quality assurance of the models is monitored via the register and the framework is promoted regularly in order to improve take-up of the guidance among modelling teams. HMRC's Audit and Risk Committee considers the quality assurance of our business-critical models and the need for any further actions annually.

Control framework

HMRC continues to develop and improve its controls environment. Our focus is on deepening our ability to monitor the performance of frontline controls against risks in our key processes across all our businesses, with clear accountabilities. We have developed a simple-to-use tool for all business groups to record and manage their key risks, processes and controls. This has proved easier to do for processes which reside wholly within one business group but requires more time and co-ordination for processes which sit across business groups, and this is the focus of ongoing work.

The intranet-based corporate guidance we introduced last year is making it easier for staff to navigate and operate our corporate process, especially HR.

Internal Audit

The Director of Internal Audit's opinion to me, as Principal Accounting Officer, is Limited Assurance, the same as in recent years. He highlighted the following to me in his annual report:

- HMRC's risk exposure has remained high throughout financial year 2019 to 2020
- risks are largely understood and the risk management framework is broadly adequate, although capability and capacity to manage risk remains an ongoing challenge
- overall risk exposure is unlikely to reduce as COVID-19 and the transition period following the UK's exit from the EU divert resources away from other change and operational activity, thereby creating capacity and additional funding pressures in financial year 2020 to 2021
- there has been significant risk assessment work undertaken to understand long-term IT issues, the control limitations in place and the effort required to update, repair and re-shape HMRC's IT estate
- the past year has seen some significant governance changes, including the appointment of a new CEO and new directors general in key posts, and the re-focusing of ExCom sub-committees at year end
- governance remains largely effective – any issues identified in the course of Internal Audit's work were generally at operational or delivery levels, particularly where systems cross organisational boundaries and/or where accountabilities are unclear
- the results of internal audits provide a similar pattern of assurance to last year, albeit there was a small increase in the percentage of audits providing a limited assurance
- whilst there are areas of good control, there remain some key weaknesses that are significant and limit the assurance that I can provide
  - some of the opportunities to improve control that we raised during the previous year remain a work in progress, with delivery often slow because they are either cross-cutting and/or legacy issues for which there are no easy fixes
  - much of the IT estate, and therefore the control framework, is adversely impacted by long standing issues, with a commensurate impact on control design and effectiveness
  - progress to agree process and data ownership models has been slower than anticipated
  - until these issues are agreed, HMRC does not have clear accountabilities for process, controls and data - delivery of these are needed to move HMRC forward in relation to its control environment and the effective application thereof
- there have generally been better control conversations with improved risk and control understanding in most business groups - through the work of the Control Board, three lines of defence is largely understood, although the second line of defence remains uncoordinated in parts, with the opportunity to improve its overall efficiency, coverage and reporting
- implementing a process ownership model that clarifies senior accountability combined with more consistent levels of positive assurance through audit outcomes, will help me to raise my overall level of assurance

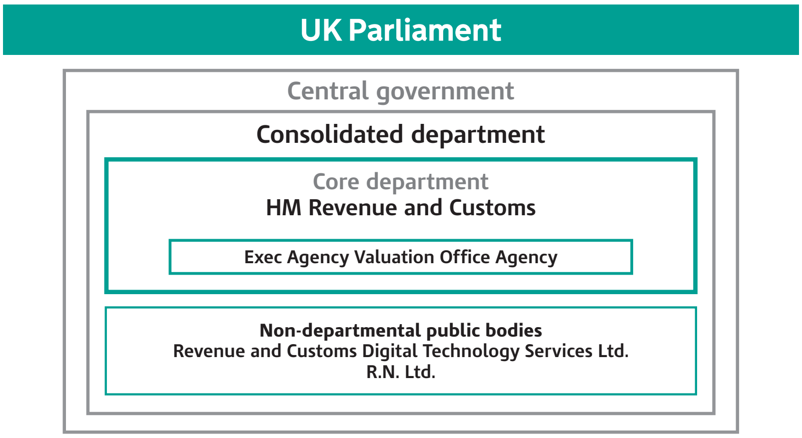
I have reviewed the themes raised by Internal Audit and agreed action plans against each of these, which, along with the general strengthening of our overall control environment being led by the Control Board, I expect to enable future Internal Audit opinions to move towards 'Moderate'.

Accountability relationships with arm's length bodies

HMRC has three arm's length bodies: Valuation Office Agency (VOA), which is an executive agency of HMRC, Revenue and Customs Digital Technology Services Limited (RCDTS Ltd), and R.N. Limited.

I am satisfied that each arm's length body has systems in place which meet the appropriate standards of governance, decision-making and financial management.

Figure 15: HMRC accountability system



Valuation Office Agency (VOA)

VOA is an executive agency of HMRC and provides valuations and property advice to the government and local authorities in England, Scotland and Wales. The VOA receives its funding to undertake valuations for local taxation purposes through the Parliamentary Supply process from HMRC. It also recovers elements of its expenditure from other government departments for whom valuation services are provided.

Monitoring of performance

Melissa Tatton (CEO) was a member of HMRC's Executive Committee (ExCom) and commissioner of HMRC[1]. HMRC's ExCom performance hub and ExCom transformation performance pack include VOA data, and assurance is provided by HMRC's Internal Audit function.

HMRC has a dedicated sponsor team for the VOA and ExCom sponsor, Justin Holliday. The team has a good understanding of the VOA and provides me with an update in advance of VOA bi-monthly board meetings. I am content that our oversight is working well and that our work to strengthen governance arrangements and integrate corporate services will bring further benefits and efficiencies to VOA and HMRC.

The chair of HMRC's Audit and Risk Committee (A&RC) attends two meetings of the VOA Audit and Risk Assurance Committee (ARAC) each year and the chair of the VOA ARAC attends one HMRC A&RC meeting annually. VOA Executive Committee members are part of HMRC functional leadership teams in HMRC's Chief People Officer (CPO) and Chief Finance Officer (CFO) business areas. A member of HMRC's Chief Digital and Information Officer (CDIO) business area attends the VOA Executive Committee as a standing invitee.

The VOA provides monthly financial statements consolidated into HMRC's accounts for HM Treasury returns and end-of-year statutory accounts, as well as statutory accounts audited by the National Audit Office.

Accountability for spending

Melissa Tatton was accountable to Parliament for the propriety and regularity of the public finance within her charge, meeting the requirements of Managing Public Money, HM Treasury and Cabinet Office guidance, Public Accounts Committee and other Parliamentary select committees or authorities. As Principal Accounting Officer, I am accountable for ensuring a high standard of financial management by strategic oversight of the VOA.

Tailored review

A tailored review of the VOA commenced during financial year 2018 to 2019 and was published on 27 February 2020. The review concluded that no changes were needed to the structure of the VOA, and that it should remain an executive agency of HMRC.

1 Melissa Tatton was a commissioner of HMRC and remained the Accounting Officer of the VOA until she left on 6 September 2020. Jonathan Russell was appointed Interim CEO and Accounting Officer for the VOA on 7 September 2020.

Revenue and Customs Digital Technology Services Limited (RCDTS Ltd)

RCDTS is a private company limited by guarantee with no share capital, set up to facilitate IT resourcing. It is owned and controlled by HMRC through arrangements with the Treasury Solicitor. It is a separate legal entity with an arm's length relationship with HMRC. The RCDTS Board has six directors, all of whom are HMRC employees.

RCDTS has received funding from HMRC in the form of a long-term repayable loan. There is a funding facility between HMRC and RCDTS for general working capital and investment purposes for the supply of IT services to HMRC. RCDTS invoices HMRC for the services it provides and is a non-profit making company recharging all costs to HMRC (its only customer).

Monitoring of performance	HMRC has a sponsor team to provide me with assurance as Accounting Officer of the company. The team advises HMRC and ExCom and acts on our behalf in managing financial risk and return of RCDTS, challenging and supporting the board and RCDTS in achieving its objectives. At an operational level it ensures compliance with the Master Services Agreement and Framework Agreement.
Accountability for spending	HMRC Finance and Operations team are responsible for the accounts for RCDTS. They also maintain a control register where controls are listed and monitored.

R.N. Limited

R.N. Ltd is a private company limited by shares held by the Treasury Solicitor on trust for the HMRC commissioners. R.N. Ltd, as nominee for the commissioners, holds charges over assets that secure tax debts owing to HMRC and holds registered title over assets assigned to HMRC in settlement of tax liabilities. The R.N. Ltd Board has five directors, all of whom are HMRC employees. The Accounting Officer is Patrick Whittome, HMRC Director of Finance Operations, who has authority delegated by the commissioners to give directions to the Treasury Solicitor in relation to the shareholding of R.N. Ltd.

There is a formal agreement between HMRC and R.N. Ltd and ExCom-level sponsorship from Justin Holliday. R.N. Ltd has no employees and the HMRC Finance and Operations team provides a case work administration, accounts production and company secretarial service for the company. The running costs of R.N. Ltd are met by HMRC.

Monitoring of performance	The R.N. Limited Board meets on a quarterly basis. All board meetings discuss strategy and monitor the success of the strategies R.N. Ltd has in place as well as any associated risks. The Finance Operations team monitor the risks and provide regular updates to the R.N. Ltd Board.
Accountability for spending	R.N. Ltd has no specific budget. The value of the assets over which the company holds charges and has title assigned amounts to £21.9 million and these assets are excluded from the R.N. Ltd balance sheet as the company holds these in a nominee capacity. In addition to preparing the accounts for R.N. Ltd, the HMRC Finance Operations team also keeps a control register for R.N. Ltd where all controls are listed and monitored.

Other organisations

Entrust regulates the Landfill Communities Fund (a tax credit scheme enabling landfill operators to fund environmental bodies to undertake specified environmental projects). A levy on contributions to environmental bodies, set annually by HMRC and announced at Budget, funds Entrust. Entrust is not an arm's length body of HMRC but has a close relationship to HMRC similar to other bodies.

Accountability for major contracts and outsourced services[1]

HMRC has a number of major contracts that are significant in ensuring that it can deliver its core services. We have a contract with Mapeley STEPS Contractor Limited (Mapeley) to provide accommodation and other services. Our IT services are provided through contracts with Capgemini, Fujitsu, Accenture and Kcom. The approximate annual value of the Mapeley contract is £182 million and the approximate value of the IT contracts referred to is £661 million in total.

Mapeley

We continue to obtain and ensure value for money from our Mapeley contract by using a set of value for money and performance measures, as well as a benchmarking and governance structure that regularly monitors, evaluates and reports on value for money in-year and for the whole life of the contract. We take management action through various contractual mechanisms, including a performance measurement system that enables HMRC to make financial deductions from Mapeley for failure to achieve key performance targets and through commercial negotiations in respect of current performance and future opportunities. The HMRC property outsourcing agreement with Mapeley STEPS Contractor Limited is due to end in financial year 2021 to 2022.

IT contracts

HMRC continues to deliver better value for money from the IT contracts by using well established performance measures which include benchmarking and the increased use of wider competition in the IT market. Expanding our supplier base has allowed HMRC to take better advantage of technical innovations and keep pace with technology trends in order to support HMRC's digital transformation and move to lower cost and highly resilient cloud services. Since the exit of the former Aspire contracts the benchmarking programme will deliver extra savings of circa £30.7 million by the end of June 2020.

Update on control challenges reported during financial year 2018 to 2019

Tax credits error and fraud

We continue to improve our understanding of the causes and levels of tax credits error and fraud and to develop solutions to address them within our existing resource. This includes an increased focus on ways to promote voluntary compliance alongside mainstream compliance interventions.

We have extended the range of education and reminder campaigns to promote the correct reporting of the various factors that affect a customer's entitlement. Examples of these campaigns include targeted letters to increase understanding of the criteria for single or joint claims (addressing the 'undeclared partner' risk of error and fraud) and how to declare self-assessed income for tax credits purposes.

Our analysts estimate that the undeclared partner campaign will have reduced the level of error and fraud in 2018 to 2019 by 0.4 percentage points. We have embedded this type of activity further in our compliance strategy, mirroring HMRC's wider 'Promote, Prevent, Respond' compliance strategy.

We continue to work closely with the Department for Work and Pensions (DWP) on opportunities to smooth the transition to Universal Credit and to manage error and fraud ahead of migration. We have tested the opportunities to support compliance of multiple benefits through one single engagement. This is informing future work to improve the customer experience and put claims and claimant behaviour on the right footing.

[1] The scope of this section is limited to major contracts and outsourced services. HMRC does not distribute grants to devolved administrations, local government or any other local organisations.

We also devote significant effort each year to addressing error and fraud through our compliance checks and through helping customers claim what they are entitled to receive. We have embedded customer service improvements, building further on the lessons learnt from the failure of the Concentrix contract.

We are implementing Connecting Customer Services, a programme of work which aims to allow frontline advisors to have conversations with customers about their entire award, resolving issues as rapidly as possible and promoting compliance.

Control challenges in financial year 2019 to 2020

Over the past year, we have actively managed the following issues that posed a risk to delivery of our core work.

Tax credits error and fraud

The Comptroller and Auditor General (C&AG) has qualified his opinion on HMRC's Resource Account for payments that we make that are not in accordance with Parliamentary intent, due to error and fraud in personal tax credits. The underlying cause of this is the design of the tax credit system (an annual cycle and year-end reconciliation). Tax credits are being replaced by Universal Credit, so opportunities to resolve this issue through major system, product or process changes are significantly limited.

Error and fraud has reduced from the high levels of 8.9% seen in financial year 2008 to 2009, hitting an all-time low of 4.4% in financial year 2014 to 2015. HMRC has achieved levels below 5%, the target set by ministers, between financial years 2013 to 2014 and 2016 to 2017. Error and fraud increased to 5.5%[1] in financial year 2017 to 2018, but the level has returned to below the target in financial year 2018 to 2019, our most recent published results, achieving 4.9%. HMRC's accounts have been qualified throughout this period.

Ministers retained the target to restrict error and fraud to no more than 5% of entitlement for 2018 to 2019 and 2019 to 2020. A target has not yet been set for financial year 2020 to 2021 in light of COVID-19 and the uncertainty this has caused.

The level of error and fraud will be impacted by the migration to Universal Credit and continued pressures on error and fraud compliance resourcing as staff are diverted to support UK transition activity and to support key customer processing roles for our response to COVID-19.

We expect the qualification of the accounts to continue as error and fraud will remain a significant issue until the closure of tax credits.

Research and development tax relief error and fraud

The Comptroller and Auditor General (C&AG) has extended his qualified opinion on HMRC's Resource Account, mentioned above, to include error and fraud in research and development tax reliefs. There has been a significant increase in the scope, value and take-up of these reliefs in recent years. Whilst the design of the reliefs encourages legitimate claims, it potentially exposes the department to fraudulent claims.

2019 to 2020 is the first year an estimate of this error and fraud has been prepared for the annual report and accounts. The overall estimated level of error and fraud is 3.6% of the estimated cost of the reliefs: 5.6% related to the SME scheme and 1.0% related to the RDEC scheme. The estimate is based on historic claim data, compliance results and Tax Gaps, and by its nature is uncertain.

[1] The first estimate of the level of error and fraud in 2017 to 2018 disclosed in June 2019 was based on incomplete data. After review, the finalised level of error and fraud favouring the claimant was reduced from 5.7% to 5.5%.

The actual error and fraud for claims relating to 2019 to 2020 will be mitigated by measures implemented since the review period, which include an increase in resources deployed on compliance activity and extensive work with customer insight teams to improve our behavioural insight and better identify instances of non-compliance. We are working on improvements to the methodology for estimating the error and fraud to reduce the level of estimation uncertainty.

We are committed to tackling error and fraud in the research and development tax reliefs.

Net cash requirement

Following the use of incorrect adjustments in the preparation of the 2019 to 2020 Supplementary Estimates, HMRC has breached the Parliamentary control for net cash requirement (but none of the other controls) and our 2019 to 2020 accounts have been qualified. While there are no wider implications for taxpayers or for the wider public finances, work has been undertaken to ensure that this situation will not be repeated by the department.

The total amount of funding HMRC receives comes from two sources: a voted element, authorised by Parliament through the annual Supply Estimate procedure, and a non-voted element for categories of expenditure not subject to annual approval. An Estimate detailing departmental expenditure is prepared twice yearly and is voted through the House.

A key component of the Estimate is the net cash requirement, a voted control aligned to voted expenditure, and is a calculation which starts with total departmental net expenditure, then adjusts to remove non-voted expenditure and working capital transactions. Once finalised, the net cash requirement sets the maximum voted cash that a department can drawdown in a financial year.

Unfortunately, an error occurred during the preparation of our Supplementary Estimates for financial year 2019 to 2020. When we adjusted our total departmental net cash requirement to remove the non-voted cash requirement, we removed expenditure without adjusting for non-voted working capital. This meant that our final net cash requirement control total was too low.

We worked closely with the Treasury's Exchequer Funds Team to ensure scheduled payments continued and there were no wider impacts for taxpayers or for the governments overall fiscal position. We have reviewed the process used to calculate the net cash requirement for financial year 2019 to 2020 to establish where this went wrong. We have already rebuilt a number of accounting models to identify and separate non-voted from voted expenditure more effectively, so that our future calculations remove the correct amounts from our net cash requirement, along with developing an improved series of quality assurance checks within our core processes at every level.

Conclusion and compliance with the code of good practice

I have assessed HMRC's compliance with the 'Corporate governance in the central government departments code of good practice 2017'. The code focuses on governance arrangements for ministerial departments and there are elements which are not directly relevant to HMRC due to our statutory framework and status as a non-ministerial department; for example, commissioners make arrangements for the conduct of their proceedings and the delegation of functions (section 12 and section 14, Commissioners for Revenue and Customs Act 2005) and ministers attending the board. However, we comply with the spirit and principles of the code and by this, and other means, good governance is achieved in HMRC.

Our corporate governance arrangements have continued to evolve during the year. An organisation of HMRC's size and complexity will always have multiple risks to manage at any one time, but I am satisfied that the governance arrangements that were in place throughout 2019 to 2020 have been sufficient to continue managing risks effectively. Based on the review outlined above, I conclude that HMRC has a sound system of governance, risk management and internal control that supports the department's aims and objectives for 2019 to 2020.

+ The 'Corporate governance in the central government departments code of good practice 2017' can be found at: **www.gov.uk/government/publications/corporate-governance-code-for-central-government-departments-2017**

Jim Harra
Accounting Officer
27 October 2020

Tax Assurance Commissioner's report

> "HMRC aims to avoid tax disputes and make it as simple as possible for taxpayers to pay the correct tax at the right time."

Foreword

I began the year as HMRC's Tax Assurance Commissioner (TAC), passing on the position to Melissa Tatton in October 2019. Melissa has now taken up a new role in OfCom and I'd like to thank her for her work as the TAC over the last year and welcome Justin Holliday into the role.

HMRC aims to avoid tax disputes and make it as simple as possible for taxpayers to pay the correct tax at the right time. This starts with designing policies that make it easy to get things right and hard to get them wrong and continues throughout HMRC's approach to resolving disputes to ensure everyone pays the tax that is legally due, no matter who they are. It is everyone's responsibility to get their tax right and for the vast majority who try to do this, our approach is to provide support via educational material and responsive customer service. However, disagreements between the tax authority and taxpayers about the amount of tax that is payable are an inevitable feature of tax administration. Where disputes do occur, we seek to conduct them in a non-confrontational, collaborative and transparent way.

The TAC's role is to provide assurance to Parliament and the public that HMRC handles civil tax disputes in accordance with the law and our Litigation and Settlement Strategy (LSS).

During financial year 2019 to 2020 the TAC continued to seek assurance that HMRC handles tax disputes in a fair and even-handed manner, as demonstrated in this report. A key aspect of this oversight remains that, alongside two other commissioners, the TAC decides whether to accept or reject resolution proposals from taxpayers in HMRC's largest and most sensitive tax disputes. The TAC also reviews a sample of smaller cases to scrutinise HMRC's wider dispute resolution processes.

During the year there was continued interest in the way we resolve disputes with all taxpayers, with a focus recently on the way we tackle fraud and avoidance in large corporates. We expect everyone, including large corporates, to take their responsibilities seriously and to put in place reasonable procedures to stop the facilitation of tax evasion. Where there are concerns identified I am reassured that colleagues in the Large Business directorate work closely with our Fraud Investigation Service to discuss the most appropriate course of action, including whether to open a fraud investigation.

There also remains a focus on how we interact with vulnerable taxpayers during compliance checks and tax disputes. Last year I set out the plans we had in place to respond to feedback in this area. I am pleased to confirm that a dedicated Extra Support team was established in our Customer Compliance Group in January 2020 to help those with additional requirements who are subject to compliance checks.

The outcome of the Tax Settlement Assurance Programme demonstrates that there is still more to do to ensure we consistently meet the expected governance and quality standards. I am pleased that we have established a new Customer Experience & Professionalism Programme (CEPP) aimed at improving the way we work with customers and the quality of our case work. And also that we have increased our focus on training and development of tax professionals via the Tax Professional Programme and developed a refined set of Compliance Professional Standards.

I also talked last year about our use of the powers granted to us by Parliament to tackle non-compliance. These powers remain crucial to enable us to bear down on those seeking to avoid paying the tax that is legally due. We continue to support taxpayers wishing to exit avoidance by use of published settlement opportunities, including publishing details of how we support taxpayers who have a tax debt.

These powers come with taxpayer rights and safeguards as well as internal governance around their application. We take these safeguards very seriously and continue to ensure access to them is available for all. This year, for example, we have acted on recommendations from the Office of Tax Simplification to build confidence in the impartiality of statutory reviews. Recognising how important they are to unrepresented taxpayers, we are consulting on how to increase uptake.

Jim Harra
Previous Tax Assurance Commissioner
Chief Executive and First Permanent Secretary

+ Read HMRC's Litigation and Settlement Strategy: **www.gov.uk/government/publications/litigation-and-settlement-strategy-lss**
+ Read more about how HMRC deals with and supports taxpayers: **https://www.gov.uk/government/publications/how-hmrc-deals-with-and-supports-customers-who-have-a-tax-debt**

Our approach to tax disputes

We strive to avoid disputes and support all taxpayers to comply with their obligations and pay the right amount of tax. We know there will be occasions where taxpayers disagree with us on the amount of tax that is due. Where this happens, we endeavour to resolve the dispute as quickly and cost-effectively as possible, in accordance with the law, our Litigation and Settlement Strategy (LSS) and our 'Code of Governance for resolving tax disputes'. Where we cannot reach agreement with the taxpayer, they can request a statutory review and/or ask an independent tax tribunal to determine the dispute.

We deal with fraud by using cost-effective civil fraud investigation procedures wherever appropriate. We reserve our criminal investigation powers for the most severe cases of fraud where, for example, we need to send a strong deterrent message, or civil sanctions alone will not work. We reserve discretion over whether or not to conduct a criminal investigation. We apply this discretion to carry out investigations across a range of offences and in all the areas for which the commissioners of HMRC have responsibility.

+ Read HMRC's 'Code of governance for resolving tax disputes': **www.gov.uk/government/publications/resolving-tax-disputes**
+ Read HMRC's criminal investigation policy: **www.gov.uk/government/publications/criminal-investigation/hmrc-criminal-investigation-policy**

How we avoid unnecessary disputes

We aim to minimise both the number of, and the scope for, tax disputes by making it as easy for customers as possible to pay the correct tax at the right time, in accordance with the law. This involves a wide range of activities, from delivering the government's policy by designing well framed legislation and guidance, through to helping customers avoid mistakes by hosting webinars and providing one-to-one support through online web chats, phone calls and correspondence.

Our approach to avoiding disputes

- **promote** compliance by designing internal policies, systems and processes to help customers get things right from the start
- **prevent** non-compliance by using the data we hold to personalise services, automate calculations, prevent mistakes and block fraudulent claims
- **respond** to non-compliance by identifying tax at risk and using a range of measures to tackle error, avoidance and evasion; these include criminal investigation with a view to prosecution where appropriate, to tackle those who deliberately try to cheat the system

How we select cases that show the greatest likelihood of non-compliance

HMRC undertakes compliance checks which are generally based on risk assessments carried out by our Risk and Intelligence Service (RIS) or our Large Business and Wealthy Customer Compliance Managers. Our aims are to identify and rectify non-compliance, deter and prevent future non-compliance, encourage positive behavioural change in non-compliant taxpayers and reassure the compliant majority that HMRC acts against those who try to cheat the system.

RIS continuously collects and analyses data, information and intelligence from a wide range of sources. We use this insight to identify and understand risks to the tax system. We keep up to date with changes in the economy and society, carry out research into the hidden economy and explore taxpayer attitudes towards tax. Additionally, we may select a small number of cases for compliance checks at random to measure compliance levels within the general population.

How we resolve tax disputes

We aim to work collaboratively with taxpayers and their agents to establish the correct tax position quickly and cost effectively. We resolve the vast majority of tax disputes by agreement. Where we cannot agree on the correct amount of tax due, and the dispute continues, HMRC and the taxpayer have access to a range of tools to help settle the dispute or to have it adjudicated.

Alternative dispute resolution (ADR)

ADR is a flexible dispute resolution tool which can help HMRC and the taxpayer resolve disputes (or reach key decision points) in a cost effective and efficient manner. Although available at any point of a compliance check or enquiry, the majority of ADR applications are once HMRC has made a decision and an appeal has been made to the tribunal.

Taxpayers may apply online for ADR. Where our facilitators have concerns about whether mediation will be effective the case is referred to the ADR panel for consideration as to whether HMRC will enter into ADR. Where we agree to enter into ADR, an impartial HMRC facilitator will work with the HMRC caseworker and the taxpayer to try to resolve the dispute.

In July 2019, the online application was changed to emphasise that we would not agree to ADR in cases where an appealable decision had been made unless an appeal has been lodged.

The number of cases resolved through ADR (90%) equates to the number of cases successfully resolved by agreement as a percentage of the total number of ADR cases closed during the year. In financial year 2019 to 2020, there were 1,066 ADR applications made through the online system, a fall of 6.8% on the previous year. However, 196 cases were not logged as they were rejected before reaching a facilitator due to the changes in the online application process. If these were added to the number of applications made, the overall yearly figure would be 1,262 demonstrating a 10.3% increase in overall requests compared to financial year 2018 to 2019.

Table 3: Alternative dispute referrals

	Combined
Total requests for ADR (either side can propose ADR)	1,066
Requests rejected by governance panels	224
Requests awaiting decision	14
Active cases	165
Cases resolved by agreement	318
Cases going to litigation	34
Cases resolved through ADR	90%

Published settlement terms

Where multiple taxpayers are affected by a similar disputed issue, such as a tax avoidance scheme, we may publish our position on the disputed issue and invite affected taxpayers to resolve their case on the published basis. This enables us to handle such issues efficiently, with transparency and consistency.

Changes were announced at Budget 2016 to tackle the use of disguised remuneration tax avoidance schemes. On 7 November 2017, we published settlement terms for users of these schemes ahead of the disguised remuneration loan charge coming into force on 5 April 2019.

By 5 April 2019, over 19,000 people had expressed an interest in settling and provided the information needed to settle their use of disguised remuneration schemes. We deployed additional resources to support the demand and settlement process and by 31 August 2019 over 99% of users had received their settlement calculations.

Since the loan charge was announced at Budget 2016, and by the end of March 2020, we have agreed around 11,000 settlements with employers and individuals, bringing into charge around £2.6 billion.

We continue to support taxpayers to resolve their use of disguised remuneration schemes and get out of avoidance for good, as well as helping those who need extra support and additional time to pay. On 13 August 2020, we published guidance to help taxpayers understand their obligations and options, the support available from HMRC to help them conclude settlement of their disguised remuneration tax liabilities and/or how to pay the loan charge. These included our 2020 settlement terms for taxpayers who wish to settle their disguised remuneration scheme use in relation to a loan they are not settling under the November 2017 terms and which is not in scope of the loan charge.

+ Read more about the disguised remuneration: independent loan charge review: **www.gov.uk/government/publications/disguised-remuneration-independent-loan-charge-review**
+ Our 2020 settlement terms are available at **www.gov.uk/government/publications/disguised-remuneration-settlement-terms-2020**

Profits Diversion Compliance Facility

In January 2019, we launched the Profit Diversion Compliance Facility (PDCF) enabling multinationals that have used arrangements to divert profits from the UK to review the arrangements and put forward a report with proposals to settle any liabilities due. A new panel of HMRC senior tax specialists met twice in 2019 to 2020 to consider the first disclosures under the PDCF.

+ Read more about the Profits Diversion Compliance Facility: **www.gov.uk/government/publications/hmrc-profit-diversion-compliance-facility/profit-diversion-compliance-facility**

Reviews and Appeals

If a taxpayer disagrees with an appealable decision that we make they can ask for a statutory review of the decision to the independent tax tribunal. If a taxpayer requests a review and does not agree with the outcome of the review, they can still make an appeal to the independent tax tribunal. Reviews and appeals are generally dealt with by review officers who are tax, legal and accountancy professionals working in our Solicitor's Office and Legal Services directorate.

How we review decisions

The review process provides an additional opportunity to resolve disputes without the need for a tribunal hearing. Review officers are not involved in making the original decisions and so provide an objective, impartial review service. Review officers check whether the decision is in line with the legislation and technical guidance, policy and practice. The review is also an opportunity to provide feedback internally to HMRC caseworkers and, thereby, improve decision making.

In carrying out reviews we aim to ensure:

- a transparent statutory review of decisions
- quality and consistency in our review conclusions
- improved communication and even-handed dealing with taxpayers
- as many disputes as possible are resolved without a tribunal hearing

In response to the request made by the Office of Tax Simplification (OTS) for HMRC to build further confidence in the impartiality of statutory reviews, we have already undertaken several initiatives. These include a webinar and stakeholder meetings with agents and an article in the Agent's Update. In these we have drawn attention to the benefits an impartial review service can offer, as a person in a different business area from the decision maker can act as a second pair of eyes. We have made significant improvements to the training of review officers and to review processes to make decision making more consistent and provide clearer explanations in conclusion letters.

Both the House of Lords report on Treating Taxpayers Fairly and the Office of Tax Simplification have recognised that a statutory review is a safeguard particularly for unrepresented customers and that we should seek to broaden take-up. We have set up a project on this and intend to continue to work with the Office of Tax Simplification and representative bodies to consult customers to understand how we can best increase uptake and improve signposting of the statutory review offer.

Table 4: Overview of outcomes of reviews

All cases	2019-20	2018-19
Concluded in the year	22,649	28,068
Upheld	9,827	13,790
Varied	2,583	3,066
Cancelled	10,239	11,212
Percentage where original decision was upheld	43%	49%
Number and percentage closed where the taxpayer was not represented by an agent	15,849	21,551
	70%	77%
VAT penalty cases including default surcharge cases		
Concluded in the year	9,356	14,905
Upheld	1,796	4,937
Varied	1,712	1,992
Cancelled	5,848	7,976
Percentage where original decision was upheld	19%	33%
All other reviews		
Concluded in the year	13,293	13,163
Upheld	8,031	8,853
Varied	871	1,074
Cancelled	4,391	3,236
Percentage where original decision was upheld	60%	67%

This year 70% of reviews were requested by unrepresented taxpayers (77% in financial year 2018 to 2019). The increase in review requests from those professionally represented was attributable to a high number of reviews in connection with an avoidance scheme. The decrease in the upheld rate (43% in financial year 2019 to 2020, 49% in 2018 to 2019) arose from an increase in those who were able to show they had a reasonable excuse resulting in a penalty charge being removed.

Appeals

Where a dispute cannot be settled by agreement the taxpayer can appeal to the independent tax tribunal. All appeals are heard by the First-tier Tax Tribunal (FTT). If either the taxpayer or HMRC are dissatisfied with the decision of the FTT then they can appeal to the Upper Tribunal (UT). Decisions made by the UT are appealable through the court system. The tribunals and courts are independent of HMRC and listen to both sides of the argument before making a decision.

In 2019 to 2020 the tribunal notified us of 6,808 appeals (6,698 in 2018 to 2019). 5,400 were settled either by formal hearing or by agreement before the hearing (6,935 in 2018 to 2019). 8% of new appeals related to late payment or late filing penalties and surcharges.

There were 21,800 appeals in progress on 31 March 2020. Over 15,500 (15,000 in 2018 to 2019) of the appeals to the (FTT) that are on hand were stood over. This is, generally, where we and the taxpayer have agreed to put the appeal on hold while waiting for a decision in a related lead case that is being litigated. As stood over cases are not actively progressed by the tribunal, they can remain on hand for many years while the lead case is decided. The on-hand figures also include 6,000 lead cases actively making their way through the tribunal. An appeal not stood behind a lead case would typically be resolved within 12 to 18 months. Staying appeals behind lead cases ensures that disputes are resolved as efficiently as possible and minimises costs to both taxpayers and HMRC.

The success rate is calculated as the percentage of hearings where the decision is in our favour or substantive elements of our case succeeded.

The tax protected through litigation in the year was £107 billion (£17.5 billion in 2018 to 2019). This year an appeal was decided in our favour which, if the taxpayer had been successful, could have resulted in us repaying approximately £100 billion to taxpayers. Tax protected is a measure of the tax at risk in litigation where HMRC has successfully defended its decisions. If a specific appeal is challenging an aspect of law that would have implications for a large number of cases then the tax protected figure will include an estimate of this wider tax at risk.

Table 5: Data relating to decided appeals for 2019-20

	2019-20					2018-19				
	First-tier Tribunal	Upper Tribunal	High Court	Court of Appeal	Supreme Court	First-tier Tribunal	Upper Tribunal	High Court	Court of Appeal	Supreme Court
Total	1,907	49	3	18	4	1,642	59	8	31	5
Decision for HMRC	1,465	34	1	9	2	1,029	42	7	20	4
Partial win[1]	119	3	1	0	0	204	4	0	3	1
Decision for customer	323	12	1	9	2	409	13	1	8	0
HMRC success rate	83%	76%	67%	50%	50%	75%	78%	88%	74%	100%

[1] Decision where substantive elements of HMRC's case succeeded.

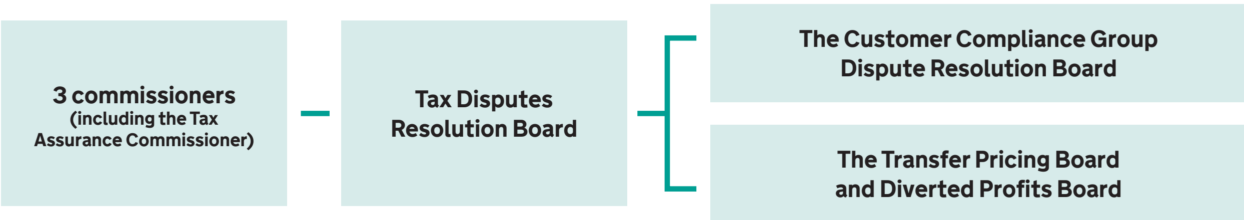
HMRC's success rate for all decided appeals across all tribunals and courts was 82% (75% in 2018 to 2019).

Included in the figures above were decisions issued in a total of 33 (32 in 2018 to 2019) cases involving or related to tax avoidance, with 26 (31 in 2018 to 2019) decided wholly or partially in HMRC's favour – protecting tax revenue of over £1.7 billion (£1 billion in 2018 to 2019). The decided appeals figures also include some cases on employment status. The vast majority of decisions on status are straightforward and either do not involve litigation or settle before litigation takes place. Those that reach tribunal are more finely balanced or contentious. During 2019 to 2020 we litigated 12 cases at First Tier Tribunal - winning 7, losing 4 and having a partial win in one. We also litigated one case at Upper Tribunal which we won setting useful precedent for taxpayers, tax practitioners and HMRC.

Governing the resolution of disputes

Within HMRC, most case resolution decisions are taken by case-workers with the support and oversight of their managers. Decisions are assured, on a sample basis, through HMRC programmes such as the Tax Settlement Assurance Programme (TSAP). Settlement decisions in larger or more sensitive cases are taken by departmental governance boards. A panel of three HMRC commissioners, including the Tax Assurance Commissioner, assure settlements on the largest and most sensitive cases.

Figure 16: Structure of HMRC's dispute resolution governance



In financial year 2019 to 2020, the commissioners considered risks referred from the Tax Disputes Resolution Board (TDRB), some of which were first considered by other HMRC boards e.g. the Transfer Pricing Board. They also considered a sample of cases from the Customer Compliance Group Dispute Resolution Board (CCG DRB), to enable them to see a wider variety of cases and issues.

The governance boards comprise of senior officers from across HMRC. They include representatives from policy, technical and operational areas and also lawyers. If the tax under consideration on a risk is greater than £5 million (non-large business customers) or £15 million (large business customers), it falls within the remit of CCG DRB. If the tax risk on a case is greater than £100 million, risks fall within the remit of the TDRB, which makes recommendations to the commissioners.

A case that had missed TDRB governance was identified during 2019 to 2020. The circumstances were fully investigated and steps taken to reduce the chances of it happening again.

Table 6: HMRC commissioners: outcome of referrals

Outcome of referrals	2019-20	2018-19
Referrals to the commissioners	55[1]	53
Taxpayer's position accepted	31	22
Taxpayer's position rejected	19	31
Conditional accept	0	0
Further work needed	3	0
To be heard in following year	2	no entry
£100m plus tax or £500m adjustment	42	41[2]
Decisions on sensitive case or risk	3	4[2]
Decisions on sample cases	10	9
Novel and unusual	0	0
Director referral	0	0

[1] Includes 2 different re-referrals to TAC

[2] One case was both over £100m and sensitive - shown here in both categories

Table 7: HMRC commissioners: tax under consideration in decisions referred to commissioners

	2019-20	2018-19
Taxpayer's position accepted	3,133	2,899
Taxpayer's position rejected	3,586	7,774
Remitted	1,414	0
	8,210	10,673

Table 8: Tax Dispute Resolution Board: outcome of referrals

		2019-20	2018-19
	Referred to TDRB	**46**	**49**
Referred to commissioners	Taxpayer's position accepted	27	26
	Taxpayer's position rejected	14	18
	Taxpayer's position conditional accepted	2	1
	Total referred to commissioners	**43**	**45**
Not referred			
	Remitted for further work	1	1
	Guidance provided	0	0
	Decision taken by TDRB under its remit	2	3
	Total not referred to commissioners	**3**	**4**

Table 9: The customer compliance group dispute resolution board: outcome of the total referrals to the CCG DRB

	2019-20	2018-19
Total referrals	79	64
Taxpayer position accepted	23	13
Taxpayer position accepted with conditions[1]	0	7
Taxpayer position rejected	51	40
Board remitted for further work before the re-referral	5	3
Referral sent to the commissioners as a sample case	10	8
Board provided advice and guidance - no decision sought[2]	0	1

1 This includes where there is acceptance of parts of the position
2 Decision was not made as decided not in the remit of the board

In 2019 to 2020, commissioner meetings were held 15 times (13 times in financial year 2018 to 2019) and 2 cases were considered via correspondence. Of the 55 referrals (53 in 2018 to 2019), 10 decisions were referred directly from the CCG DRB (8 in 2018 to 2019), 43 decisions from the TDRB (44 in 2018 to 2019) and 2 were re-referrals in cases that the commissioners had previously remitted. During 2019 to 2020, the commissioners accepted the CCG DRB's recommendation in 9 of the referrals, with the remaining case to be decided in financial year 2020 to 2021 and accepted TDRB's recommendation in 39 of the referrals with 3 cases remitted for further work and 1 case to be heard in 2020 to 2021.

The commissioners noted that case teams had paid attention to establishing the taxpayer's behaviour leading to the risk. This ensured that penalties were being charged when appropriate.

The commissioners were generally impressed with the quality of the work in the cases referred to them and the high standards of the case teams' presentations.

Transfer Pricing Board and Panel

The Transfer Pricing Board (TPB) is supported by the Transfer Pricing Panel (TPP) which makes decisions on transfer pricing enquiries that do not come within the TPB's remit. In some smaller cases, a single transfer pricing expert on the TPP considers the issue. In 2019 to 2020, the TPB considered 19 cases (29 in 2018 to 2019).

The TPP considered 125 resolution proposals (159 in 2018 to 2019).

Diverted Profits Board

The Diverted Profits Board (DPB) looks at arrangements identified as potentially within the scope of the Diverted Profits Tax. The board comprises senior officials from a wide range of HMRC directorates. It met 14 times in 2019 to 2020 (15 in 2018 to 2019) and considered 31 resolution proposals (41 in 2018 to 2019). It deferred 7 (5 in 2018 to 2019) for further work and referred 9 (12 in 2018 to 2019) onwards to the commissioners via the TDRB.

International issues risk governance

HMRC international risk panels and boards carried out a mixture of operational support, advice and oversight functions during the working of a case and governance during its resolution.

Since the end of the financial year we have streamlined the settlement governance and operational oversight of both Transfer Pricing (TP) and Diverted Profits Tax (DPT) risks introducing a new regional governance structure that applies to all direct tax international risk areas relating to multinational enterprises. Settlement governance will be provided by the appropriate Dispute Resolution Board (DRB), aligning our approach to international risks with our approach for all other complex risks.

Issues governance

We have governance processes in place to determine our approach to issues that affect multiple taxpayers in a consistent and even-handed manner. Policy teams refer issues to the Contentious Issues Panel (CIP) for non-avoidance issues or the Anti-Avoidance Board (AAB) for avoidance issues. Both these bodies comprise senior operational, legal and policy experts.

During 2019 to 2020:

- the CIP met 8 times and considered 13 issues (9 times and 16 issues in 2018 to 2019); they considered a variety of issues involving Income Tax, Corporation Tax, VAT, Landfill Tax, Excise Duty and Customs Duty
- the AAB met 10 times and considered 81 issues (11 times and 94 issues in 2018 to 2019, with 3 considered via correspondence)

The commissioners considered one referral from the CIP and decided on strategies for handling the issues concerned (one in 2018 to 2019).

Ensuring a standard approach to penalties

We may charge taxpayers penalties if they provide documents that are inaccurate or do not comply with legislative requirements. In cases of inaccuracy, we charge penalties where we consider that the inaccuracy occurred because of the taxpayer's careless or deliberate behaviour.

We have a number of steps in place to maintain consistency in penalty decisions.

Across each of our business areas there are controls in place to ensure that decisions are tested and authorised at the appropriate level, taking account of the value and complexity of prospective penalty involved. Apart from the assurance provided by line managers, we also have networks of senior tax professionals in place who can support the caseworker through advice and assurance, as well as specific governance boards for the most complex cases.

For example, penalty decisions relating to cases involving suspected deliberate non-compliance and handled by our Fraud Investigation Service (FIS) are reviewed by a national penalties team. For the very largest and most complex cases, decisions are first assured by the Penalties Consistency Panel (PCP).

Cases the PCP considers for penalties include those:

- that are subject to determination by CCG Dispute Resolution Board (DRB) or Tax Assurance Commissioner (TAC)
- where the potential tax lost exceeds £10m and a penalty might be charged in relation to the tax loss
- where deliberate inaccuracies are alleged
- involving the Customs Civil Evasion Penalties

Tax Settlement Assurance Programme (TSAP)

Since 2013 we have reviewed a small sample of settled civil compliance cases to test whether we have met our own standards and governed decisions relating to the disputes correctly. We do this as part of our drive to continuously improve our management of tax disputes.

In financial year 2018 to 2019, we enhanced this review process by:

- testing more cases per quarter
- selecting the cases from those settled in the previous quarter rather than in the previous tax year, so that the results are closer to real time
- expanding the scope of the testing so that we can test adherence to internal processes, including following the correct governance and customer service requirements

This is the second year of the enhanced approach, which means the results for financial years 2019 to 2020 and 2018 to 2019 can be compared.

The managers of compliance caseworkers act as the first line of defence when it comes to assuring the quality of their teams' casework. Customer Compliance Group's (CCG) Assurance team is then responsible for carrying out the second line of defence to ensure caseworkers and managers are correctly adhering to the relevant processes and governance. In 2019 to 2020, 604 settled cases out of approximately 338,000 were reviewed. Internal Audit (IA) has positively validated CCG's Assurance team's methodology and results and the 2019 to 2020 results are as follows:

- 36% of the cases reviewed met or exceeded our required governance and quality standards, compared to 44% in 2018 to 2019
- 54% fell short of our governance and quality standards, compared to 49% in 2018 to 2019, with no or minimal financial impact on the taxpayer
- 10% fell short of our governance and quality standards and impacted financially on customers, compared to 7% in 2018 to 2019

The TSAP also monitors whether cases have been decided through the correct governance. The 2019 to 2020 results show that 85% of cases were referred to the correct governance board, compared to 86% of cases in 2018 to 2019[1]. The cases that were not referred originally were subsequently referred to the relevant governance boards and correctly settled. In 90% of cases that did not require a referral to a formal case governance board in 2019 to 2020, the settlement was authorised at the appropriate level, compared to 92% in 2018 to 2019.

The points that we quality assure often matter less to our customers than to HMRC, but nevertheless these results are disappointing. We recognise there is more we can do to improve our compliance professionalism, and we are taking action. In 2019 to 2020 we created a director-led Customer Experience & Professionalism Programme (CEPP). The programme has already set clear standards for what we expect from the quality of our casework, which we will use to drive improvements in professional capability. It will also deliver a number of specific products designed to improve the experience of customers, such as changing letters and forms to make them more accessible and developing new guidance to help explain the compliance process. We are also introducing more robust and impactful quality assurance processes and caseworking controls. We are expecting the programme to drive qualitative improvement in the way we work with customers, which we will measure through our assurance activity and customer surveys, while also supporting our strategic aims to close the tax gap and drive down the costs of collection.

[1] The 2018 to 2019 TAC report stated that 88% of cases were correctly referred to formal governance. This percentage has been amended as we have discovered a small number of cases included in the calculation which were not formal governance cases.

A key focus of the CEPP during 2019 to 2020 was refreshing our Compliance Professional Standards. We now have one set of standards across the whole range of our civil compliance activity, and their development has been closely aligned to the work underway on revising HMRC's Charter. These are the foundations that will help us to build capability, improve our results and meet our aim of delivering compliance work consistently and in a way which delivers the commitments to our customers set out in the HMRC Charter. These standards were launched in CCG in July 2020 and are being embedded across our compliance operations. Other progress we have made with the CEPP includes:

- making good progress during 2019 to 2020 in delivering a range of improved guidance for our caseworkers which clarifies the correct procedures to follow in an easily accessible format
- working closely with internal and external groups to examine the customer journey throughout a compliance check in order to understand where we can improve further
- trialling and implementing customer exit surveys to improve our insight
- improving our approach to identifying customers who are subject to a compliance check or involved in a tax dispute who need enhanced support - enabling us to provide the help they need
- setting up a central team to support our compliance caseworkers
- refreshing our assurance arrangements in 2020 to 2021 to include providing assurance against the new Compliance Professional Standards and to build stronger processes leading to improvements

In 2019 to 2020, IA started to audit the effectiveness of activity in CCG to improve the governance and quality of its casework, as well as customer experience. Enhancements to the TSAP governance and reporting arrangements during the year have allowed senior stakeholders to maintain a high degree of visibility of the trends highlighted by this work and we continue to work on improving the feedback loops at a working level with directorates across CCG.

Powers and safeguards

Throughout HMRC we recognise that public trust is essential to our successful administration of the tax system. Taxpayers need to be reassured that HMRC has the powers required to ensure that everyone pays their fair share of taxes, and that we exercise our powers with appropriate oversight and statutory safeguards.

HMRC's powers incorporate a comprehensive suite of safeguards for taxpayers, built into the tax administration and criminal justice frameworks. These help to ensure that we act proportionately in response to different taxpayers' individual circumstances. Safeguards for taxpayers include:

- the right to request a statutory review by somebody not involved with their case
- the right to appeal to an independent tribunal, with or without a prior statutory review
- the right to apply to the tribunal to direct HMRC to close an enquiry
- the requirement for HMRC to obtain an independent opinion from the General Anti-Abuse Rule (GAAR) advisory panel before deciding whether to seek to counteract a tax avoidance scheme using the GAAR (further information on page 124)
- an opportunity to refer their complaint to the independent Adjudicator's Office, if they are not happy with how HMRC have handled their case

On 22 July 2019, the Financial Secretary to the Treasury tabled a Written Ministerial Statement on HMRC Powers and Taxpayer Safeguards. In this he committed HMRC to a programme of work to maintain and develop public trust in our operations. The statement followed the House of Lords Economic Affairs Committee's 2018 report, 'The Powers of HMRC: Treating Taxpayers Fairly'. HMRC is continuing this programme of work across the department to evaluate and improve our processes. This includes initiatives such as the publication of more data to improve transparency around the exercise of powers and evaluating the implementation of new powers introduced since 2012.

+ HMRC Powers and Taxpayer Safeguards: written statement made by the Financial Secretary to the Treasury: **www.parliament.uk/business/publications/written-questions-answers-statements/written-statement/Lords/2019-07-22/HLWS1748/**

+ The Powers of HMRC: Treating Taxpayers Fairly: **publications.parliament.uk/pa/ld201719/ldselect/ldeconaf/242/242.pdf**

Powers and safeguards evaluation

As part of the programme of work, we undertook to complete an evaluation of the implementation of our powers introduced since 2012, and the associated safeguards, against the principles established during the 2005 to 2012 review of HMRC's powers, deterrents and safeguards through the powers and safeguards programme. To do this we established a new forum working with external stakeholders in October 2019. The forum is attended by key bodies representing taxpayers and tax advisers, including the Chartered Institute of Taxation, Institutes of Chartered Accountants, the Law Society, the Low Incomes Tax Reform Group and Tax Aid. It has met five times over the course of the evaluation to discuss the approach to, emerging findings and outcomes.

Increasing transparency

Increasing transparency is a crucial element in enhancing public trust. We are therefore publishing more data and information. Since September 2019, we have published 14 new metrics on GOV.UK, including debt management, customs and taxpayer data. Also, since November 2019 we have published additional compliance metrics which include the number of closed civil and criminal compliance checks, total number of prosecutions and criminal sentences, as well as the outcomes of court decisions. We continue to work with external stakeholders to identify what further data and information should be published to enhance trust and transparency. This will be published on GOV.UK in November 2020.

Taxpayer experience

Though tax compliance checks and disputes are a necessary feature of any tax administration system, our compliance officers understand that these checks must be carried out in an appropriate and empathetic way to maintain public trust in HMRC. We have analysed the customer experience during our compliance enquiries, to understand key pressure points. We have then identified a number of process improvements to address them. Examples of how we are using insights include:

- making changes to the language and tone of the letters and factsheets when a compliance check is started
- exploring options for producing a guide to compliance checks, which will set out, for taxpayers, standards and what to expect at each stage

Additionally, we are reviewing our HMRC Charter in order to renew and update standards and values when interacting with taxpayers. We held a 12-week public consultation on the revised Charter, and the final Charter will be published later this year.

Support for taxpayers who need extra help

Part of maintaining public trust is making sure that customers who need support are treated with care and respect. Since 2014, we have provided tailored assistance to taxpayers who need extra help, including those in vulnerable circumstances, via the Extra Support Service. In 2019 to 2020 The Extra Support Team helped 93,342 customers via all customer channels. We have now extended that service to customers who need additional support during compliance checks.

We introduced a dedicated Compliance Extra Support Team in January 2020 to provide advice to compliance caseworkers helping them support taxpayers who require assistance. This includes tailoring our approach to resolve tax affairs at the earliest opportunity, taking into account customer needs.

We use customer insight and engage with the Voluntary and Community Sector to improve our support arrangements and the accessibility of our services for taxpayers. We have been improving signposting to support in our letters and factsheets and on GOV.UK.

General Anti-Abuse Rule (GAAR)

The purpose of the GAAR is to discourage taxpayers from entering into abusive arrangements, and to deter the promotion and enabling of such arrangements. The GAAR Advisory Panel is an independent body made up of experts with legal, accountancy and commercial backgrounds. It provides an early opinion on whether tax arrangements are unreasonable. This year we welcomed four new board members to the panel and appointed a new chairperson who formally took over from April 2020.

HMRC is legally required to consider the opinions issued by the panel in reaching a final decision on whether to use the GAAR to address the tax advantage arising from the arrangements or whether to apply penalties to enablers who facilitated the use of those arrangements. Courts must also take into account the panel's opinion if the tax arrangements are considered by them. The panel's opinions are published on GOV.UK to help taxpayers recognise abusive tax avoidance schemes.

In financial year 2019 to 2020 the panel provided opinions in 6 cases (4 in financial year 2018 to 2019). In each case, the opinion of the panel has been that entering into and carrying out the arrangements was not a reasonable course of action.

To date, we have issued over 3,400 GAAR opinion notices (applying GAAR Advisory Panel opinions) to taxpayers who have used these arrangements. Taxpayers have the right to appeal against any adjustments made under the GAAR and any penalties that may be due if their case is settled under the GAAR.

+ Read more about the GAAR: **https://www.gov.uk/government/collections/tax-avoidance-general-anti-abuse-rule-gaar**

Staff and remuneration report

This report details the diversity and achievements of our people. It also sets out our staff costs and the remuneration of our leadership team.

Our people are our best asset. Across HMRC there are many examples of colleagues achieving excellence and truly bringing to life our four core values – they are professional, they act with integrity, they show respect and they are innovative.

In HMRC we value our people and take pride in their achievements, both as part of their regular jobs and also in the contributions they make to the wider community such as volunteering and charity work. The HMRC People Awards provide us with an opportunity to acknowledge the exceptional work of individuals, while also applauding the collective achievements of our teams.

We encourage all our people to nominate colleagues that they think deserve to be recognised. The winners are chosen by a judging panel made up of a cross-section of our colleagues across HMRC – these judges also benefit from the opportunity to improve their confidence, decision making and communication skills. Below, you can read about some of our People Awards winners.

Award-winning people: 2019 to 2020

Nazneen Kauser - 'Individual of the Year' and 'Innovator of the Year'

Naz raised awareness of sensitive subject areas people can be afraid to discuss, holding workshops covering domestic abuse, forced marriage, honour abuse, female genital mutilation (FGM), modern slavery and human trafficking. The Workforce Empowerment Unit she set up also offers support to colleagues and, where applicable, customers who face these issues. "I'm very much humbled and this is mind-blowing for me. One would have been more than enough; winning two is just on another level. Thank you to everyone who has put faith into the work I do knowing it can make a difference. This is for us all."

Lorraine Canavan - 'Leader of the Year'

Lorraine leads a team of 912 people at various grades who have responsibility for a wide range of financial activities including ensuring customer payments and receipts are processed correctly. She has inspired her team by encouraging a supportive atmosphere and a culture and environment that lets people flourish. "Every day I work with people who are my heroes – this award belongs to them, not me, they're absolutely fantastic."

KAI Compliance and Debt Operations Debt Team – 'Team of the Year'

The team have worked on a huge variety of projects putting data-driven decision making at the heart of HMRC, from analysis supporting the Chancellor's Budget announcements through to enabling front line colleagues in their interactions with our customers. This has ensured the delivery of hundreds of millions of pounds to the exchequer per year. "I don't think there's a single person in the team who wouldn't drop everything to help another member of the team if they really needed it. I'm super proud of everyone. To be recognised in this way is just amazing." – Jessica Mitchell

Supporting the wider community

Some highlights from our community programmes are:

- we funded **4,497** days for our people to assist schools, voluntary groups, charities and other good causes
- **3,000** of our people supported around 39,000 young people to take their first steps towards work, through our partnership with the Prince's Trust that's been growing for more than 25 years
- on average we had **4,000** views of our YouTube animations that are part of our 'Tax Facts' tax education programme
- we continued to update and promote Tax Facts in schools for young people and teachers and have developed our community of volunteers in regional centres
- **more than £1 million** charity funds raised and donated by our people, including more than £31,000 for our annual BBC Children in Need appeal and more than £585,000 donated by staff individually through Payroll Giving to around 880 of their own wide range of charities
- **more than £25,000** raised for the Charity for Civil Servants by our people, helping HMRC to become the top-performing government department in the Million Mile Walking Challenge 2019, both for funds raised and staff taking part

Equality, diversity and inclusion

It is our collective responsibility to create a workplace where people feel respected, valued, supported and safe. Our ambition is to have a representative workforce at all levels and in all locations, and to be amongst the most inclusive employers in the UK in 2020 and beyond. We want our workforce to understand and reflect our customers' diversity, delivering them a high-quality service. Our Executive Committee (ExCom) diversity champions drive the diversity and inclusion agenda across HMRC. Our employee networks and consultation groups for eight diversity strands foster shared experiences and allow consultation about new initiatives. These groups help ensure our colleagues are treated fairly and can contribute their best performance.

Our top-level commitment to equality, diversity and inclusion means we are driving forward change through transparency and accountability. Our diversity and inclusion strategic action plan uses data and insight to set out what leaders, managers and people need to do to achieve our goals. However, we know we have more to learn about identity, equality, race and justice and we are focused on creating a culture of respect and inclusion for Black, Asian and Minority Ethnic colleagues and all who feel excluded. As we embed Our Commitments and continue to live up to the promises we made as part of Respect at Work, we will focus on issues around diversity and inclusion with renewed vigour.

Support for disabled colleagues

We have achieved the highest-level accreditation (Leader) in the government's voluntary Disability Confident employer scheme. This means we have involved disabled people in evidencing how our processes support us to recruit and retain disabled people.

We support disabled colleagues with our workplace adjustment passports, access to expert HR support and through continuous improvement. This year we focused on improving our attraction and recruitment processes to make them more inclusive and focus on assessing ability to access the best talent, revising the reasonable adjustment process to make it simpler, clearer and user-focused and improving our IT system accessibility.

HMRC promotes a number of talent programmes to support the development and progression of disabled colleagues including the Positive Action Pathway and DELTA programme (Disability Empowers Leadership Talent) for future senior leaders.

Our equality, diversity and inclusion highlights:

- we have aspirational goals to improve representation rates, particularly at senior levels
- we offer positive action development opportunities for colleagues from under-represented groups
- we held a series of listening events to enable senior colleagues to hear about the lived experience our Black, Asian and Minority Ethnic (BAME) colleagues face working in HMRC
- we run disability awareness sessions across the department and continue to improve service access for disabled customers
- we are focused on social mobility, including the launch of STRIDE, our mentoring scheme for colleagues from lower socio-economic backgrounds, and working on rolling out a work experience programme for young people

Awards we won for equality, diversity and inclusion:

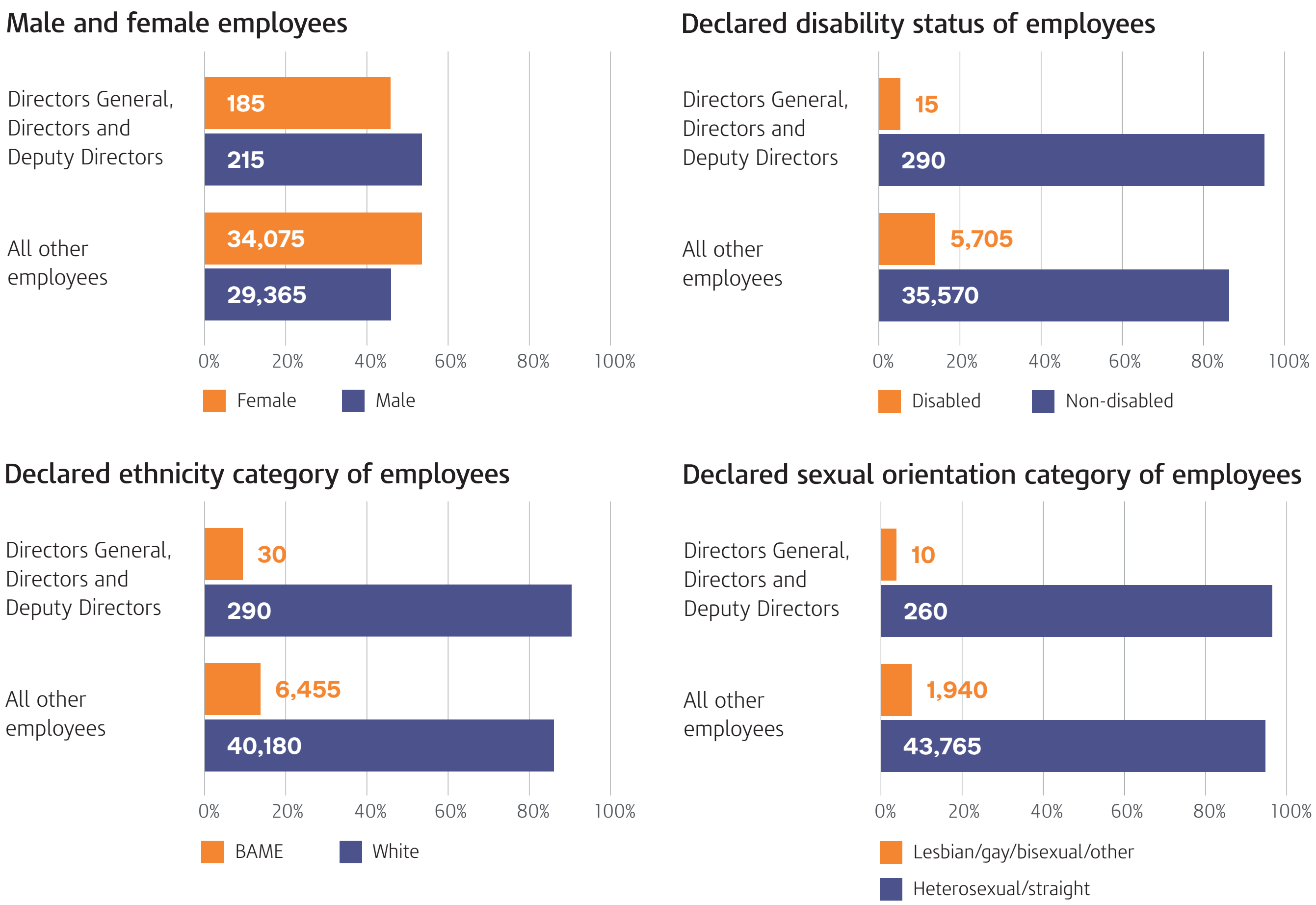
- we were in the top 75 UK employers in the Social Mobility Employer index 2019
- we featured in 'The Times' list of the Top 50 employers for women 2019
- HMRC's Bristol Race Network won the Diversity and Inclusion Award at the Civil Service Awards 2019
- we've been recognised by Employers for Carers as a 'carer confident accomplished employer'.

Diversity data

Our diversity characteristic figures and percentages shown below can only be calculated using headcount figures and so differ from full-time equivalent figures shown elsewhere.

Directors general are grade SCS3, directors and deputy directors are grades SCS2 and SCS1. Due to different reporting methods, the total reported here for SCS will not correspond with the detail published on page 143.

Figure 17: Diversity characteristic figures and percentages



In 2018 to 2019, we reduced our mean hourly pay gap to 7.2% and our median gender pay gap in hourly pay to 9.3% (down 3.5% from 2018). While this is better than the 2019 UK average gender pay gap of 17.3%, we remain committed to eliminating any unfair disparities.

In HMRC we have a higher proportion of women in lower pay grades and this distribution pattern tends to drive our mean and median gender pay gaps. We are continuing to work to identify contributory factors, to ensure our recruitment processes are fair and bias-free and to offer flexible working, coaching, mentoring and leadership skills training to reduce the gap. Our insight indicates that the pay gap progress we have made is as a result of an increase of women in higher grades through promotion and external recruitment.

+ Read more about our compliance with public sector equality duties in 2018 to 2019: **https://www.gov.uk/government/publications/hmrc-compliance-with-public-sector-equality-duties-2018-to-2019**
+ Read our latest gender pay gap report at: **https://gender-pay-gap.service.gov.uk/employer/L42Z4IcU**

Strategic workforce planning

We have implemented a robust governance and control framework to agree our resourcing requirements, implement practical solutions and strengthen central oversight and control of tactical planning.

Our strategic workforce planning has been focused on management and resolution of short- and medium-term workforce issues relating to the migration to our regional centres. Longer term planning lacks maturity and our future focus and tends to be limited to staff-in-post numbers. To address this, we plan to baseline our current and future organisational capability requirements and implement a transition plan that will enable us to ensure we are effectively resourced to address risk.

Our approach to whistleblowing

We remain committed to ensuring the highest standards of conduct in all we do. Our whistleblowing policy and guidance supports people who wish to raise a concern if they suspect wrongdoing. The way we manage whistleblowing is monitored by the Executive Committee and the Audit and Risk Committee, and we continue to provide summary data to the Public Accounts Committee and the Cabinet Office.

In financial year 2019 to 2020, we had 46 relevant whistleblowing concerns raised under our policy, a similar number to previous years (39 received in financial year 2018 to 2019). 40 of those cases were investigated and closed in the same financial year. We also concluded 30 cases that had been raised towards the end of 2018 to 2019.

During 2019 to 2020 we set an ambition to develop a stronger 'speak up' culture following the independent Respect at Work review, which highlighted that we could do more to create a safer environment for people to speak up. We have improved our approach and support by:

- publishing an updated whistleblowing policy and guidance making the end to end process clear
- actioning recommendations from an internal audit review on whistleblowing arrangements
- participating in the cross-government 'speak up' week using a variety of media including messages on HMRC computers, the intranet, Yammer and nominated officers
- liaising across other government departments and participating in Cabinet Office whistleblowing events to share expertise and best practice
- adding screen saver messages for all HMRC colleagues to remind them of our whistleblowing policy and how to raise a concern should they wish to do so

- holding a training event once a year for our nominated officers, sponsored by the Director of People Policy and including input from the Government Legal Department
- holding quarterly dial ins for our nominated officers to share best practice
- ensuring we do all that is possible to support whistleblowers and progress cases quickly
- ensuring our data capture continues to meet our needs and enables identification of trends or themes where possible

We will build on these achievements so that our people are encouraged to use the whistleblowing policy to raise concerns about any potential wrongdoing covered by the Public Interest Disclosure Act 1998.

Health and wellbeing

Sickness absence data

We measure the average number of days lost to sickness absence, known as average working days lost (AWDL), based on the number of full-time equivalent employees. The AWDL for the financial year 2019 to 2020 was 7.48; this was an increase on the annual days lost for the financial year 2018 to 2019 which was 6.9.

In March 2020, prior to the COVID-19 lockdown, there was a 25-30% increase in the number of people taking sick leave than at the same time the previous year. A large proportion of this increase was in respiratory infections which is typical during the winter months but was higher than usual. Since lockdown, AWDL rates have reduced significantly to lower than 2019 levels. We are unsure of the impact COVID-19 will have on our AWDL in financial year 2020 to 2021, but it would not be unreasonable to expect an increase in these numbers.

In February 2020 we implemented a new attendance management policy in response to the Respect at Work report. The changes have re-focused HMRC's policy to 'supporting your attendance' – a forward-looking policy focusing on health, wellbeing and upfront support when coping with ill health and during recovery. The removal of numerical trigger points has empowered managers to take the right action for the employee's circumstances and to support a successful return to work. The enhancements to health-related special leave will provide additional support to employees with long-term conditions or disabilities.

We continue to increase our focus on promoting our people's health and wellbeing over improving attendance. Stress-related illness continues to account for around a fifth of sickness absence, which equates to approximately 1.6 AWDL in 2019 to 2020.

Mental health and wellbeing

We have delivered a range of activities in relation to our mental health and wellbeing strategies, led by the Executive Committee wellbeing champion:

- promoted good mental health and wellbeing and the support available, including the importance of early intervention
- implemented a new Employee Assistance Programme with improved access to support, digital tools and information
- launched a wellness plan for looking after our own wellbeing and facilitating performance and development conversations
- introduced a stress management plan to enable staff to proactively manage workplace stress

- introduced an employee HR advice line for colleagues to discuss and effectively manage workplace concerns
- reviewed our social media policy and introduced an enhanced wellbeing offer to colleagues impacted by social media abuse as a result of their HMRC role
- supported colleagues working in challenging and fast-paced environments with stress and resilience workshops, support and resources
- participated in the Mind Workplace Wellbeing Index, a benchmark of best policy and practice to provide insight, identify our strengths and areas for improving our approach to mental health in the workplace
- trained additional Mental Health Advocates, bringing our total to 273 at 31 March 2020
- offered our Mental Health Advocates the opportunity to undertake Mental Health First Aider training as part of their continuous professional development
- provided enhanced wellbeing support to colleagues during the COVID-19 pandemic; this included flexible HR policies and new services from our Employee Assistance Programme and Occupational Health providers

Health and safety

Our managers and employees are supported by comprehensive health and safety arrangements, guidance and access to expert advice. Our key achievements in 2019 to 2020 include:

- developing advice for safely using mobile devices
- implementing government advice on COVID-19 risk management through health, safety and wellbeing guidance to support colleagues working at home or in the office during the pandemic
- developing a new process to safely plan for building fabric changes, particularly in our legacy (older) buildings
- appointing regional health and safety managers, working in partnership with designated HMRC estate managers to assist with the management of fire risk assessment action plans
- our service partner Whyte Young Green has undertaken a fire risk assessment review aligned to HMRC Estates Fire Safety Management Plan of most of the properties within HMRC building portfolio
- engaging Crown Premises Fire Safety Inspectorate (CPFSI) as part of the regional centre programme in England and Wales to review individual designs against the appropriate fire engineering strategy

Incident reporting

Our people are encouraged to report all accidents or instances of work-related ill health, which we report to directors to highlight trends and inform health and safety performance. We published refreshed guidance for reporting and investigating incidents. The number of all incidents reported reduced by 12% from last year (2,586, down from 2,939 in financial year 2018 to 2019).

Employers are required to report incidents in specific categories to the Health and Safety Executive under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDOR). There was an increase of 22% in 2019 to 2020 (38 RIDDOR incidents, compared to 31 reports in 2018 to 2019). This number included 21 reports of slips, trips and falls. Work to improve the awareness around this issue has included the launch of a series of hazard-based modules through Civil Service Learning.

Table 10: Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013 (Northern Ireland 1997): reports to the Health and Safety Executive

	2019-20	2018-19
RIDDOR incidents		
Specified injuries	10	9
Diseases	0	0
Fatal injuries	0	0
Dangerous occurrences	4	2
Over 3-day injuries (Northern Ireland)	1	1
Over 7-day injuries	22	19
Visitor/customer taken to hospital	1	0
Total	38	31
Non-RIDDOR incidents		
Stress	799	741
Slips/trips/falls	343	451
Violence and verbal abuse	216	298
Environmental	249	221
Road traffic accident	205	177
Bite (animal/insect)	25	47
Burns	100	93
Collision with a moving/flying object[1]	178	105
Cut	71	55
Manual handling	38	63
Exposure to hazardous substances	16	9
Asbestos	32	189[2]
Acoustic	24	39
Electrical	37	79
Struck by moving vehicle	0	13
Contact with moving machinery	0	8
Musculoskeletal[3]	114	47
Other[4]	139	304
Total	2,586	2,939

1 Renamed category which incorporates previous categories - struck by moving vehicle, contact with moving machinery.
2 This was one incident of potential asbestos exposure at one site.
3 New category for 2019 to 2020 incorporating last years upper limb disorders.
4 Health and safety incident categories are selected by the investigating officer on the report form. ‘Other’ is selected where none of the main categories are appropriate.

Staff numbers and costs

This section sets out the size of our workforce and how much we spent on staff-related costs over the course of this year.

HMRC (including Revenue and Customs Digital Technology Services Ltd and the Valuation Office Agency) had 62,008 (57,943 HMRC, 745 RCDTS and 3,320 VOA) full-time equivalent employees at the end of financial year 2019 to 2020. This is 11,208 more than we expected from our Spending Review 2015 (SR15) forecast of 2020 staff numbers, partly due to additional funding being provided to us during the course of the SR15 period to maintain higher numbers required to prepare for EU exit and deliver new policy measures.

This year we recruited 5,946 (5,406 in HMRC and 540 in VOA) full-time equivalent roles to ensure we have the skills we need in our key strategic locations. We also promoted 4,110 people in HMRC, including 33 Administrative Assistants into different types of roles as automation reduces the need for many manual and support roles.

In 2019 to 2020, 780 people left under voluntary or compulsory exit schemes as part of the office closures programme with exit packages agreed in-year or the previous year.

Average number of persons employed[1]

Table 11 : Average number of persons employed

	Permanently employed staff		Others		2019-20 number	2018-19 number
	Operational	Capital[2]	Operational	Capital[2]	Total	Total
Core department	57,805	478	171	-	58,454	57,304
Valuation Office Agency	3,051	-	231	-	3,282	3,163
Revenue and Customs Digital Technology Services Limited	767	64	-	75	906	989
Departmental group total	**61,623**	**542**	**402**	**75**	**62,642**	**61,456**

[1] This section has been subject to external audit.

[2] Capital relates to staff building capital assets.

The actual number of full-time equivalent persons employed at 31 March 2020 was 58,688 for the core department and Revenue and Customs Digital Technology Services Ltd – and 62,008 for the entire departmental group. Some of our staff were redeployed in financial year 2019 to 2020 due to EU exit and COVID-19. We do not have data to report on these redeployments and will look to gather this information in the coming year.

Staff costs[1]

Our staff costs figures relate solely to officials. The salary of the minister who has responsibility for HM Revenue and Customs is paid out of central funds and can be found in the Resource Accounts of HM Treasury.

Table 12: The costs of persons employed during the year

	Permanently employed staff £m	Others £m	2019-20 £m total	2018-19 £m total
Wages and salaries	1,936.9	24.9	1,961.7	1,861.8
Social security costs[2]	193.2	0.9	194.1	187.9
Other pension costs	497.8	2.8	500.6	369.7
Sub-total	**2,627.8**	**28.6**	**2,656.4**	**2,419.4**
Less recoveries in respect of outward secondments	(2.6)	-	(2.6)	(2.6)
Total net costs	**2,625.2**	**28.6**	**2,653.8**	**2,416.8**

1 This section has been subject to external audit.

2 Social security costs include the Apprenticeship Levy which is £9.8 million for 2019 to 2020 (2018 to 2019: £9.4 million).

Reconciliation to staff costs in the Resource Account[1]

In the Resource Account, staff costs do not include recoveries in respect of secondments, which are included as income, or the amount charged to capital.[2]

Table 13: Reconciliation to staff costs in the Resource Account

	2019-20 £m total	2018-19 £m total
Total net costs	**2,653.8**	**2,416.8**
Recoveries in respect of outward secondments	2.6	2.6
Less net costs charged to capital budgets	(30.2)	(35.7)
Sub-total	**2,626.2**	**2,383.7**
Travel, subsistence and hospitality	66.7	68.0
Recruitment and training	30.8	22.0
Early severance schemes	11.6	8.5
Staff and related costs in Consolidated Statement of Comprehensive Net Expenditure (page 210)	**2,735.3**	**2,482.2**

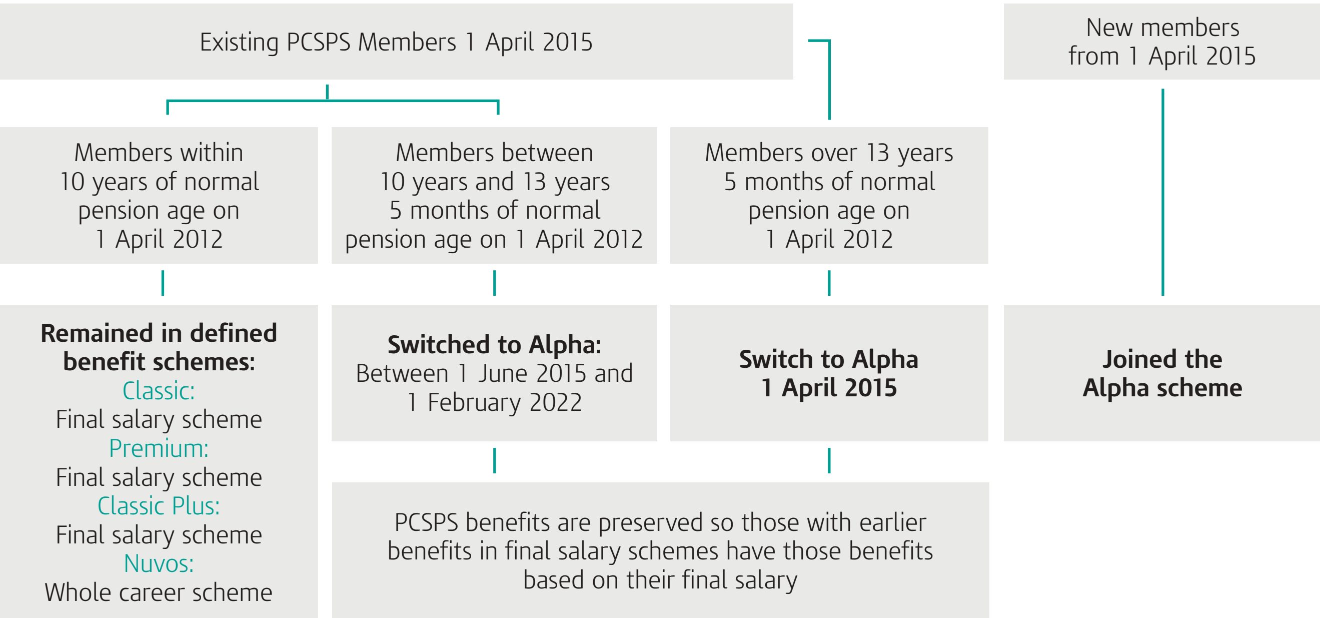
1 This section has been subject to external audit.

2 Capital spend reflects time spent building capital assets.

Civil Service pensions

Pension benefits are provided through the Civil Service pension arrangements. From 1 April 2015, a new pension scheme for civil servants was introduced, replacing Principal Civil Service Pension Scheme (PCSPS). The Civil Servants and Others Pension Scheme (CSOPS), known as Alpha, provides benefits on a career average basis. From this date members moved on the following basis:

Introduction of the Alpha Pension Scheme 1 April 2015



Following the Court of Appeal judgment in December 2018, the government has been working to fix the discrimination identified in the policy of transitional protection that was part of the 2015 reforms to public service pension schemes. A public service pension schemes consultation opened on 16 July 2020 and closed on 11 October 2020. The consultation explained how the government's two proposed options for removing the discrimination between scheme members would work and set out proposals for moving all active members into the reformed schemes after this period.

Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (partnership pension account).

Defined benefit schemes

These statutory arrangements are unfunded multi-employer defined benefit schemes with the cost of benefits paid for by funding that is voted on by Parliament each year. Our share of the underlying assets and liabilities are not identifiable.

The scheme actuary usually reviews contributions every four years, following a full scheme valuation. The scheme was last valued as at 31 March 2016. The current valuation has been delayed by HM Treasury who has directed that the cost control mechanism should be paused. You can find details in the resource accounts of the Cabinet Office: civil superannuation. Full information about the Civil Service pension arrangements can be found at: **www.civilservicepensionscheme.org.uk**.

Pensions payable under Classic, Premium, Classic plus, Nuvos and Alpha are increased annually in line with pensions increase legislation. Details of each pension scheme and the differences between them are shown in the table below.

Table 14: Pension benefits

Pension scheme	Pension age	Employee contributions (% of pensionable earnings)	Benefits accrual rate (for each year of service)	Lump sum (payable on retirement)
Classic	60	4.6-8.05	1/80th pensionable earnings	3 years initial pension
Classic +	60	4.6-8.05	1/80th final pensionable earnings to 30 September 2002. Thereafter, 1/60th.	3/80th final pensionable earnings to 30 September 2002. Thereafter, optional.
Premium	60	4.6-8.05	1/60th pensionable earnings	Optional
Nuvos	65	4.6-8.05	2.3% of pensionable earnings each scheme year	Optional
Alpha	The higher of 65 or state pension age	4.6-8.05	2.32% of pensionable earnings each scheme year	Optional

Additionally, members of Nuvos and Alpha have their accrued pension uprated in line with pensions increase legislation. In all cases, members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

For financial year 2019 to 2020, employers' contributions of £494,695,745 were payable to the PCSPS and CSOPS (financial year 2018 to 2019: £365,818,405) at one of four rates in the range 26.6% to 30.3% of pensionable earnings, based on salary bands. The contribution rates are set to meet the cost of the benefits accruing during 2019 to 2020 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Partnership pensions

The partnership pension account is a defined contribution, stakeholder pension arrangement. The employer makes a basic contribution of between 8% and 14.75% (depending on the age of the member) into a stakeholder pension product chosen by the employee. The employee does not have to contribute, but where they do make contributions, the employer will also match these up to a limit of 3% of pensionable salary. Employers also contribute a further 0.5% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill-health retirement).

For 2019 to 2020, employers' contributions of £2,690,070 (2018 to 2019: £2,020,420) were payable for partnership stakeholder pensions. In addition, employer contributions of £111,002 (2018 to 2019: £81,946) were payable to the PCSPS for centrally-provided risk benefit cover.

58 individuals (2018 to 2019: 87 individuals) retired early on ill-health grounds; the total additional accrued pension liabilities in the year amounted to £254,739 (2018 to 2019: £58,568).

Contributions due to the partnership pension provider at the reporting date were nil. Contributions prepaid at that date were nil.

Valuation Office Agency

A number of the Valuation Office Agency's (VOA) employees are members of the Local Government Pension Scheme. Contributions into this scheme for 2019 to 2020 were £634,499 (2018 to 2019: £685,093). Full information about the VOA employee contributions can be found in the VOA annual report and accounts.

+ Find out more about the VOA at **www.gov.uk/government/organisations/valuation-office-agency**

Revenue and Customs Digital Technology Services Ltd

Revenue and Customs Digital Technology Services Ltd has a contract-based defined contribution pension scheme which is administered by Aviva plc and overseen by the RCDTS Ltd Board. Contributions into this scheme for 2019 to 2020 were £2,128,159 (2018 to 2019: £1,956,922). A number of staff in RCDTS Ltd have contractual rights to the PCSPS under Fair Deal policy and RCDTS Ltd has admitted bodies status into the scheme which is managed by the scheme management executive within Cabinet Office. Contributions into this scheme for 2019 to 2020 were £411,496 (2018 to 2019: £422,340).

HMRC's remuneration report, which details the salary and pension benefits for members of the Executive Committee, can be found on page 142.

Exit packages[1]

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service compensation scheme, a statutory scheme made under the Superannuation Act 1972. Exit costs are accounted for in full in the year in which the obligation becomes binding on the department. Where the department has agreed early retirements, those costs in excess of obligations usually met by the Civil Service pension scheme, are met by the department. Ill-health retirement costs are met by the pension scheme and are not included in the table.

The numbers included in Table 15 include departures of staff who are members of the Local Government Pension Scheme. Their compensation arrangements are outside the scope of the Civil Service compensation scheme. The cost of their early retirements reflects the cost of providing any payment due to the individual on retirement. In certain circumstances, it also includes the cost associated with the increase in future liability to pay pension.

[1] This section has been subject to external audit.

Table 15: Exit packages 2019-2020[1]

Exit package cost band	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band	
	2019-20	2018-19	2019-20	2018-19	2019-20	2018-19
<£10,000	7	24	78	25	85	49
£10,000 - £25,000	48	63	361	255	409	318
£25,000 - £50,000	3	-	604	491	607	491
£50,000 - £100,000	-	-	225	166	225	166
£100,000 - £200,000+	-	-	8	13	8	13
Total number of exit packages	**58**	**87**	**1,276**	**950**	**1,334**	**1,037**
Of which:						
Core Department and Agency	58	87	1,276	949	1,334	1,036
Revenue and Customs Digital Technology Services Limited	-	-	-	1	-	1
Total number of exit packages	**58**	**87**	**1,276**	**950**	**1,334**	**1,037**
Total resource cost (£000s)	**853**	**1,084**	**44,467**	**34,727**	**45,320**	**35,811**
Of which:						
Core Department and Agency	853	1,084	44,467	34,695	45,320	35,779
Revenue and Customs Digital Technology Services Limited	-	-	-	32	-	32
Total resource cost (£000s)	**853**	**1,084**	**44,467**	**34,727**	**45,320**	**35,811**

[1] The prior year figures in the 2018 to 2019 published account showed a total of 1,043 exit packages (89 compulsory and 954 other) with total resource cost of £36,085 thousand. These figures have been adjusted above to account for instances where individuals' final costs changed from the original estimate after the date of submission of the accounts.

+ Full details about the VOA staff exit packages can be found in the VOA annual report and accounts: **www.gov.uk/government/organisations/valuation-office-agency**

People off-payroll

We report off-payroll appointments of more than six months and more than £245 a day to HM Treasury.

The reforms to legislation on intermediaries (IR35) in 2017 changed the rules for off-payroll people working in the public sector, moving the obligation to determine tax status from the contractor to the engager. We continue to comply with these rules, determining the employment status of our contractors and conveying these views to our suppliers.

Details of our contractors, within scope of the reformed legislation, including those from the Valuation Office Agency (VOA) and Revenue and Customs Digital Technology Services Limited (RCDTS) are provided in Tables 16 and 17:

Table 16: All off-payroll engagements as of 31 March 2020, for more than £245 per day and that last for longer than six months[1]

	HMRC	RCDTS	VOA
Number of existing engagements as of 31 March 2020	**113**	**93**	**–**
Length of existing engagements:			
Less than one year at time of reporting	36	10	–
Between one and two years at time of reporting	34	32	–
Between two and three years at time of reporting	25	28	–
Between three and four years at time of reporting	5	14	–
Four or more years at time of reporting	13[2]	9[3]	–

Table 17: All new off-payroll engagements, between 1 April 2019 and 31 March 2020, for more than £245 per day and that last for longer than six months[1]

	HMRC	RCDTS	VOA
New engagements, or those that reached six months in duration between 1 April 2019 and 31 March 2020	55	32	–
Number assessed where intermediaries legislation applies	8	9	–
Number assessed where intermediaries legislation does not apply	47	23	–
Number engaged directly via a personal service company (PSC) contracted to HMRC and on the departmental payroll	–	–	–
Number of engagements reassessed for consistency/assurance purposes during the year	47	32	–
Number of engagements that saw a change to IR35 status following the consistency review	–	–	–

1 For greater transparency we have changed our reporting policy to include engagements through umbrella companies in Tables 16 and 17.

2 Relates to 12 individuals with specialist IT skills, not available in-house or on the open market, who are supporting critical business activity as part of our UK transition work supporting the movement of goods at the border. The remaining individual had essential skills required to deliver a significant transformation project - the contract ends on 31 July 2020.

3 Relates to 9 individuals retained by RCDTS Ltd for their individual skills and specific knowledge that are essential for the project deliveries and process efficiencies. We continue to offer to convert these roles to permanent staff where possible.

Table 18: Board members, and/or, senior officials with significant financial responsibility between 1 April 2019 and 31 March 2020

Number of individuals who are board members, and/or, senior officials with significant financial responsibility	HMRC	VOA
On payroll	91	11
Off-payroll	1	0

Consultancy and temporary employees

HMRC uses professional service providers to help with specialist work – including consultancy, contingent labour (temporary workers), legal advice, translation, interpretation and research services. Use of these services is limited to occasions when we do not have the necessary skills internally, or where an independent external expert opinion on a complex issue is required.

External advisers provide HMRC with specialist expertise to help with delivering strategic objectives and major programmes through consultancy contracting frameworks. HMRC also uses contingent labour to quickly deploy specialist expertise, drive change and deliver increased efficiency with tight resources through its managed service provider agreement.

We continue to support the Cabinet Office guidelines to reduce the use of consultancy across central government. These guidelines, and the fiscal discipline measures introduced from May 2010, had resulted in a significant reduction in our spending on consultancy. While we are continuing to look for ways of achieving savings, introducing new procurement tools to improve our data analysis and sharing best practice in the employment of consultants with different parts of HMRC.

Expenditure on consultancy continues to be robustly controlled via commercial governance procedures and decreased from £3,168,518 in financial year 2018 to 2019 to £1,051,382[1] in financial year 2019 to 2020, equating to 0.006% of our annual expenditure. This should not be viewed as a trend, in light of the UK's transition period following EU exit, COVID-19 and the major technology sourcing programme agenda we are currently undertaking.

[1] Aligns with Cabinet Office definition of consultancy spend, which differs from the numbers reported in the Resource Accounts (see note 2 on page 223). HMRC do not currently separate costs on contingent labour.

Trade union facility time allocation

HMRC and VOA continue to recognise the important role the trade unions can play in a modern workplace and we are committed to engaging constructively with them. HMRC recognises two unions for collective bargaining and staff representation; these are the Public and Commercial Services Union (PCS) and the Association of Revenue & Customs (ARC, a specialist section of the FDA trade union specifically for HMRC staff). VOA recognises Prospect and the Public and Commercial Services Union (PCS). These arrangements follow the principles laid down in the Trade Union and Labour Relations (Consolidation) Act 1992 and the Codes of Practice issued by the Advisory, Conciliation and Arbitration Service (ACAS) under that legislation.

Table 19: Total number of employees who were relevant union officials during 2019-20

HMRC		VOA	
PCS	1,079	PCS	7
ARC	117	Prospect	4
Total	1,196	Total	11
Full-time equivalent employees	1,093	Full-time equivalent employees	10.11

Table 20: Percentage of time spent on facility time

Percentage of time	Number of employees	
	HMRC	VOA
0%	397	0
1-50%	799	11

For 2019 to 2020, facility time was managed within the Civil Service guidelines and was calculated in accordance with the Cabinet Office's guide figure of 0.1% of paybill[1] as follows:

Table 21: Percentage of paybill spent

	HMRC	VOA	Total
Paybill 2019-2020	£2,471,156,653[2]	£147,123,767	£2,618,280,420
0.1% of paybill	£2,471,157	£147,124	£2,618,281
The total cost of facility time	£2,270,251	£117,786	£2,388,037
Percentage of the total paybill spent on facility time, calculated as (total cost of facility time / total pay) x 100	0.09%	0.08%	0.091%

1 Paybill and salary figures comprise basic pay, allowances, overtime, non-consolidated performance payments, employer's National Insurance and superannuation payments.

2 Calculation is based on projected paybill to ensure allocation of facility time as soon as possible at the start of the financial year, however end of year calculation is based on actual paybill figures.

In accordance with the Cabinet Office's facility time framework, these figures include all paid time off for union work, comprising: general representative duties, national official duties, safety representative duties, union learning representative duties, and union training.

Paid trade union activities

Of the total paid facility time hours worked by relevant trade union officials during 2019 to 2020, none were spent on paid trade union activities.

+ Further disclosure required for the Trade Union (Facility Time Publication Requirements) Regulations 2017 is available at: **www.gov.uk/government/publications/trade-union-facility-time**

Remuneration report for Senior Civil Service

This report contains information about HMRC's senior employees and covers our policies on salaries, bonuses and benefits in kind, as well as on performance assessment and contract termination.

Remuneration policy

The Senior Civil Service (SCS) are senior leaders employed across government, with a common framework of terms and conditions. SCS pay and conditions are not delegated to individual departments. Our performance management system is governed by Cabinet Office.

Recommendations on SCS pay are provided by the independent Review Body on Senior Salaries in an annual report to the Prime Minister. The government responds to its recommendations, and Cabinet Office sets out the approach departments must follow in its SCS pay guidance.

In line with Cabinet Office guidance, SCS pay and non-consolidated awards at HMRC are then decided by the department's Remuneration Committee.

Before making its recommendation, the Review Body considers:

- the need to recruit, retain and motivate suitably able and qualified people to exercise their different responsibilities
- regional/local variations in labour markets and their effects on the recruitment and retention of employees

- government policies for improving public services including the requirement on departments to meet the output targets for the delivery of departmental services
- the funds available to departments as set out in the government's departmental expenditure limits
- the government's inflation target
- wider economic factors and the affordability of its recommendations

Senior Civil Service (SCS) employee numbers and approved posts

As of the 31 March 2020 we have 479 SCS employees. The total number of SCS posts (as opposed to individual employees) was 485.

There are a number of reasons for the difference between figures for posts and people. For example, some posts are vacant, some people fill a post through job sharing while others may be on maternity leave or special leave.

Table 22: HMRC and VOA SCS employee and post numbers

	HMRC	VOA	Total
SCS employee numbers	458	21	479
SCS posts	466	19	485

Table 23: HMRC SCS employee numbers comparison

Grade	Number at 31 March 2020	Number at 31 March 2019	Percentage change
Permanent secretary	1	2	50% decrease
SCS3	9	8	13% increase
SCS2	64	62	3% increase
SCS1	364	347	5% increase
On loan/secondment	20	21	5% decrease
Totals	**458**	**440**	4% increase

SCS structure and recruitment

Below the posts of Permanent Secretary are three levels of Senior Civil Servant: director general, director and deputy director. These are underpinned by a job evaluation scheme that creates a consistent way of comparing the relative value of jobs within and across the department and the wider Civil Service.

A total of 88 HMRC and VOA SCS posts were advertised during the last year. In addition to recruiting external talent from outside the Civil Service, a number of appointments were made on promotion into and within the SCS from HMRC and across the Civil Service.

Remuneration committees

Our remuneration committee, which represents both HMRC and the Valuation Office Agency is made up of: the Chief Executive (First Permanent Secretary), the Deputy Chief Executive (Second Permanent Secretary), all directors general, and an independent observer.

The performance of deputy directors and directors is moderated by director generals and in the case of the latter, also by the remuneration committee. Performance of director generals is moderated by permanent secretaries with advice from an independent observer, with performance and award arrangements for our permanent secretaries being managed by the Cabinet Office.

The remuneration committee signs off the overall departmental performance group allocations for deputy directors and directors.

Pay awards

Following a fundamental review of the SCS pay framework, it is envisaged that the pay structure will move towards professional groupings, emphasising and rewarding SCS who look to build depth as well as breadth of experience.

+ Read the fundamental review of the SCS pay framework at: **https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/filw/773817/Government-Evidence-to-the-Senior-Salaries-Review-Body_Jan2019.pdf**

As an initial step, Cabinet Office pay award guidance for financial year 2019 to 2020 included increased pay flexibilities for the pay award, due on 1 April 2019 which was funded from 2% of the SCS basic paybill. The guidance includes:

- uplifts to the minimum salaries of all SCS pay ranges
- consolidated pay increases limited to an average award of 1%
- discretion for departments to address any individual pay anomalies for a limited number of people at a maximum cost of 0.9% of the SCS basic paybill

Base pay awards were paid to all performers

Non-consolidated performance awards

Exceptional delivery of performance against objectives is rewarded through non-consolidated end-of-year and in-year performance awards. In line with Cabinet Office guidance, these performance awards are funded from an agreed allocation of 3.3% of the SCS basic paybill and subject to a pay control limit of £17,500:

- awards of £8,500 (SCS1), £11,500 (SCS2), and £14,500 (SCS3) were paid to 95 'top' performers due on 1 April 2019 for financial year 2018 to 2019 performance
- in-year awards ranging from £500 to £5,000 were paid to 71 members of the SCS based on performance during 2019 to 2020

Awards that are above and beyond the control limit of £17,500 are agreed in non-standard contracts and are in line with HM Treasury senior pay approval process. Non-consolidated performance award decisions are monitored to guard against bias or discrimination.

Policy on notice periods and termination payments

We follow the standard policy for SCS notice periods and termination payments contained in the Civil Service management code.

Service contracts

There is a legal requirement that all Civil Service appointments must be made on merit, and on the basis of fair and open competition. The recruitment principles published by the Civil Service Commission explain the limited circumstances when other appointments can be made.

+ Read the Civil Service Commission recruitment principles at **civilservicecommission.independent.gov.uk/recruitment/recruitment-principles/**

Executive members hold appointments which are open-ended unless otherwise stated in the remuneration tables. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service compensation scheme. No such compensation payments were made to those included in the remuneration report during 2019 to 2020.

Executive Committee (ExCom) and non-executive board members remuneration and pension benefits

Senior officials' remuneration and pension benefits

The following table provides details of the service contracts, salaries and pension entitlements of HMRC's most senior officials. Where there is no end date of term, it means their appointment is on a permanent basis. The individuals within this table are presented in line with our structure. Details are shown for each individual, including those who have held more than one role within the year, by their current or last held role. Where service on ExCom has included more than one role, the title and full-year equivalent of the latest role is disclosed.

The pension figures quoted for officials show pension earned in Principal Civil Service Pension Scheme (PCSPS) or Civil Servants and Others Pension Scheme (CSOPS), known as 'alpha' as appropriate. Where the official has benefits in both the PCSPS and alpha, the figure is the combined value of their benefits in the two schemes, but note that part of the pension may be payable from different ages. The accrued pension is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age.

Table 24: Senior officials single total figure of remuneration and pension benefits[1]

Senior officials	Salary (full year equivalent) (£000) 2019-20	Salary (full year equivalent) (£000) 2018-19	Bonus payments (£000) 2019-20	Bonus payments (£000) 2018-19	Benefits in kind (to the nearest £100) 2019-20	Benefits in kind (to the nearest £100) 2018-19	Pension benefits (to the nearest £000) 2019-20	Pension benefits (to the nearest £000) 2018-19	Total (£000) 2019-20	Total (£000) 2018-19
Jim Harra Chief Executive and Permanent Secretary (from 1 Oct 2019), member of ExCom from 16 Apr 2012	165-170	150-155	–	10-15	200	700	–	72	165-170	235-240
Penny Ciniewicz Director General Customer Compliance (from 4 Sep 2017), member of ExCom from 20 Jul 2015	135-140	135-140	–	–	100	600	47	31	185-190	165-170
Sophie Dean Director General Borders and Trade [Interim], member of ExCom from 2 Dec 2019	25-30[2] (80-85)	–	–	–	–	–	31	–	55-60	–
Mark Denney[3] Chief Digital and Information Officer [Interim], member of ExCom from 11 Nov 2019 to 13 Sept 2020	210-215 (525-530)	–	–	–	100	–	–	–	210-215	–
Alan Evans General Counsel and Solicitor, member of ExCom from 1 Jan 2019	135-140	30-35 (130-135)	–	–	300	100	272	9	410-415	40-45
Katherine Green Director General Borders and Trade [Interim], member of ExCom from 2 Dec 2019	25-30[2] (80-85)	–	–	–	100	–	34	–	60-65	–
Justin Holliday Chief Finance Officer, member of ExCom from 9 Mar 2015	165-170	160-165	–	–	400	600	80	81	245-250	245-250
Angela MacDonald Director General Customer Service, member of ExCom from 7 Aug 2017	160-165	155-160	10-15	–	200	400	54	53	230-235	210-215
Ruth Stanier Director General Customer Strategy and Tax Design, member of ExCom from 18 Jul 2018	135-140	95-100 (130-135)	10-15	10-15	300	600	140	204	290-295	310-315
Melissa Tatton[4] Chief Executive of the Valuation Office Agency, member of ExCom from 4 Sep 2017 to 6 Sep 2020	140-145	135-140	10-15	–	200	200	55	161	210-215	295-300
Esther Wallington Chief People Officer, member of ExCom from 1 Dec 2016	125-130[5]	120-125[5]	–	–	200	600	49	48	170-175	170-175
Sir Jonathan Thompson Chief Executive and Permanent Secretary, member of ExCom from 4 Apr 2016 to 30 Sep 2019	95-100 (195-200)	190-195	15-20	15-20	200	600	–	–	115-120	210-215
Karen Wheeler Director General Border Delivery Group, member of ExCom from 3 Jul 2017 to 15 Jul 2019	50-55 (155-160)	155-160	–	10-15	100	100	46	64	95-100	235-240
Jacky Wright Chief Digital and Information Officer[6], member of ExCom from 16 Oct 2017 to 13 Oct 2019	95-100 (180-185)	180-185	50-55[7]	50-55[7]	100	500	–	–	150-155	235-240

Pension Scheme	Accrued annual pension at pension age and related lump sum (£000) as at 31 March 2020[8]	Real increase in pension and related lump sum at pension age (£000)	Cash Equivalent Transfer Value (CETV) (to the nearest £000) as at 31 March 2020[8]	as at 31 March 2019[9]	Real increase	Employer contribution to partnership pension account (to the nearest £100)
Partnership Pension Account from 1 Nov 2018	–	–	–	1,475[10]	–	24,700
Alpha	40-45 (Lump sum 115-120)	2.5-5 (Lump sum 0-2.5)	908	832	33	–
Alpha	20-25	0-2.5	321	289	21	–
	–	–	–	–	–	–
Alpha	60-65	15-17.5	1,080	792[11]	226	–
Alpha	20-25 (Lump sum 45-50)	0-2.5 (Lump sum 2.5-5)	353	319	22	–
Alpha	70-75	2.5-5	1,111	1,009	47	–
Alpha	25-30	2.5-5	372	320	28	–
Alpha	50-55	7.5-10	830	690	101	–
Alpha	50-55 (Lump sum 120-125)	2.5-5 (Lump sum 0-2.5)	1,046	964	32	–
Alpha	25-30	2.5-5	300	257	22	–
Partnership Pension Account from 1 Oct 2016	–	–	–	–	–	14,400
Premium	70-75	0-2.5	1,382	1,328	45	–
Opted out of PCSPS	–	–	–	–	–	–

1 This section has been subject to external audit.

2 The full time equivalent salary is £115,000-£120,000. Sophie Dean and Katherine Green job share, working part-time hours (0.68 FTE each).

3 Mark Denney was engaged on a temporary basis through the Crown Commercial Service public sector resourcing framework.

4 Melissa Tatton also assumed the role of Tax Assurance Commissioner from Jim Harra on 15 October 2019 until 4 August 2020.

5 The full time equivalent salary is £135,000-£140,000 (2018 to 2019 £135,000-£140,000). Esther Wallington works part-time hours (0.9 FTE).

6 Although not appointed to ExCom, the role of Chief Digital and Information Officer was covered by Martin Coombs for the period 14 October 2019 to 10 November 2019.

7 This bonus relates to terms agreed in the non-standard contract and was in line with HM Treasury senior pay approval process.

8 Unless stated otherwise, values reported are as at 31 March 2020 or the date the individual ceased to be a member of ExCom where earlier.

9 Unless stated otherwise, values reported are as at 31 March 2019 or the day before the individual was appointed to ExCom where later.

10 Member opted to have a Partnership Pension Account 1 November 2018, CETV is at 31 October 2018

11 The prior year CETV figure has been recalculated due to Alpha Added Pension contributions.

Explanatory notes for tables 24 and 25

Salary

Salary covers both pensionable and non-pensionable amounts and includes gross salary, overtime, recruitment and retention allowances, reserved rights to other allowances and any other allowance to the extent that it is subject to UK taxation.

Bonus payments

Bonus payments are paid whilst serving on ExCom for exceptional work within the performance year. Year-end performance awards are based on performance achieved in post(s) held in the previous year and are made as part of the performance and pay award process. Bonus payments are considered non-consolidated pay awards.

Benefits in kind

The monetary value of benefits in kind covers any benefits provided by the department and treated by HMRC as taxable, such as hospitality provided at external development events.

Pension Benefits

Pension Benefits accrued during the reporting period are calculated as follows:

	Real increase in pension x 20
add	Real increase in any lump sum
less	Contributions made by the individual
=	The value of pension benefits accrued during the period

The real increases exclude increases due to inflation or any increases or decreases due to a transfer of pension rights. The value of the pension benefits can vary year to year due to a number of factors which include the date an individual joined or left the department, an individual receiving a higher pay increase in one year to another.

Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme.

The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity.

The figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are worked out in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

Real increase in CETV

This reflects the increase in CETV that is funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Non-executive board members remuneration

The fees of the external appointees, which include any other allowance that is subject to UK taxation, are detailed below. Non-executive board members are appointed for a fixed term of usually three years.

Table 25: Non-executive board members single total figure of remuneration[1]

	Fees (full year equivalent) (£000)		Benefits in kind (to the nearest £100)		Total (£000)	
Non-executive board member	2019-20	2018-19	2019-20	2018-19	2019-20	2018-19
Mervyn Walker (Lead Non-executive and Chair of the board) 1 Sept 2014 – 31 Dec 2020	20-25	20-25	300	300	25-30	25-30
Patricia Gallan 15 Jul 2019 – 14 Jul 2022	10-15 (15-20)	–	100	–	10-15	–
Michael Hearty 15 Jul 2019 – 14 Jul 2022	20-25 (25-30)	–	100	–	20-25	–
Alice Maynard[2] 1 Jul 2016 – 30 Jun 2022	40-45	30-35	200	200	40-45	30-35
Paul Morton 15 Jul 2019 – 14 Jul 2022	10-15 (15-20)	–	100	–	10-15	–
Simon Ricketts 1 Sep 2014 – 28 Feb 2021	20-25	15-20	100	100	20-25	15-20
Juliette Scott 21 Nov 2017 – 21 Nov 2020	20-25	15-20	100	200	20-25	15-20
John Whiting 1 Apr 2013 – 30 Sep 2019	10-15 (25-30)	20-25	–	200	10-15	20-25

1 This section has been subject to external audit.

2 Fees incorporate the cost of a support worker as a reasonable adjustment under the Equality Act 2010.

Fair pay[1]

The pay multiple is the ratio between the mid-point of the banded remuneration of the highest paid director in the department and the median remuneration of other HMRC and VOA staff. The median represents the employee that lies in the middle of the lowest remuneration and the highest remuneration of staff, excluding the highest paid director.

This includes salary, non-consolidated performance-related pay and benefits in kind. It does not include severance payments, employer pension contributions and the cash equivalent transfer value of pensions.

The increase in the ratio in Table 26a is due to the fees for Mark Denney as interim Chief Digital Information Officer. Mark was engaged on a temporary fee-paid basis through the public sector resourcing framework in November 2019. A permanent Chief Digital Information Officer was appointed in September 2020 under Civil Service recruitment rules. Table 26b shows the position as it would be without the temporary appointment, to provide an alternate view of the fair pay ratio.

Table 26a: Fair pay disclosure

	2019-20	2018-19
Highest paid director	£525,000-£530,000	£235,000-£240,000
Highest band of staff remuneration	£180,000-£185,000	£210,000-£215,000
Media total remuneration	£25,917	£25,216
Lowest band of staff remuneration	£18,000-£18,500	17,000-£17,500
Ratio	**20.4**	**9.4**

Table 26b: Fair pay disclosure (for comparative purposes only)

	2019-20	2018-19
Highest paid director	£235,000-£240,000	£235,000-£240,000
Highest band of staff remuneration	£180,000-£185,000	£210,000-£215,000
Media total remuneration	£25,917	£25,216
Lowest band of staff remuneration	£18,000-£18,500	17,000-£17,500
Ratio	**9.2**	**9.4**

In both financial years 2019 to 2020 and 2018 to 2019, no employees received remuneration in excess of the highest-paid director.

[1] This section has been subject to external audit.

Jim Harra
Chief Executive and Permanent Secretary
27 October 2020


VESTIGATION

Public, stakeholder and Parliamentary accountability

As a government department that touches the lives of virtually everyone in the UK, we're serious about our responsibility to be accountable to customers, stakeholders and external scrutiny bodies.

This accountability goes to the heart of our role in government and helps us in our efforts to get tax right for everyone. Our focus is on listening and responding to external opinion – and managing and protecting the customer data that we hold.

Recommendations made by external scrutiny bodies

We monitor the implementation of recommendations made by external scrutiny bodies. The bulk of recommendations for HMRC are made by the National Audit Office (NAO), the Public Accounts Committee, the Treasury Select Committee and the Infrastructure Projects Authority.

A central part of the monitoring process is review by the Audit and Risk Committee. Our Chief Executive presents a report to each meeting of the committee, updating it on the status of recommendations and whether any are overdue. The committee reviews progress and can call responsible directors general to its meetings to explain why a recommendation has not been implemented within its target. Recommendations are categorised as either significant or routine, based on the greatest financial, operational, or reputational risk of not implementing them.

Last year we implemented 76 significant and 81 routine recommendations. A full breakdown is set out below.

Table 27: Significant recommendations made by external scrutiny bodies in 2019-20

External body making recommendation: SIGNIFICANT	Opening balance[1]	New	Closed	Closing balance[2]
Parliamentary and NAO reports	0	0	0	0
NAO audit recommendations[3]	21	2	22[4]	1
Infrastructure Projects Authority	10	53	54	9
Others[5]	0	0	0	0
Total	**31**	**55**	**76**	**10**

Table 28: Routine recommendations made by external scrutiny bodies in 2019-20

External body making recommendation: ROUTINE	Opening balance[1]	New	Closed	Closing balance[2]
Parliamentary and NAO reports	29	13	16	26
NAO audit recommendations[3]	2	39	38[4]	3
Infrastructure Projects Authority	3	17	15	5
Others[5]	6	22	12	16
Total	**40**	**91**	**81**	**50**

1 Balance at 1 April 2019.

2 Balance at 31 March 2020.

3 Section 2 audit recommendations and management letter recommendations.

4 These are the recommendations that we consider to be closed; confirmation remains pending from the NAO.

5 Investigatory Powers Commissioners Office (IPCO), Information Commissioners Office, Office for Statistics Regulation.

Responding to external opinion

We carry out a wide range of activities with organisations and individuals representing our customers – consumer champions, trade unions, bodies representing tax agents, business representative organisations, voluntary and community sector organisations, campaigners and more. We meet them in a diverse range of settings, from board-level meetings and roundtables to conferences, consultations and other events. This allows for regular, detailed dialogue to take place between HMRC and our external stakeholders.

We also undertake qualitative and quantitative research with customers and other stakeholders, allowing us to respond to problems quickly and track changes over time.

Regular forums

We have a number of stakeholder consultative forums where we regularly work with groups interested in our policy areas, sharing information and listening to their feedback. This ensures that government is not making policy decisions in isolation, but with expert input from groups with a wide range of perspectives.

Engaging with senior leaders

We have increased our engagement during financial year 2019 to 2020 through more roundtable events, including virtual roundtables, with senior leaders to strengthen relationships between HMRC and our key stakeholders. This has enabled us to improve our awareness of stakeholder concerns and has given us opportunities to consult on our approach, while building advocacy amongst stakeholders.

Stakeholder conferences

We hold regular conferences throughout the year which gives key stakeholders the opportunity to meet, hear from and question ministers and senior leaders. They are also able to receive our most up to date policy information and feedback their views.

Roadshows and other events

HMRC attended a record number of roadshows and trade events to broaden the number of our customers we hear from and provide better access for stakeholders to advice from policy officials.

Engaging with Parliamentarians

We continue to regularly engage with Parliamentarians to help MPs deal with tax-related enquiries from constituents. This includes:

- presentations and resource packs showing the support HMRC offers MPs and their staff
- drop-in surgeries at Portcullis House where experts from our tax credits and PAYE MP hotlines help to resolve HMRC-related cases that MPs can bring in on behalf of any constituents
- regular email digests to MPs and their staff, briefing them on the latest policy issues and explaining where they and their constitutions can get advice

Anti-bribery and anti-corruption

The department takes a zero-tolerance approach to fraud, bribery and corruption. This is set out in our 'Counter internal fraud, bribery and corruption' policy and supplemented with a fraud response plan and strategy, which describe HMRC's response to bribery and corruption threat. HMRC's Chief Finance Officer has day to day accountability for the policy which applies to all our employees, suppliers, contractors and business partners.

Human rights

We have procedures in place to ensure that all our policies and legislation are compliant with the requirements of the Human Rights Act 1998. In addition, the 'HMRC way' is to understand our customers and their needs, treat everyone with respect, recognise that we have privileged access to information (and need to protect that information), and behave professionally with integrity. As part of this, we promote mutual respect and the dignity of the individual.

Sharing our data with others

HMRC collects and processes substantial volumes of data as we administer the UK tax system. The value of the data is recognised widely, and we share our data, as appropriate, with other public bodies within a strict legal framework.

Sharing data helps the government to deliver policies more effectively, for example, combating fraud in the welfare system and setting the right level of state benefits. Sharing our information also helps to inform the design and roll-out of new policies to benefit the public. We have continued working with other departments, including the Department for Work and Pensions, Home Office, Cabinet Office, Department for International Trade and the Office for National Statistics (ONS), to improve policy making and delivery of our services, promote growth, support monitoring and investigations into trade, manage debt and prevent fraud, support immigration and improve national statistics. In March 2020 we shared income data held in our PAYE Real Time Information on the UK employed population with ONS. This supports ONS's strategy to make greater use of administrative data sources across government to improve statistics about the economy, society, labour market, the population and beyond.

We thoroughly respect and safeguard the confidentiality of data whenever we share it. The way we handle and share data is governed by the Commissioners for Revenue and Customs Act 2005, the Data Protection Act 2018 and the General Data Protection Regulation. We adhere to the Information Commissioner's Office guidance and best practice, and have governance controls to ensure that legality, proportionality and security for new data are checked and approved by relevant experts in HMRC. We consider known GDPR risks in all HMRC's shares (see page 60) and manage any risks associated with data disclosed to other departments or organisations. We also review long-standing data shares which provides a level of assurance for their continuation. We are also working with other government partners, including the Student Loan Company, Cabinet Office (Debt and Fraud Board) and local authorities to reduce public debt and fraud through greater sharing and better use of our data across the public sector, enabled by the Digital Economy Act.

We are supporting UK transition by sharing trade data which is vital for managing the transition period and planning for the future relationship between the UK and the European Union.

We facilitate access to and use of our data by external researchers and other government departments through our Datalab – a highly secure and controlled environment for carrying out approved research projects that meet legal requirements. In financial year 2019 to 2020, Datalab projects have explored issues relating to tax policy, income and wealth analysis and business characteristics.

We publish key figures on our performance and activities online, as well as findings of projects in our external research programme and a wealth of official and national statistics releases.

Personal data-related incidents

All government departments are required to publish information about any serious data-related incidents, which have to be reported to the Information Commissioner.

Table 29: Summary of protected personal data-related incidents reported to the Information Commissioner's Office, 2019-20

Date of incident	Nature of incident	Nature of data involved	Number of people potentially affected	Notification steps
20.05.2019	National Insurance number (NINO) letters relating to 16-year old children being sent with incorrect details	Spelling mistakes, previous birth name, child now adopted, transgender children	18,864	Customers already aware
07.06.2019	A response to a Subject Access Request (SAR) delivered to a neighbour's address	Personal information relating to the customer including details of proposed bankruptcy action	1	Customers already aware
26.07.2019	Paperwork regarding a member of staff left on a train	Medical notes, letters from HR and correspondence between member of staff/line manager	1	Staff member contacted
22.08.2019	Correspondence sent to incorrect company with a similar name	Company name, director name, NINO, scheme	1	Company contacted
02.09.2019	Information obtained from a former employee wrongly disclosed back to the employer under investigation	Possible breach of internal procedures and policies	1	Individual already aware, but contact made regarding potential impacts
04.11.2019	Cyber attack of an agent and their client data	Self Assessment repayment record.	25	Agent contacted
21.11.2019	HMRC residency reports issued to pension service administrators including incorrect NINOs	NINO	0	Pension service administrators contacted
22.01.2020	Completed Excel spreadsheet issued in error instead of a blank one	Addresses and rental/property details	88	No contact
06.02.2020	Adviser incorrectly accessed taxpayer's record and issued refund to the taxpayer's mother	Fraudulent transaction made	2	Customers already aware
14.02.2020	A fraudulent attack resulted in 64 employees' details being obtained from 3 PAYE schemes	Name, contact details and ID data (user names, passwords and payroll scheme data)	573	Not contacted, but still under investigation
22.02.2020	Customer changed their name to avoid potential risk of harm but details on HMRC account reverted to previous name	Previous identity	1	Customer already aware

Other protected personal data-related incidents

Incidents which did not require reporting to the Information Commissioner are recorded centrally within the department and are set out in the table below. Small, localised incidents are not recorded centrally and are not included in these figures. Figures for financial year 2018 to 2019 are shown in brackets.

Table 30: Summary of other protected personal data-related incidents in 2019-20

Category	Nature of incident	Total
I	Loss of inadequately-protected electronic equipment, devices or paper documents from secured government premises	0 (2)
II	Loss of inadequately-protected electronic equipment, devices or paper documents from outside secured government premises	1 (2)
III	Insecure disposal of inadequately-protected electronic equipment, devices or paper documents	1 (0)
IV	Unauthorised disclosure	7 (8)
V	Other	6 (1)

Statement on information risk

The number of centrally-managed security incidents impacting on protected personal data in HMRC rose from 13 to 15 in 2019 to 2020. The number of customers potentially affected by these centrally-managed incidents was 3,616 (2018 to 2019: 694). The figures quoted for the number of customers affected can change over time, as new information becomes available as a result of further enquiries and ongoing security incident investigations.

Continuous work to understand and reduce security and information risks

We deal with millions of customers every year and tens of millions of paper and electronic interactions. We take the issue of data security extremely seriously and continually look to improve the security of customer information.

We investigate and analyse all security incidents to understand and reduce security and information risk. We actively learn and act on our incidents. For example, by making changes to business processes relating to post moving throughout HMRC and undertaking assurance work with third party service providers to ensure that agreed processes are being carried out.

We also educate our people to reinforce good security and data-handling processes through award-winning targeted and departmental-wide campaigns. These focus on reducing the security and information risk and the likelihood of the same issue happening again. All HMRC employees are required to complete mandatory security training, which includes the requirements of the Data Protection Act and GDPR. By continuing to inform and train our people, we can make sure HMRC is seen as a trusted and professional organisation.

Jim Harra
Chief Executive and Permanent Secretary
27 October 2020

Parliamentary accountability

Consolidated Statement of Parliamentary Supply

In addition to the primary statements prepared under International Financial Reporting Standards (IFRS), the Government Financial Reporting Manual requires us to prepare a Statement of Parliamentary Supply (SoPS) and supporting notes. The SoPS and related notes are subject to audit, as detailed in the Certificate and Report of the Comptroller and Auditor General to the House of Commons.

The SoPS is a key accountability statement that shows, in detail, how an entity has spent against their Supply Estimate. Supply is the monetary provision (for resource and capital purposes) and cash (drawn primarily from the Consolidated fund), that Parliament gives statutory authority for entities to utilise. The Estimate details supply and is voted on by Parliament at the start of the financial year.

Should an entity exceed the limits set by their Supply Estimate, called control limits, their accounts will receive a qualified opinion.

The format of the SoPS mirrors the Supply Estimates, published on GOV.UK, to enable comparability between what Parliament approves and the final outturn. The SoPS contain a summary table, detailing performance against the control limits that Parliament have voted on, cash spent (budgets are compiled on an accruals basis and so outturn won't exactly tie to cash spent) and administration.

The supporting notes detail the following: outturn by Estimate line, providing a more detailed breakdown (note 1); a reconciliation of outturn to net operating expenditure in Consolidated Statement of Comprehensive Net Expenditure (CSoCNE), to tie the SoPS to the financial statements (note 2); a reconciliation of outturn to net cash requirement (note 3); and an analysis of income payable to the Consolidated Fund (note 4).

The figures in the areas highlighted within this statement are voted totals which are subject to Parliamentary control. Although not a separate voted limit, any breach of our administration budget will also result in an excess vote.

HMRC has incurred an excess of £725,989 thousand because of an error which occurred during the preparation of our Supplementary Estimates for the financial year 2019 to 2020. We followed our usual processes. This year there was a significant movement in non-voted working capital which we treated incorrectly. When we adjusted our total departmental net cash requirement to remove the non-voted cash requirement, we removed expenditure without adjusting for non-voted working capital. This means that our net cash requirement control total was too low. Further details are set out in the Principal Accounting Officer's report at page 108. The department will seek parliamentary approval by way of an Excess Vote in the next Supply and Appropriation Act.

Table 31: Budget structure and expenditure outturn (£m)

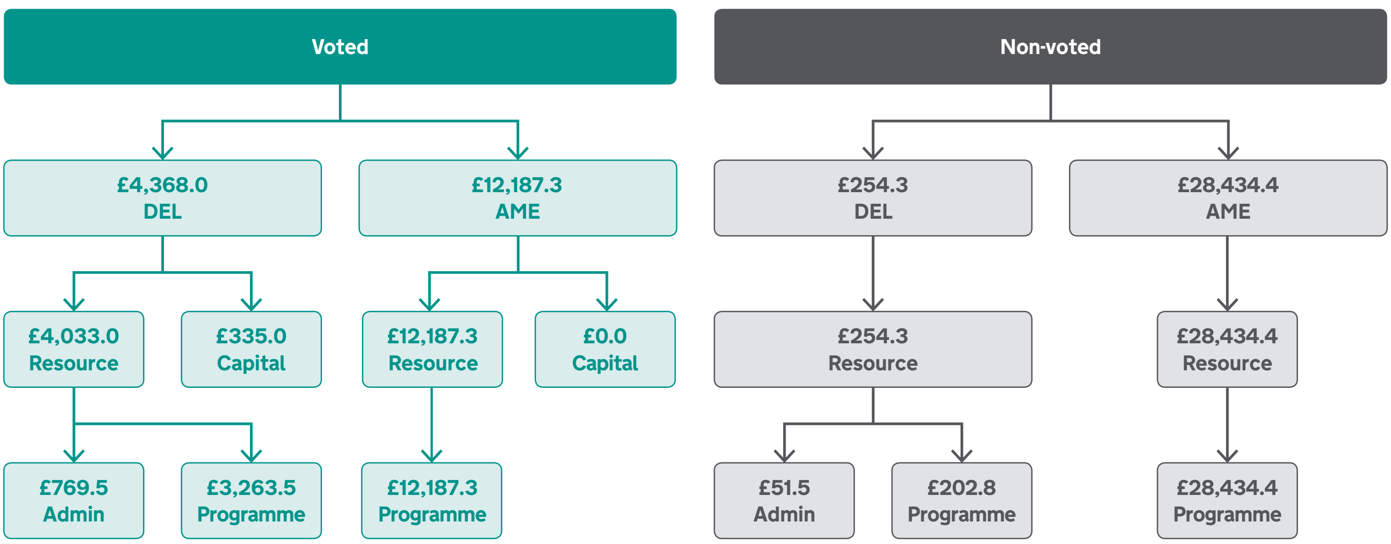


Table 32: Summary of Resource and Capital outturn

		Estimate			Outturn			2019-20 £000	2018-19 £000
	SoPS note	Voted	Non-voted	Total	Voted	Non-voted	Total	Voted variance: saving	Total Outturn
Departmental Expenditure Limit									
– Resource	1.1	4,087,154	283,300	4,370,454	4,033,011	254,332	4,287,343	54,143	3,951,922
– Capital	1.2	363,695	—	363,695	335,028	—	335,028	28,667	362,218
Annually Managed Expenditure									
– Resource	1.1	12,371,721	33,729,022	46,100,743	12,187,290	28,434,414	40,621,704	184,431	40,231,580
– Capital	1.2	10	—	10	10	—	10	—	2
Total budget		**16,822,580**	**34,012,322**	**50,834,902**	**16,555,339**	**28,688,746**	**45,244,085**	**267,241**	**44,545,722**
Of which:									
Total Resource	1.1	16,458,875	34,012,322	50,471,197	16,220,301	28,688,746	44,909,047	238,574	44,183,502
Total Capital	1.2	363,705	—	363,705	335,038	—	335,038	28,667	362,220
Total		**16,822,580**	**34,012,322**	**50,834,902**	**16,555,339**	**28,688,746**	**45,244,085**	**267,241**	**44,545,722**

	SoPS note	Estimate	Outturn	2019-20 £000 Variance: excess	2018-19 £000 Outturn
Net Cash Requirement	3	**15,531,715**	**16,257,704**	**(725,989)**	**15,629,453**

	SoPS note	Estimate	Outturn	Variance: saving	Outturn
Administration costs		**1,037,220**	**821,040**	**216,180**	**839,788**

Explanations of material variances between the Estimate and outturn are provided in SoPS note 1 on page 163. A reconciliation of total resource outturn to the Statement of Comprehensive Net Expenditure is provided in SoPS note 2 on page 164.

SoPS 1. Net outturn

We are required to ensure that our expenditure remains within the voted limits set by Parliament. This note provides details of how we performed against each line of the Estimate.

Voted expenditure includes the costs of running HMRC as well as payments to individuals for social benefits and payments in lieu of tax relief. It also includes certain rates payments, shown as line J, made by the Valuation Office Agency. RCDTS Ltd expenditure and income is included within lines A, B, C, I and L as appropriate.

HMRC also makes payments for which the funding is not subject to the vote system. This non-voted expenditure mainly relates to personal tax credits, other reliefs including certain corporation tax reliefs and our costs related to the National Insurance Fund.

HM Treasury requires us to further analyse our income and expenditure between administration, which relates to running the department (for example: human resources, finance, estates management) and programme, which relates to delivering our frontline services (for example: parts of HMRC that interact directly with our customers).

The following tables record our actual outturn expenditure for Departmental Expenditure Limit (DEL) and Annually Managed Expenditure (AME), voted and non-voted, against the limits set by Parliament for each line of the Estimate. SoPS 1.1 (table 33) provides analysis of resource expenditure and SoPS 1.2 (table 34) of capital expenditure.

Full information about the Valuation Office Agency activities can be found within their accounts viewed at:
www.gov.uk/government/organisations/valuation-office-agency

SoPS 1.1 Analysis of net resource outturn by section

Table 33: Analysis of net resource outturn by section

	2019-20 £000									2018-19 £000
	Estimate	Outturn								
		Administration			Programme			Outturn	Variance: saving/ (excess)	Outturn
	Net Total	Gross	Income	Net	Gross	Income	Net	Net Total		Total
Spending in Departmental Expenditure Limit										
Voted:										
A HMRC administration	3,891,965	801,536	(34,256)	767,280	3,182,678	(136,341)	3,046,337	3,813,617	78,348	3,483,718
B VOA administration	165,189	—	—	—	198,951	(34,154)	164,797	164,797	392	142,738
C Utilised provisions	30,000	2,208	—	2,208	52,389	—	52,389	54,597	(24,597)	42,918
Total voted	4,087,154	803,744	(34,256)	769,488	3,434,018	(170,495)	3,263,523	4,033,011	54,143	3,669,374
Non-voted:										
D National Insurance Fund	283,300	51,552	—	51,552	202,780	—	202,780	254,332	28,968	282,548
Total non-voted	283,300	51,552	—	51,552	202,780	—	202,780	254,332	28,968	282,548
Total spending in Departmental Expenditure Limit	**4,370,454**	**855,296**	**(34,256)**	**821,040**	**3,636,798**	**(170,495)**	**3,466,303**	**4,287,343**	**83,111**	**3,951,922**
Spending in Annually Managed Expenditure										
Voted:										
E Child Benefit	11,581,766	—	—	—	11,487,105	—	11,487,105	11,487,105	94,661	11,475,319
F Tax Free Childcare	283,231	—	—	—	245,524	—	245,524	245,524	37,707	115,730
G Providing payments in lieu of tax relief to certain bodies	114,464	—	—	—	116,035	—	116,035	116,035	(1,571)	97,388
H Lifetime ISA	278,010	—	—	—	225,808	—	225,808	225,808	52,202	251,019
I HMRC administration	51,000	—	—	—	82,016	—	82,016	82,016	(31,016)	93,674
J VOA payments of Local Authority rates	93,460	—	—	—	89,110	(5,224)	83,886	83,886	9,574	66,785
K VOA administration	2,000	—	—	—	1,523	—	1,523	1,523	477	7,094
L Utilised provisions	(32,210)	—	—	—	(54,607)	—	(54,607)	(54,607)	22,397	(42,921)
Total voted	12,371,721	—	—	—	12,192,514	(5,224)	12,187,290	12,187,290	184,431	12,064,088
Non-voted:										
M Personal tax credits	21,498,000	—	—	—	18,331,274	—	18,331,274	18,331,274	3,166,726	22,288,296
N Other reliefs and allowances	12,231,022	—	—	—	10,103,140	—	10,103,140	10,103,140	2,127,882	5,879,196
Total non-voted	33,729,022	—	—	—	28,434,414	—	28,434,414	28,434,414	5,294,608	28,167,492
Total spending in Annually Managed Expenditure	**46,100,743**	**—**	**—**	**—**	**40,626,928**	(5,224)	**40,621,704**	**40,621,704**	**5,479,039**	**40,231,580**
Total voted	16,458,875	803,744	(34,256)	769,488	15,626,532	(175,719)	15,450,813	16,220,301	238,574	15,733,462
Total non-voted	34,012,322	51,552	—	51,552	28,637,194	—	28,637,194	28,688,746	5,323,576	28,450,040
Total	**50,471,197**	**855,296**	**(34,256)**	**821,040**	**44,263,726**	**(175,719)**	**44,088,007**	**44,909,047**	**5,562,150**	**44,183,502**

Full information about VOA payments of Local Authority rates can be found at: **www.voa.gov.uk**

SoPS 1.2 Analysis of net capital outturn by section

Table 34: Analysis of net capital outturn by section

					2019-20 £000	2018-19 £000
	Estimate	Outturn		Outturn	Variance:	Outturn
	Net Total	Gross	Income	Net total	saving/ (excess)	Total
Spending in Departmental Expenditure Limit						
Voted:						
A HMRC administration	356,695	413,944	(85,278)	328,666	28,029	353,476
B VOA administration	7,000	6,362	—	6,362	638	8,742
C Utilised provisions	—	—	—	—	—	—
Total voted	363,695	420,306	(85,278)	335,028	28,667	362,218
Non-voted:						
D National Insurance Fund	—	—	—	—	—	—
Total non-voted	—	—	—	—	—	—
Total spending in Departmental Expenditure Limit	**363,695**	**420,306**	**(85,278)**	**335,028**	**28,667**	**362,218**
Spending in Annually Managed Expenditure Voted:						
E Child Benefit	10	10	—	10	—	2
F Tax Free Childcare	—	—	—	—	—	—
G Providing payments in lieu of tax relief to certain bodies	—	—	—	—	—	—
H Lifetime ISA	—	—	—	—	—	—
I HMRC administration	—	—	—	—	—	—
J VOA payments of Local Authority rates	—	—	—	—	—	—
K VOA administration	—	—	—	—	—	—
L Utilised provisions	—	—	—	—	—	—
Total voted	10	10	—	10	—	2
Non-voted:						
M Personal tax credits*	—	605,125	(605,125)	—	—	—
N Other reliefs and allowances	—	—	—	—	—	—
Total non-voted	—	605,125	(605,125)	—	—	—
Total spending in Annually Managed Expenditure	**10**	**605,135**	**(605,125)**	**10**	**—**	**2**
Total voted	363,705	420,316	(85,278)	335,038	28,667	362,220
Total non-voted	—	605,125	(605,125)	—	—	—
Total	**363,705**	**1,025,441**	**(690,403)**	**335,038**	**28,667**	**362,220**

* The transfer of personal tax credit receivables balance to DWP results in Capital Grant in Kind entries that net to nil.

The total resource outturn for the year was £44,909.0 million, £5,562.2 million (11%) below the Estimate. The total capital outturn for the year was £335.0 million, £28.7 million (8%) below the Estimate. Explanations of material variances between the Estimate and outturn are provided below.

Resource Departmental Expenditure Limit (DEL)

C Utilised provisions - Outturn was £24.6 million (82%) over estimate. Utilisation of provisions is inherently unpredictable in terms of the timing and value of settlements. A provision relating to the Locations Programme was utilised in 2019 to 2020 which was not anticipated in the Estimate.

Resource Annually Managed Expenditure (AME)

F Tax Free Childcare - Outturn was £37.7 million (13%) less than the estimate. Take up of the policy has still not achieved anticipated levels.

H Lifetime ISA - Outturn was £52.2 million (19%) less than the estimate. Take up of the policy has still not achieved anticipated levels.

I HMRC Administration - Outturn was £31.0 million (61%) over estimate. This was due to a greater than expected number of new provisions relating to office relocation and early departure. In addition, a large provision for the Locations Programme was included in the outturn figures which was not anticipated in the Estimate.

J VOA POLAR - Outturn was £9.6 million (10%) less than the estimate. This is due to several organisations reducing their presence in London as a result of the EU transition alongside several high-profile estate moves.

L Utilised provisions - Outturn was £22.4 million (70%) over the estimate. Utilisation of provisions is inherently unpredictable in terms of the timing and value of settlements. A provision relating to the Locations Programme was utilised in 2019 to 2020 which was not anticipated in the Estimate.

M Personal Tax Credits - Outturn was £3,166.7 million (15%) less than the estimate. Payments are driven by demand and entitlement and therefore fluctuate.

N Other Reliefs & Allowances - Outturn was £2,127.9 million (17%) less than the estimate. Despite the increase in research & development corporation tax reliefs expenditure, this variance is due to the expenditure being less than had been anticipated.

SoPS 2. Reconciliation of outturn to net operating expenditure

As noted in the introduction to the SoPS, outturn and the Estimates are compiled against the budgeting framework, which is similar to, but different from, IFRS. Therefore, this reconciliation bridges the resource outturn from SoPS 1.1 to net operating expenditure in the CSoCNE, linking the SoPS to the financial statements. These are detailed and explained below.

Table 35: Reconciliation of net resource outturn to net operating expenditure

		Reference	2019-20 £000 Outturn	2018-19 £000 Outturn
Statement of Parliamentary Supply: Total resource outturn				
Departmental Expenditure Limit		SoPS 1.1	4,287,343	3,951,922
Annually Managed Expenditure		SoPS 1.1	40,621,704	40,231,580
			44,909,047	**44,183,502**
Excluded from SoPS Total resource outturn:				
Expenditure:	Transfer of personal tax credits receivables to DWP	SoPS 1.2	605,125	306,891
	Non-current assets donated via a grant	SoPS 1.2	626	—
	Capital element of grants to customs intermediaries and traders		5,656	214
	Child Trust Fund	SoPS 1.2	10	2
	Non-current asset costs outside of budgeting		17,312	18,938
Income:	Developer contribution received to purchase non-current assets		(71,671)	(11,392)
	Payable to the Consolidated Fund		(991)	(731)
			556,067	**313,922**
Excluded from SoCNE Net operating expenditure:				
Expenditure:	Service concession arrangements liability repayment		(17,292)	(16,639)
			(17,292)	(16,639)
Consolidated Statement of Comprehensive Net Expenditure: Net operating expenditure		Page 210	**45,447,822**	**44,480,785**

Explanation of additions and deductions

Transfer of personal tax credits receivables to Department of Work and Pension (DWP)

The receivable balance relating to customers who have made a valid claim to Universal Credit, now administered by DWP.

Non-current assets donated via a grant

The value of non-current assets donated by way of a Capital Grant in Kind as a result of property lease arrangements.

Capital element of grants to customs intermediaries and traders

Capital element of grants to support IT for customs intermediaries and traders completing customs declarations.

Developer Contribution

The value of capital grants received as a result of property lease arrangements.

Non-current asset costs outside of budgeting and service concession arrangements

The National Accounts basis for recognising service concession arrangements is broadly similar to UK-Generally Accepted Accounting Practice (UK-GAAP), applying a risk-based test to determine the financial reporting. International Financial Reporting Standards (IFRS)-based recognition of service concession arrangements (International Financial Reporting Interpretations Committee (IFRIC) 12) is determined using control tests, which can result in a different on/off Statement of Financial Position treatment. With the introduction of IFRS accounting, properties that HMRC sold to private sector contractors and subsequently leased back under a Private Finance Initiative (PFI) contract were capitalised as finance leases under IFRIC 12.

Income payable to the Consolidated Fund

Income that is either in excess of limits included in the vote or is outside the scope of what is allowed to be retained. For these reasons, this income is excluded from the SoPS.

SoPS 3. Reconciliation of net resource outturn to Net Cash Requirement

Net cash requirement calculation only applies to core department and agency. This note reconciles the net resource and capital outturn to the net cash requirement in the Statement of Parliamentary Supply, showing the adjustments for non-cash items, movements in the Statement of Financial Position and other adjustments which include funding other than from the Consolidated Fund.

Table 36: Reconciliation of net resource outturn to net cash requirement

	SoPS note	Estimate £000	Outturn £000	Outturn compared to Estimate: saving/excess £000
Resource outturn	1.1	50,471,197	44,909,047	5,562,150
Capital outturn	1.2	363,705	335,038	28,667
Remove arms length bodies resource and capital		—	(363)	363
Accruals to cash adjustments:				
Remove non-cash items:				
Depreciation and amortisation		(379,428)	(295,063)	(84,365)
New provisions and adjustments to existing provisions		(53,000)	(78,858)	25,858
Other non-cash items		(2,478)	(18,040)	15,562
Reflect movement in working balances:				
Capital grant in kind:				
Transfer of personal tax credit receivables to DWP		—	605,125	(605,125)
Increase/(decrease) in inventories		—	(120)	120
Increase/(decrease) in receivables		128,014	(864,891)	992,905
(Increase)/decrease in payables		(1,016,183)	(3,210,545)	2,194,362
Use of provisions		32,210	54,607	(22,397)
Other adjustments:				
Remove non-voted budget items:				
Funded outside the Vote		(34,012,322)	(25,202,668)	(8,809,654)
Finance lease liability repayment		—	11,881	(11,881)
Other		—	12,554	(12,554)
Net Cash Requirement		**15,531,715**	**16,257,704**	**(725,989)**

The net cash requirement outturn for 2019 to 2020 was £16,257.7 million, £726.0 million (5%) above the Estimate. Further details are set out in the Principal Accounting Officer's report at page 108.

Explanations of material variances between the Estimate and outturn are provided below.

Depreciation and amortisation - Outturn was £84.4 million (22%) less than the estimate. More assets were disposed of during the year than anticipated, resulting in a lower charge for the year.

New provisions and adjustments to existing provisions - Outturn was £25.9 million (49%) over the estimate. This is due to a higher than anticipated need for new provisions for the Locations Programme.

Other non-cash items - Outturn was £15.6 million (628%) over the estimate. This is the result of the annual IT assets review which resulted in a higher than anticipated loss on disposal of £12 million.

Receivables - Outturn was £992.9 million (776%) less than the estimate, largely due to a decrease in the level of personal tax credit receivables.

Payables - Outturn was £2,194.4 million (216%) more than the estimate. This is largely due to an increase in corporation tax relief payables.

SoPS 4. Income payable to the Consolidated Fund

SoPS 4.1 Analysis of income payable to the Consolidated Fund

In addition to income retained by HMRC, the following income is payable to the Consolidated Fund. This is income which is outside the ambit of the Supply Estimate and is required to be paid over to HM Treasury.

Table 37: Analysis of income payable to the Consolidated Fund

		Outturn 2019-20 £000		Outturn 2018-19 £000	
	Reference	Accruals	*Cash basis*	Accruals	*Cash basis*
Income outside the ambit of the Estimate	SoPS 2	991	*991*	731	*731*
Excess cash surrenderable to the Consolidated Fund		—	—	—	—
Total amount payable to the Consolidated Fund	Page 214	**991**	***991***	**731**	***731***

SoPS 4.2 Consolidated Fund income

Consolidated Fund income shown in SoPS note 4.1 above does not include any amounts collected by the department where it was acting as agent of the Consolidated Fund rather than as principal. Full details of income collected as agent for the Consolidated Fund are in the department's Trust Statement, see page 185.

Regularity of expenditure[1]

HMRC understands and complies with the concept of regularity, which is fundamental to the right use of public funds.

The term regularity is used to convey the idea of probity and ethics in the use of public funds - that is, delivering public sector values in the round and applying the seven principles of public life.

Regularity specifically encompasses compliance with all relevant legislation, delegated authorities and the guidance set out in HM Treasury's Managing Public Money publication.

The importance of operating with regularity and the need for efficiency, economy, effectiveness and prudence in the administration of public resources to secure value for public money, is the responsibility of HMRC's Accounting Officer.

To discharge this responsibility the following controls have been put in place.

- detailed annual business planning and delegation of budgets to directors general in line with the single departmental plan and the purpose for which Parliament intends
- formal delegation of budgets by directors general to the appropriate level, supported by qualified finance directors
- detailed monitoring of expenditure and monthly reporting to the Chief Executive, Chief Finance Officer, ExCom, and the Board, as well as HM Treasury
- a professional finance community, with the task of guiding and supporting the right use of public funds and compliance with Cabinet Office controls guidance
- monthly publication of all spending of more than £25,000 as part of our commitment to transparency and open government
- close links with HM Treasury colleagues to ensure planned expenditure transactions do not set precedents that could cause repercussions elsewhere in the public sector.

1 This section has been subject to external audit.

The table below provides details of the main estimate for HMRC spending and the supplementary estimate which provides the final estimate (budget) shown. It then shows the actual spend (outturn) against the final budget.

Table 38: Public spending control[1]

				2019-20 £000
	Main Estimate	Supplementary Estimate (Adjustment)	Final Provision	Outturn
Resource DEL				
Voted				
HMRC Administration	3,705,467	186,498	3,891,965	3,813,617
VOA Administration	164,189	1,000	165,189	164,797
Utilised Provisions	30,000	—	30,000	54,597
Non-Voted				
National Insurance Fund	283,300	—	283,300	254,332
Total spending DEL	**4,182,956**	**187,498**	**4,370,454**	**4,287,343**
Resource AME				
Voted				
Child Benefit	11,699,567	(117,801)	11,581,766	11,487,105
Tax Free Childcare	286,053	(2,822)	283,231	245,524
Providing payments in lieu of tax relief to certain bodies	101,069	13,395	114,464	116,035
Lifetime ISA	345,420	(67,410)	278,010	225,808
HMRC administration	30,000	21,000	51,000	82,016
VOA payments of rates to local authorities on behalf of certain bodies	81,460	12,000	93,460	83,886
VOA administration	2,000	—	2,000	1,523
Utilised provisions	(30,010)	(2,200.0)	(32,210)	(54,607)
Non-Voted				
Personal tax credits	25,068,230	(3,570,230)	21,498,000	18,331,274
Other reliefs and allowances	5,116,534	7,114,488	12,231,022	10,103,140
Total spending AME	**42,700,323**	**3,400,420**	**46,100,743**	**40,621,704**
Capital DEL				
HMRC administration	298,660	58,035	356,695	328,666
VOA administration	8,000	(1,000)	7,000	6,362
Total capital spending DEL	**306,660**	**57,035**	**363,695**	**335,028**
Capital AME				
Child Trust Fund	10	—	10	10
Total capital spending AME	**10**	**—**	**10**	**10**

1 This section has been subject to external audit.

Losses and special payments[1]

These losses and special payments relate to the running of the departmental group. Full details on revenue losses can be found in HMRC's Trust Statement, see pages 195 to 196.

Losses statement

Losses are made up of remissions and write-offs. Remission is the process used to identify and separate money owed to HMRC which we have decided not to pursue - for example, on the grounds of value for money. Write-offs is the term used to describe money owed to HMRC that was considered to be irrecoverable - for example, because there were no practical means for pursuing it.

Table 39: Losses

				2019-20				2018-19
	Core department and agency		Departmental group		Core department and agency		Departmental group	
	cases	£m	*cases*	£m	*cases*	£m	*cases*	£m
Personal tax credits remissions	*36,461*	81.2	*36,461*	81.2	*1,267,632*	196.9	*1,267,632*	196.9
Personal tax credits write-offs	*912,576*	18.5	*912,576*	18.5	*27,549*	35.1	*27,549*	35.1
Child Benefit remissions and write-offs	*22,906*	14.2	*22,906*	14.2	*27,826*	5.5	*27,826*	5.5
Exchange rate losses	*98*	1.5	*98*	1.5	*85*	0.1	*85*	0.1
Others	*3,696*	0.2	*3,696*	0.2	*4,228*	(0.1)	*4,228*	(0.1)
Total	***975,737***	**115.7**	***975,737***	**115.7**	***1,327,320***	**237.5**	***1,327,320***	**237.5**

1 This section has been subject to external audit.

In 2019 to 2020 £99.7 million of personal tax credit debt was remitted/written-off. For further information see the Resource Accounts on pages 226 to 229 (notes 4.1.1 and 4.1.2).

In 2019 to 2020 the department wrote-off £14.2 million of Child Benefit debt that was uncollectable.

Details of cases more than £300,000

There were no individual cases of more than £300,000.

Special payments[1]

These include compensation and ex-gratia payments in respect of personal injury, damage to property and those which result from the department's redress policy.

Table 40: Special payments

	2019-20				2018-19			
	Core department and agency		Departmental group		Core department and agency		Departmental group	
	cases	£m	*cases*	£m	*cases*	£m	*cases*	£m
Payments and accruals	*18,369*	3.8	*18,369*	3.8	*18,822*	4.2	*18,822*	4.2

Severance payments are included within special payments shown above. These are paid under certain circumstances to employees, contractors and others outside of normal statutory or contractual requirements, when leaving employment in the public service, whether they resign, are dismissed, or reach an agreed termination of contract. For 2019 to 2020, we made 5 payments totalling £46,500 (2018 to 2019: 19 payments totalling £340,775) in respect of severance cases. The highest payment was £25,000 (2018 to 2019: £78,703) and the lowest payment was £5,500 (2018 to 2019: £468). The average payment was £9,300 (2018 to 2019: £17,936).

For further information on reporting requirements please see guidance in Managing Public Money, see Annex 4.13.

Details of cases more than £300,000

There were no individual cases of more than £300,000.

1 This section has been subject to external audit.

Fees and charges[1]

The fees and charges table lists the services HMRC provides to external and public sector customers where the full cost to HMRC exceeds £1 million. In accordance with HM Treasury guidance in Managing Public Money, it is HMRC's financial objective to recover the full cost of each service unless otherwise stated. Disclosed in the table for each service is the income received, the full cost incurred and the amount of any surplus or deficit between the income received and full cost charged. Surpluses and deficits can arise for a number of reasons, including demand fluctuations or variations to HMRC costs during the year.

Income received by the department which is not disclosed in this note amounts to £157.7 million and as this figure is not material to the accounts the department no longer publish a separate income note.

Table 41: Analysis of income where full cost exceeds £1 million

	Income	Full cost	2019-20 £m Surplus/ (deficit)	Income	Full cost	2018-19 £m Surplus/ (deficit)
Fees and charges raised by the Valuation Office Agency (VOA)						
District valuer services[2]	16.0	16.2	(0.2)	17.0	17.6	(0.6)
Business rates and Council Tax[3]	9.7	9.8	(0.1)	9.3	9.6	(0.3)
Local housing allowance and fair rents	8.6	8.7	(0.1)	8.9	9.2	(0.3)
Fees and charges raised by the core department[4]						
Memorandum of Terms of Occupation[5]	68.1	68.1	—	67.2	67.2	—
National Minimum Wage	26.1	25.9	0.2	25.3	25.3	—
Anti-money laundering supervision	16.4	16.2	0.2	11.4	12.9	(1.5)
Collection of student loans	13.0	13.1	(0.1)	14.4	14.6	(0.2)
UK Border Agency	11.5	11.5	—	13.3	13.3	—
Tax Free Childcare	9.8	9.3	0.5	11.7	10.3	1.4
Government Banking Service[6]	5.2	4.3	0.9	5.1	4.0	1.1
Single Tier Pension Reform	1.6	1.6	—	8.4	8.5	(0.1)
Immigration Data Sharing	1.5	1.5	—	—	—	—
Statutory parental bereavement pay	1.5	1.5	—	—	—	—
DWP welfare reform agenda	0.8	0.8	—	0.8	0.8	—
For devolved administrations						
Scotland Act implementation[7]	1.5	1.5	—	2.6	2.7	(0.1)
Wales Act implementation[8]	1.8	1.8	—	6.1	5.9	0.2
Total	**193.1**	**191.8**	**1.3**	**201.5**	**201.9**	**(0.4)**

1 This section has been subject to external audit.
2 Property Services and Statutory Valuations Team have merged with effect from June 2019 and are now known as District Valuer Services. The 2018 to 2019 totals from Property Services and Statutory Valuation team have been combined.
3 In 2018 to 2019 this section was called Non-Domestic Rates and Council Tax. The totals for 2018 to 2019 have not been affected as this is a name change only.
4 Government gateway, collection of Apprenticeship Levy and Northern Ireland Act implementation have been removed from the table because the full cost is below £1 million. The 2018 to 2019 totals have been restated.
5 Memorandum of Terms of Occupation (MoTO). MoTO is when there is an agreement between 2 or more Crown Bodies which allows for them to share the costs of occupying a building or part of a building. The income and full cost shown above is where HMRC is the major occupier of a building and has recharged the costs to other Crown Bodies who also occupy the buildings. Following a review, MoTO income and associated full cost are reported within this disclosure. The 2018 to 2019 comparatives have been restated accordingly.
6 Government Banking Service previously included the cost and income associated with credit and debit card transactions. Upon review these entries have now been removed from the above table and the 2018 to 2019 totals have been restated.
7 The Scotland Act 2012 and Scotland Act 2016 gave the Scottish Parliament powers over rates of income tax which have applied from 2016 to 2017 onwards. This tax is accounted for within HMRC's Trust Statement, see pages 206 to 207. HMRC has incurred costs which are included in the Resource Accounts.
8 The Wales Act 2014 gave the Welsh Assembly the power to tax land transactions and disposals to landfill from April 2016 and, as amended by The Wales Act 2017, to set income tax rates from 2019 to 2020 onwards. HMRC has incurred costs which are included in the Resource Accounts.

Remote Contingent Liabilities[1]

These are remotely possible obligations that arise from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within HMRC's control.

The department has the following quantifiable remote contingent liabilities.

Table 42: Indemnities

	1 April 2019	Increase in year	Liabilities crystallised in year	Obligation expired in year	31 March 2020	Amount reported to Parliament by departmental minute
	£m	£m	£m	£m	£m	£m
Indemnities	7.4	2.5	—	(3.5)	6.4	—

The department has the following unquantifiable remote contingent liabilities:

On 29 March 2017, the UK Government submitted its notification to leave the EU in accordance with Article 50. The triggering of Article 50 started a two-year negotiation process between the UK and the EU.

On 31 January 2020, the Withdrawal Agreement between the UK and the EU became legally binding and the UK left the EU. The future relationship between the EU and the UK will be determined by negotiations taking place during a transition period ending 31 December 2020.

Any subsequent changes in legislation, regulation and funding arrangement are subject to the outcome of the negotiations. As a result, an unquantifiable contingent liability is disclosed in accordance with accounting standards.

In November 2019 a novel strain of coronavirus was detected and spread rapidly, leading the World Health Organisation to declare a pandemic on 11 March 2020. The pandemic caused significant economic disruption just before the financial year end.

The ongoing disruption caused by the pandemic has created significant economic uncertainty, and this uncertainty is expected to continue throughout 2020. As a result, an unquantifiable contingent liability is disclosed in accordance with accounting standards.

Managing Public Money requires that the full potential costs of indemnified contracts be reported to Parliament.

1 This section has been subject to external audit.

Jim Harra
Chief Executive and Permanent Secretary

27 October 2020

Our accounts

HMRC's Trust Statement and Resource Accounts for financial year **2019** to **2020**

The Trust Statement audit report of the Comptroller and Auditor General to the House of Commons

Opinion on financial statements

I have audited the financial statements of HM Revenue and Customs' Trust Statement for the year ended 31 March 2020 under the Exchequer and Audit Departments Act 1921. The financial statements comprise the Statement of Revenue, Other Income and Expenditure, the Statement of Financial Position, the Statement of Cash Flows and the related notes, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them.

In my opinion:

- the HM Revenue and Customs Trust Statement gives a true and fair view of the state of affairs of the collection and allocation of taxes, duties, National Insurance Contributions, Student Loan recoveries, fines, penalties and related expenditures and disbursements administered by HM Revenue and Customs as at 31 March 2020 and of the net revenue for the year then ended; and
- the financial statements have been properly prepared in accordance with the Exchequer and Audit Departments Act 1921 and HM Treasury directions issued thereunder.

Opinion on regularity

In my opinion, in all material respects the income and expenditure recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of HM Revenue and Customs in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- HM Revenue and Customs' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate;
  or
- HM Revenue and Customs have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about HM Revenue and Customs' ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Responsibilities of the Accounting Officer for the audit of the financial statements

As explained more fully in the Principal Accounting Officer's report, the Principal Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit and report on the financial statements in accordance with the Exchequer and Audit Departments Act 1921.

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of HM Revenue and Customs' internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- conclude on the appropriateness of HM Revenue and Customs' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on HM Revenue and Customs' ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my report. However, future events or conditions may cause HM Revenue and Customs' to cease to continue as a going concern.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I am required to obtain evidence sufficient to give reasonable assurance that the income and expenditure recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Other Information

The Principal Accounting Officer is responsible for the other information. The other information comprises information included in the Annual Report but does not include the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Opinion on other matters

In my opinion:

- the information given in the 'Our Performance' and 'Our Accountability' sections of the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Gareth Davies
Comptroller and Auditor General

2 November 2020

National Audit Office
157-197 Buckingham Palace Road
Victoria
London SW1W 9SP

The Resource Accounts: Certificate and Report of the Comptroller and Auditor General to the House of Commons

Opinion on financial statements

I certify that I have audited the financial statements of HM Revenue and Customs and of its Departmental Group for the year ended 31 March 2020 under the Government Resources and Accounts Act 2000. The Department comprises the core Department and its agency. The Departmental Group consists of the Department and the bodies designated for inclusion under the Government Resources and Accounts Act 2000 (Estimates and Accounts) Order 2019. The financial statements comprise: the Department's and Departmental Group's Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them.

I have also audited the Statement of Parliamentary Supply and the related notes, and the information in the 'Our Accountability' report that is described in that report as having been audited.

In my opinion:

- the financial statements give a true and fair view of the state of the Department's and the Departmental Group's affairs as at 31 March 2020 and of the Department's and Departmental Group's net operating expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on regularity

In my opinion, except for the effects of the matters described in the basis for qualified opinion on regularity section, in all material respects:

- the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2020 and shows that those totals have not been exceeded; and
- the income and expenditure recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Basis for qualified opinion on regularity

Error and fraud in Personal Tax Credits and research and development Corporation Tax reliefs

Note 4.1.1 to the Resource Accounts records Personal Tax Credits expenditure of £18.3 billion in 2019-20. Where error and fraud results in overpayments and underpayments, the transactions do not conform with the relevant primary legislation specifying entitlement and calculation criteria, and the expenditure is irregular.

Due to the time taken to finalise awards, the Department's estimates of overpayments and underpayments of Personal Tax Credits for 2019-20 will not be available until June 2021. Therefore, the estimates of error and fraud in

2018-19 at Note 4.1.3 are the most up to date indication available of the level of error and fraud in Personal Tax Credits expenditure for 2019-20. For 2018-19, the mid-point of the Department's estimates are:

- overpayments of £1.11 billion (4.9% of related expenditure); and
- underpayments of £0.17 billion (0.7% of related expenditure).

Note 4.1.4 to the Resource Accounts records research and development Corporation Tax relief expenditure of £8.8 billion in 2019-20. Where error and fraud result in overpayments, the transactions do not conform with the relevant primary legislation specifying entitlement and calculation criteria, and the expenditure is irregular.

Using the evidence available from existing risk-based compliance activity, at Note 4.1.5 the Department has estimated the level of error and fraud from overpayments that it expects is present within research and development Corporation Tax reliefs as £311 million (3.6% of related expenditure).

I consider the levels of overpayments and underpayments in these areas of expenditure to be material to my opinion on the accounts.

I have, therefore, qualified my opinion on the regularity of Personal Tax Credits and research and development Corporation Tax reliefs expenditure because of:

- the estimated level of overpayments attributable to error and fraud where payments have not been made for the purposes intended by Parliament; and
- the estimated levels of overpayments and underpayments in such expenditure which do not conform with the relevant authorities.

Breach of the Net Cash Requirement parliamentary control total

Parliament authorised a Net Cash Requirement for the Department of £15,532 million. Against this limit the department has incurred an actual cash requirement of £16,258 million, breaching the authorised limit by £726 million as shown in the Statement of Parliamentary Supply.

Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the HM Revenue and Customs in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- HM Revenue and Customs' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- HM Revenue and Customs have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the HM Revenue and Customs' ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Responsibilities of the Accounting Officer for the financial statements

As explained more fully in the Principal Accounting Officer's report, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000.

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's and the HM Revenue and Customs' internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the group financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.
- conclude on the appropriateness of HM Revenue and Customs use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on HM Revenue and Customs' (or where relevant, the group's) ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my report. However, future events or conditions may cause HM Revenue and Customs (or where relevant, the group) to cease to continue as a going concern.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I am required to obtain evidence sufficient to give reasonable assurance that the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals and that those totals have not been exceeded. The voted Parliamentary control totals are Departmental Expenditure Limits (Resource and Capital), Annually Managed Expenditure (Resource and Capital), Non-Budget (Resource) and Net Cash Requirement. I am also required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Other information

The Accounting Officer is responsible for the other information. The other information comprises information included in the annual report but does not include the parts of the 'Our Accountability' report described in that report as having been audited, the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Opinion on other matters

In my opinion:

- the parts of the 'Our Accountability' report to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000;
- in the light of the knowledge and understanding of the group and the parent and its environment obtained in the course of the audit, I have not identified any material misstatements in the 'Our Performance' report or the 'Our Accountability' report; and
- the information given in the 'Our Performance' report and 'Our Accountability' reports for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the parts of the 'Our Accountability' report to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

The Report of the Comptroller and Auditor General to the Houses of Commons

Introduction

HM Revenue and Customs (HMRC) is the lead government department responsible for the collection of the UK's taxes and the customs authority. It has a vital purpose to collect the money that pays for the UK's public services and help families and individuals with targeted financial support, such as through the tax credits system. The net cost of HMRC providing these services is reported in the HMRC Resource Accounts.

Breach of the Net Cash Requirement parliamentary control total

The resources made available to government departments are authorised by Acts of Parliament. These Acts set a series of annual limits on net expenditure, which departments may not exceed. Any expenditure outside these limits will result in an 'Excess Vote'. Such a breach potentially undermines parliamentary control over public spending. Where these limits are breached, I qualify my regularity opinion on the financial statements.

The Net Cash Requirement is the maximum amount of cash that can be released from the Consolidated Fund to a department in support of its expenditure. In 2019-20, Parliament authorised HMRC to draw down a maximum of £15,532 million. HMRC's outturn against this limit was £16,258 million. This means that the limit was breached by £726 million and on that basis, I have qualified my opinion on HMRC's Resource Accounts in this respect.

The breach arose because the Department reduced its Net Cash Requirement in its Supplementary Estimate, submitted to HM Treasury in February 2020, by £1.2 billion more than it should have done. The error occurred due to a miscalculation of working capital balances in relation to non-voted funds. Non-voted funds are removed from the calculation of the overall net cash required by the Department as these funds are not subject to Parliamentary approval in the Estimates process and are instead funded separately. HMRC did not systematically monitor its actual expenditure against the Net Cash Requirement on a monthly basis and this error was identified after the Supplementary Estimates had been approved by Parliament and could not be corrected before the end of the financial year. As a result, having incurred its planned level of expenditure for the year, HMRC has breached its Net Cash Requirement in delivering the services it provides.

As a result of the breach, HMRC commissioned a review by its internal audit function to understand the circumstances surrounding the breach and identify appropriate control improvements. HMRC has made further disclosures explaining the circumstances of the breach and the actions it has taken in the Principal Accounting Officer's report on page 108, and in the Statement of Parliamentary Supply (pages 158 and 166).

Error and fraud in Personal Tax Credits

I have prepared a Report on HMRC's 2019-20 Accounts, under Section 2 of the Exchequer and Audit Departments Act 1921, on page R1. This includes at paragraphs 3.5 to 3.8, further information on the qualification of my audit opinion on the regularity of Personal Tax Credits expenditure.

Error and fraud in research and development Corporation Tax reliefs

Research and development (R&D) reliefs support companies that work on innovative projects in science and technology. They can be claimed by a range of companies that seek to research or develop an advance in their field. The relief provides an extra deduction from companies' taxable income for R&D expenditure and loss-making companies can receive a cash tax credit paid by HMRC. Separate schemes are available for: small- and medium-sized enterprises (the SME scheme); and larger companies (the R&D expenditure credit (RDEC)) scheme.

Both schemes are operated by HMRC in parallel with its administration of the Corporation Tax system, the revenues from which are reported in the HMRC Trust Statement. Expenditure on the schemes is reported in HMRC's Resource Accounts, which reflects the fact that they - unlike most other types of tax relief - can result in cash payments (credits) to companies if the relief exceeds their Corporation Tax liability.

As part of my audit of the Resource Accounts, I asked HMRC to estimate the level of error and fraud arising from these R&D schemes. This was prompted by several factors highlighted by my audit risk assessment, including:

- HMRC's own assessment through its 'Strategic Picture of Risk' which highlighted a significant increase in the level of expenditure on these schemes that may be at risk of abuse.
- the significant growth in R&D relief expenditure in recent years, as evaluated in my report *The management of tax expenditures* (HC 46, February, 2020); and
- an increase in the public reporting of instances of abuse of these schemes.

As part of its compliance processes, HMRC undertakes case reviews of individual claims under the schemes where they are assessed as at risk. These reviews can result in claims being reduced or rejected by HMRC; or modified or withdrawn by the company making the claim. In establishing an estimate of the level of error and fraud in R&D reliefs, HMRC undertook an analysis of the results of compliance activity it completed in 2018-19 and 2019-20. Based on that analysis, HMRC has estimated that £311 million (3.6%) of R&D relief expenditure recorded in the 2019-20 Resource Accounts contained error or fraud.

In forming my regularity opinion on the financial statements, I:

- evaluated how HMRC has designed and implemented control processes to prevent and detect error and fraud in R&D reliefs, including how cases are risk assessed and selected for review;
- considered what evidence these controls provided about the likelihood of error and fraud occurring in the population of R&D relief claims that have not been subject to review by HMRC; and
- evaluated the detailed input data, methodology, assumptions and judgements applied by HMRC in the production of its estimate.

Based on this work, I have concluded that the controls implemented by HMRC are not currently adequate in preventing or detecting material error and fraud in R&D reliefs. HMRC does not yet have a sufficiently developed understanding of the error and fraud risks arising from the schemes, including why the volume and value of claims has increased significantly in recent years - particularly in the small- and medium-sized enterprise scheme. This understanding is fundamental to establishing the adequacy and appropriateness of any related compliance activity.

HMRC's current estimate of error and fraud in R&D reliefs is based upon a series of judgements about how likely it is that cases of detected error and fraud are likely to occur within the larger population of unreviewed cases. These judgements are limited by the quality and availability of data in respect of cases that have not been subject to review by HMRC. Based on my analysis of HMRC data, reasonable variations in these judgements could have a significant impact on the range of estimated error and fraud. The methodology adopted by the Department also means that the current estimate does not consider causes of error and fraud outside of those detected by existing controls.

The reasonable variation in HMRC's estimate of error and fraud highlights that the Department does not currently have a sufficient understanding of the claimant population for these reliefs and indicates that significant work is needed to build HMRC's understanding and risk-based assessment of error and fraud before effective controls can be designed and implemented and a more accurate estimate of error and fraud can be made.

I have, therefore, included in the scope of my qualified opinion on regularity, HMRC's expenditure on research and development Corporation Tax reliefs. This is because, although the Department's best estimate of the level of error and fraud is subject to uncertainty, the cumulative evidence suggests that the level of error and fraud is material to that expenditure stream.

Based on HMRC's own assessment of the increasing risk of abuse of R&D reliefs, the Department has recently taken several steps to modify its compliance approach and activity, including a commitment to recruit an additional 100 full-time equivalent staff to work on R&D reliefs, all of whom are due to be in-post by the end of 2020. It has also established a revised risk screening process to support the review of claims submitted by companies and is working on developing more effective feedback mechanisms between compliance staff and this process to ensure findings from compliance work are reflected in future risk assessments. We also understand that HMRC has accelerated plans to implement a random enquiry programme for these reliefs to support a greater understanding of the risks present in cases not currently reviewed under existing control processes and to support a better-quality estimate of the level of error and fraud present.

I intend to review these changes as part of my 2020-21 audit of the Resource Account.

Gareth Davies
Comptroller and Auditor General
2 November 2020

National Audit Office
157-197 Buckingham Palace Road
Victoria
London SW1W 9SP

Trust Statement

Statement of Revenue, Other Income and Expenditure

For the year ended 31 March	Note	2020 £bn	2019 £bn
Taxes and duties			
Income tax	2.1	194.2	194.0
Value Added Tax	2.2	137.4	135.6
Corporation Tax	2.3	53.0	53.5
Hydrocarbon oils duties	2.4	27.4	28.0
Stamp taxes	2.5	15.4	15.7
Alcohol duties	2.6	11.9	12.1
Capital Gains Tax	2.7	10.0	9.3
Tobacco duties	2.8	9.7	9.2
Insurance Premium Tax	2.9	6.5	6.4
Other taxes and duties	2.10	25.2	25.5
Total taxes and duties		**490.7**	**489.3**
Other revenue and income			
National Insurance Contributions	3.1	141.9	135.0
Student Loan recoveries	3.3	2.7	2.5
Fines and penalties	3.4	1.4	1.1
Total other revenue and income		**146.0**	**138.6**
Total revenue		**636.7**	**627.9**
Less expenditure			
Impairment charges	4.4	(6.6)	(6.5)
Provisions in-year expenditure movement	7.1	(2.0)	5.1
Total expenditure		**(8.6)**	**(1.4)**
Less disbursements			
National Insurance Contributions paid and payable to the National Insurance Funds and National Health Services	3.1	(141.0)	(133.4)
Appropriation of revenue to Resource Account	3.2	(25.0)	(25.6)
Student Loan recoveries paid and payable to the Department for Education	3.3	(2.7)	(2.5)
Taxation paid to the Isle of Man	3.5	(0.2)	(0.2)
Total disbursements		**(168.9)**	**(161.7)**
Total expenditure and disbursements		**(177.5)**	**(163.1)**
Net revenue for the Consolidated Fund		**459.2**	**464.8**

There were no recognised gains or losses accounted for outside the above Statement of Revenue, Other Income and Expenditure.

The notes at pages 188 to 208 form part of this statement.

Statement of Financial Position

As at 31 March	Note	2020 £bn	2019 £bn
Non-current assets			
Receivables falling due after one year	4.1	1.5	1.5
Current assets			
Receivables	4.1	26.3	19.4
Accrued revenue receivable	4.1	99.6	115.9
Total current assets		**125.9**	**135.3**
Total assets		**127.4**	**136.8**
Current liabilities			
Payables	5	17.8	21.2
Accrued revenue payable	5	35.8	33.7
Deferred revenue	5	3.2	1.9
Cash and cash equivalents	5.1	1.4	1.5
Total current liabilities		**58.2**	**58.3**
Assets less current liabilities		**69.2**	**78.5**
Non-current liabilities			
Provision for liabilities	7	14.3	13.0
Total assets less total liabilities		**54.9**	**65.5**
Balance on Consolidated Fund as at 31 March	8	**54.9***	**65.5**

* Includes an opening balance correction of £6.6 billion. See note 6.3.1 for further details.

Jim Harra
Accounting Officer

27 October 2020

The notes at pages 188 to 208 form part of this statement.

Statement of Cash Flows

For the year ended 31 March	2020 £bn	2019 £bn
Net revenue for the Consolidated Fund	459.2	464.8
(Increase)/decrease in non-cash assets	9.4	(1.8)
Increase/(decrease) in non-cash current liabilities	—	2.0
Increase/(decrease) in provision for liabilities	1.3	(5.8)
Adjustment for opening balance correction	(6.6)	—
Net cash flow from operating activities	**463.3**	**459.2**
Less: Cash paid to the Consolidated Fund	**(463.2)**	**(459.4)**
Increase/(decrease) in cash and cash equivalents in this period	**0.1**	**(0.2)**
Net funds as at 1 April (opening cash and cash equivalents balance)	(1.5)	(1.3)
Net funds as at 31 March (closing cash and cash equivalents balance)	**(1.4)**	**(1.5)**

Notes to the Trust Statement

Notes to the financial statements provide additional information required by statute and accounting standards to explain a particular feature of the financial statements. The notes which follow will also provide explanations and additional disclosure to assist readers' understanding and interpretation of the financial statements.

1. Statement of accounting policies

1.1 Basis of accounting

The Trust Statement is prepared in accordance with:

- the accounts direction issued by HM Treasury under Section 2 of the Exchequer and Audit Departments Act 1921
- the 2019 to 2020 Financial Reporting Manual (FReM) issued by HM Treasury
- International Financial Reporting Standards (IFRS) adapted or interpreted for the public sector context
- the accounting policies detailed in subsequent notes.

The accounting policies have been developed by HMRC in consultation with HM Treasury and have been reviewed during 2019 to 2020. These policies have been applied consistently in dealing with items considered material in relation to the accounts. The Trust Statement is prepared on a going concern basis.

The financial information presented is rounded to the nearest £0.1 billion, except for Certificates of Tax Deposit, Isle of Man and revenue losses which are rounded to the nearest £1 million, due to the much smaller amounts disclosed in these notes.

1.2 Accounting convention

The Trust Statement has been prepared in accordance with historical cost convention. The majority of taxes and duties are accounted for on an accruals basis. As agreed with HM Treasury, Corporation Tax for smaller companies that do not pay by instalment and Capital Gains Tax are accounted for on a partial accruals basis, as not enough information is known to reliably accrue for the revenue, hence there is no accrued revenue receivable estimate in the Statement of Financial Position for these taxes.

Stamp Duty, National Insurance Classes 1A and 1B and some repayments are accounted for on a cash basis as agreed with HM Treasury. Student Loans are accounted for on a cash basis to reflect HMRC's role in the collection of Student Loan recoveries on behalf of the Department for Education. Accounting for these elements on a cash basis does not have a material impact on revenue.

1.3 Revenue recognition

Taxes and duties are measured at the fair value of the consideration received or receivable net of repayments. Revenue is recognised as per the FReM, which is in accordance with International Financial Reporting Standard 15, with adaptions as applied, as taxes and duties arise from statute and not a contract.

Revenue is recognised when: a taxable event has occurred, the revenue can be measured reliably and it is probable that the economic benefits from the taxable event will flow to HMRC. The taxable events for the material taxes and duties are described in note 2 below. Note 4 provides an explanation of accrued revenue receivable, note 5 provides an explanation of accrued revenue payable, note 6 describes the circumstances and approaches used where revenue estimation is needed and note 7 provides an explanation of provisions and contingent liabilities. Revenues are deemed to accrue evenly over the period for which they are due.

The tax gap is not recognised in the Trust Statement, as per the FReM. The tax gap is the difference between the amount of tax that should, in theory, be collected by HMRC (the theoretical liability), and what is actually collected.

The theoretical tax liability represents the tax that would be paid if all individuals and companies complied with both the letter of the law and HMRC's interpretation of the intention of Parliament in setting law (referred to as the spirit of the law). The tax gap is the tax that is lost through non-payment, use of avoidance schemes, interpretation of tax effect of complex transactions, error, failure to take reasonable care, evasion, the hidden economy and organised criminal attack.

HMRC undertakes compliance work to collect or protect revenue as part of the commitment to narrow the tax gap. This includes work in tackling avoidance, evasion and criminal attack. Given the uncertainty of both the probability of economic flow and reliability of estimated figures, future revenue flows in relation to this activity are not recognised in the accounts until such time as a liability is assessed or established and/or reasonably certain.

Further information on tax gap can be found in the section 'Our performance', 'Closing the UK's tax gap' (page 24).

Further accounting policies are explained under the relevant notes (starting at note 2).

2. Accounting policies and analysis

2.1 Income tax

For the year ended 31 March	2020 £bn	2019 £bn
Self Assessment	32.9	32.9
Other income tax revenue (including PAYE and Simple Assessment)	161.3	161.1
Total	**194.2**	**194.0**

The taxable event for income tax is the earning of assessable income during the taxation period by the taxpayer. Where payments are received in advance of Self Assessment returns, the estimate of the income tax component is based on prior year income tax liabilities.

Given the significance of the Scottish and Welsh income tax arrangements a full disclosure note appears at note 13.

2.2 Value Added Tax

For the year ended 31 March	2020 £bn	2019 £bn
Gross revenue	230.4	227.3
Less: revenue repayable	(93.0)	(91.7)
Net revenue	**137.4**	**135.6**

The taxable event for Value Added Tax (VAT) is the undertaking of taxable activity during the taxation period by the taxpayer. VAT is structured in such a manner that taxpayers are also entitled to claim repayments; hence a breakdown of gross revenue and repayments is disclosed.

2.3 Corporation Tax

For the year ended 31 March	2020 £bn	2019 £bn
Total	**53.0**	**53.5**

The taxable event for Corporation Tax (CT) is the earning of assessable profit during the taxation period by the taxpayer. The nature of CT legislation and our associated systems mean that accrued revenue is required to be estimated, as tax returns reporting taxpayer liabilities or associated tax payments are not filed until after the Trust Statement has been published.

CT is accounted for on a partial accrual basis, as agreed with HM Treasury, because not enough information is known to reliably accrue for the revenue for smaller companies that do not pay by instalment hence there is no accrued revenue receivable estimate in the Statement of Financial Position for these smaller companies.

2.4 Hydrocarbon oils duties

For the year ended 31 March	2020 £bn	2019 £bn
Total	**27.4**	**28.0**

The taxable event for Hydrocarbon oils duty is the date of production, date of import or movement of goods out of a duty suspended regime.

2.5 Stamp taxes

For the year ended 31 March	2020 £bn	2019 £bn
Stamp Duty Land Tax	11.4	11.9
Stamp Duty Reserve Tax	2.9	2.9
Stamp Duty	1.0	0.8
Annual Tax on Enveloped Dwellings	0.1	0.1
Total	**15.4**	**15.7**

The taxable event for Stamp Duty Land Tax is the purchase of property.

The taxable event for Stamp Duty and Stamp Duty Reserve Tax is the purchase of shares. HMRC can only record Stamp Duty when a stamp is presented to HMRC and hence the duty is recognised on a cash basis.

The taxable event for Annual Tax on Enveloped Dwellings (ATED) is a company owning a UK residential property valued at £500,000 or more during a chargeable period. ATED applies to a property that is a dwelling, if all or part of it is used, or could be used, as a residence.

2.6 Alcohol duties

For the year ended 31 March	2020 £bn	2019 £bn
Wine, cider and perry	4.5	4.7
Spirits	3.9	3.8
Beer	3.5	3.6
Total	**11.9**	**12.1**

The taxable event for alcohol duties is the date of production, date of import or movement of goods out of a duty suspended regime.

2.7 Capital Gains Tax

For the year ended 31 March	2020 £bn	2019 £bn
Total	**10.0**	**9.3**

The taxable event for Capital Gains Tax (CGT) is the disposal of a chargeable asset leading to a taxable gain.

Receipts for CGT are reported in the Trust Statement on a partial accrual basis and repayments are reported on a cash basis in the period the repayment is made. For further information, please see note 1.2.

2.8 Tobacco

For the year ended 31 March	2020 £bn	2019 £bn
Cigarettes	7.9	7.7
Hand rolling tobacco	1.7	1.4
Cigars	0.1	0.1
Total	**9.7**	**9.2**

The taxable event for tobacco duties is the date of production, date of import or movement of goods out of a duty suspended regime.

2.9 Insurance Premium Tax

For the year ended 31 March	2020 £bn	2019 £bn
Total	**6.5**	**6.4**

The taxable event for Insurance Premium Tax (IPT) is the receipt or entitlement to receive a premium under a taxable insurance contract.

2.10 Other taxes and duties

For the year ended 31 March	Note	2020 £bn	2019 £bn
Inheritance Tax		5.1	5.3
Air Passenger Duty		3.7	3.8
Customs Duties		3.3	3.4
Betting and gaming duties		3.0	3.1
Apprenticeship Levy		2.7	2.8
Bank Levy		2.3	2.4
Climate Change Levy		2.0	1.9
Bank Surcharge		1.7	1.9
Landfill Tax		0.6	0.8
Aggregates Levy		0.4	0.4
Soft Drinks Industry Levy		0.3	0.3
Petroleum Revenue Tax	2.10.1	0.1	(0.6)
Total		**25.2**	**25.5**

2.10.1 Petroleum Revenue Tax

Petroleum Revenue Tax (PRT) is a ‘field-based’ tax charged on the profits arising from individual oil and gas fields that were approved for development before 16 March 1993. The rate of PRT was permanently set at 0% effective from 1 January 2016 but it has not been abolished so that losses (such as losses arising from decommissioning PRT-liable fields) can be carried back against past PRT payments. For further information on decommissioning costs, please see note 7.3.

3. Other revenue, income and disbursements

3.1 National Insurance Contributions

For the year ended 31 March	2020 £bn	2019 £bn
National Insurance Fund Great Britain (NIF GB)	112.1	106.7
National Insurance Fund Northern Ireland (NIF NI)	2.3	2.2
National Health Services (NHS)	27.5	26.1
Total National Insurance Contributions (NICs)	**141.9**	**135.0**
Less: NIC expenditure	(0.9)	(1.6)
NICs due to NIF and NHS	**141.0**	**133.4**

National Insurance Contributions (NICs) are collected by HMRC on behalf of the National Insurance Funds (NIF) of Great Britain and Northern Ireland and the National Health Services (NHS) for England, Wales, Scotland and Northern Ireland. They are payable to the NIF and the NHS when received and not when accrued.

National insurance classes 1A and 1B receipts are recognised in the accounting period in which the contributions are allocated.

3.2 Appropriation of revenue to the Resource Accounts

For the year ended 31 March	2020 £bn	2019 £bn
Personal tax credits and other	18.0	22.9
Corporation tax reliefs	7.0	2.7
Total Appropriation of revenue to Resource Account	**25.0**	**25.6**

Appropriations of revenue are made from the Trust Statement to fund personal tax credits and corporation tax reliefs which are accounted for within the Resource Accounts.

For further information on personal tax credits and corporation tax reliefs, see note 4.1.1 and 4.1.4 respectively, on page 226 and pages 230 to 232 in the Resource Accounts.

Please see the Resource Accounts, Consolidated Statement of Changes in Taxpayers' Equity, page 214.

3.3 Student Loan recoveries

HMRC collects Student Loans on behalf of the Department for Education (DfE). The majority of Student Loans are collected through PAYE. An element of Student Loans is also collected through Self Assessment. Any difference between the cash received and the cash paid to the DfE is shown as a payable (note 5 - other revenue payables).

3.4 Fines and penalties

This consists of income arising from the levying of tax fines and penalties. Penalties relating to NICs are accounted for as NIC income and paid over to the National Insurance Fund.

3.5 Taxation due to the Isle of Man

Under the Isle of Man Act 1979, a revenue sharing arrangement exists between the UK and the Isle of Man (IoM). Certain tax revenue streams, known as 'common duties' are pooled and then shared on an agreed basis. The IoM is entitled to the share of common duties collected in the UK and the IoM that is attributable to goods consumed and services supplied in the island. If the IoM agreed share is greater than revenues collected and retained by the IoM, this results in the UK making payment to the IoM to ensure the IoM receives the correct share. This is shown as a disbursement. Where the IoM collects and retains more than agreed under the sharing arrangement, the IoM makes payment to the UK. This is shown as other revenue and income.

For the year ended 31 March, payments to the IoM totalled £245 million (£181 million in 2018 to 2019).

4. Receivables, accrued revenue receivable and impairment charges

4.1 Receivables and accrued revenue receivable (ARR)

	Receivables as at 31 March 2020 £bn	Accrued revenue receivable as at 31 March 2020 £bn	Total as at 31 March 2020 £bn	Total as at 31 March 2019 £bn
Non-current assets				
Receivables due after one year:				
Inheritance Tax	1.5	–	1.5	1.5
Non-current assets after impairment	**1.5**	–	**1.5**	**1.5**
Current assets				
Receivables and ARR due within one year:				
Income Tax	6.7	35.4	42.1	42.7
Value Added Tax	13.6	35.8	49.4	43.9
Corporation Tax	2.2	7.7	9.9	24.7
National Insurance Contributions	4.8	14.6	19.4	18.5
Other taxes and duties	8.4	8.1	16.5	14.4
Current assets before impairment	**35.7**	**101.6**	**137.3**	**144.2**
Less impairment (note 4.2)	(9.4)	(2.0)	(11.4)	(8.9)
Total current assets after impairment	**26.3**	**99.6**	**125.9**	**135.3**
Total assets before impairment	**37.2**	**101.6**	**138.8**	**145.7**
Less impairment (note 4.2)	(9.4)	(2.0)	(11.4)	(8.9)
Total assets after impairment	**27.8**	**99.6**	**127.4**	**136.8**

Receivables represent all taxpayer liabilities that have been established, irrespective of whether due or overdue, for which payments have not been received at the Statement of Financial Position date. Receivables are shown net of impairments.

Accrued revenue receivable (ARR) represents amounts of taxes and duties where the taxable event has occurred but the return has not been received from the taxpayer by the end of the reporting period. For taxes where HMRC has received returns since the end of the reporting period, the department used this information to support its valuation of ARR. For those taxes where HMRC is yet to receive taxpayer returns, principally income tax (SA) and Corporation Tax (CT), the department has estimated ARR (see note 6). ARR is shown net of impairments.

The increase in total VAT is largely due to the Government's deferral of VAT payments due to COVID-19 announcement in March 2020 to allow UK VAT-registered businesses to defer VAT payments due between 20 March 2020 and 30 June 2020 until 31 March 2021.

The reduction in total CT is largely due to a change in legislation for very large onshore companies, which brings forward payment instalment periods by four months. This means a greater proportion of CT receipts have been received prior to the end of the financial year and is no longer included within ARR.

In addition to the legislative changes, HMRC has made an opening balance correction for two issues identified since 2018 to 2019 publication, which further explains the reduction in CT ARR. Further information on these corrections can be found in note 6.3.1.

HMRC has a number of taxpayer liabilities which have been postponed pending finalisation of enquiries. These items arise predominantly under income tax (PAYE/SA) and Corporation Tax. HMRC undertakes a review of large postponed cases for Corporation Tax to ensure that revenue that meets the revenue recognition criteria, as set out in note 1.3, is recognised in the accounts. As a result, an amount of £1.2 billion (£2 billion in 2018 to 2019) has been included in accrued revenue receivables.

Further information on receivables can be found in the section 'Our performance', 'Receivables' (page 36).

4.2 Impairment of receivables and ARR

	Receivables as at 31 March 2020 £bn	Accrued revenue receivable as at 31 March 2020 £bn	Total as at 31 March 2020 £bn	Total as at 31 March 2019 £bn
Balance as at 1 April	7.9	1.0	8.9	6.9
Increase/(decrease) in impairment	1.5	1.0	2.5	2.0
Balance as at 31 March	**9.4**	**2.0**	**11.4**	**8.9**

Receivables and ARR in the Statement of Financial Position are reported after impairment to reflect an amount that is likely to be collected. This amount is estimated based on HMRC's analysis of existing receivables and ARR historical trends of collection rates, losses, discharges, amendments and cancellations.

The department assesses the collectability of receivables that are considered individually significant and the remainder are placed into groups of similar receivables and ARR, based on risk, and assessed collectively.

The FReM does not require HMRC to determine impairments in accordance with IFRS 9, as the standard relates to financial instruments, and taxes and duties which arise from statute and not a contract, however, impairments have been measured applying the expected credit losses model set out in IFRS 9.

HMRC has considered how the adverse macroeconomic conditions due to COVID-19 affect HMRC collection rates in-line with IFRS 9. The unprecedented situation means that our use of historic collection rates is unlikely to represent future collection rates. Similarly, there is limited forward-looking data. The lack of historic and forward-looking information creates significant uncertainty as to the actual impact of COVID-19 on the recoverability of debts.

HMRC analysed collection rates from 1 April 2020 to 31 July 2020. Whilst tax receipts have been impacted by COVID-19, this reduction will be distorted by the Government's tax deferral and other support schemes. The impact of these on longer-term collectability will not be known for some time, and therefore, HMRC management concluded this is unlikely to represent future collection rates, and this analysis cannot be used in our assessment.

Given the significant uncertainty, HMRC has used varying sources of projected economic data to consider potential scenarios, such as the Office for Budget Responsibility's published Coronavirus Reference Scenario and HM Treasury's Forecasts for the UK economy publication. Although these show a worsening economic outlook for 2020 to 2021, it is unclear how the recoverability of tax liabilities established at 31 March 2020 will be affected. HMRC also took into consideration the 2007 to 2008 global financial crisis when considering potential scenarios, but judged this is not comparable as the Government's support measures are significantly different and the economic recovery is likely to be different too.

Accordingly, HMRC has considered external sources on the possible future patterns of insolvencies as these are the major cause of revenue losses (note 4.3).

Whilst insolvency figures are currently low compared to last year, this would be affected by Government measures put in place in response to COVID-19. Possible future figures reflect the impact of underlying adverse economic conditions and this resulted in HMRC recognising an additional £1.6 billion impairment (central projection in the table below). HMRC has judged that this impairment is likely to affect newly established taxpayer liabilities more than older established taxpayer liabilities. Therefore, this impairment has been split between receivables (£0.4 billion) and accrued revenue receivables (£1.2 billion).

The 2019 to 2020 total impairment rate is 8.2% (total impairment divided by total receivables and ARR before impairment). This includes the central projection of £1.6 billion, which has increased our impairment rate by 1.1 percentage points.

The magnitude of this additional impairment is particularly uncertain depending on the level of insolvencies projected over the next few years, therefore HMRC has provided a sensitivity analysis in the table below which shows the value impact at the upper and lower end of the range of insolvencies.

Potential COVID-19 impact on impairments

Impairment projection	Impact on impairment £bn	Total impairment £bn
Upper	+5.4	15.2
Central	+1.6	11.4
Lower	-1.6	8.2

4.3 Revenue losses

	Remissions 31 March 2020 £m	Write-offs 31 March 2020 £m	Total 31 March 2020 £m	Remissions 31 March 2019 £m	Write-offs 31 March 2019 £m	Total 31 March 2019 £m
Income tax	324	526	850	313	695	1,008
Value Added Tax	12	1,777	1,789	44	1,641	1,685
Corporation Tax	4	309	313	4	333	337
Alcohol duties	3	14	17	5	26	31
Capital Gains Tax	4	36	40	7	57	64
Tobacco duties	6	8	14	7	5	12
National Insurance Contributions	27	311	338	51	507	558
Fines and penalties	162	502	664	356	361	717
Other remissions and write-offs	4	55	59	7	44	51
Total revenue losses	**546**	**3,538**	**4,084**	**794**	**3,669**	**4,463**

Revenue losses occur when we formally cease collection activity. The vast majority are driven by individual and business insolvencies.

Revenue losses are made up of remissions and write-offs. Remissions are debts capable of recovery but HMRC has decided not to pursue the liability on the grounds of value for money. Write-offs are debts that are considered to be irrecoverable because there is no practical means for pursuing the liability.

For certain taxes, only a partial split between remissions and write-offs is known. Where information is unavailable, the percentage split of the known element is applied to the remainder to calculate a total estimated remission and write-off split.

Fines and penalties relating to National Insurance Contributions (NICs) are accounted for as NICs revenue losses.

Further information on losses can be found in the section 'Our performance', 'Tax losses' (page 38).

Revenue losses — cases more than £10 million

For the year ended 31 March, there were 23 cases (24 cases in 2018 to 2019) where the loss exceeded £10 million, totalling £634 million (£973 million in 2018 to 2019). Details are shown below:-

There were 2 write-off cases (3 cases in 2018 to 2019) totalling £46 million (£37 million in 2018 to 2019) relating to Missing Trader Intra-Community Fraud (MTIC). All MTIC cases are assessed to establish if there is potential to recover revenue and, where appropriate, proactive insolvency action is initiated.

There were 19 write-offs (17 cases in 2018 to 2019) relating to insolvency, totalling £391 million (£380 million in 2018 to 2019).

There was one write-off case of £11 million relating to a VAT registered company with no UK presence. The trader is untraceable and therefore recovery action is not possible.

There was a bulk remission for SA penalties of £186 million relating to 65,504 cases where it had been identified customers were no longer liable for SA or were no longer self-employed and had ceased to trade. HMRC decided not to pursue on the grounds of value for money.

4.4 Breakdown of impairment charges

Impairment charges are made up of revenue losses and the movement in the impairment of receivables and ARR.

For the year ended 31 March	Note	2020 £bn	2019 £bn
Increase/(decrease) in impairment of receivables and ARR	4.2	2.5	2.0
Revenue losses	4.3	4.1	4.5
Total impairment charges		**6.6**	**6.5**

5. Payables, accrued revenue payable and deferred revenue

	Payables as at 31 March 2020 £bn	Accrued revenue payable as at 31 March 2020 £bn	Deferred revenue as at 31 March 2020 £bn	Total as at 31 March 2020 £bn	Total as at 31 March 2019 £bn
Income tax	1.5	3.7	—	5.2	5.8
Value Added Tax	2.1	14.1	—	16.2	16.1
Corporation Tax	8.6	0.8	1.4	10.8	10.3
National Insurance Funds and the NHS	0.8	17.1	—	17.9	18.2
Other revenue payables	2.0	0.1	1.8	3.9	3.5
Payments on account	2.8	—	—	2.8	2.9
Current liabilities before cash and cash equivalents	**17.8**	**35.8**	**3.2**	**56.8**	**56.8**
Cash and cash equivalents	1.4	—	—	1.4	1.5
Total current liabilities	**19.2**	**35.8**	**3.2**	**58.2**	**58.3**

Payables are amounts recorded as due by HMRC at the end of the reporting period but payment has not been made.

Accrued revenue payable (ARP) is recognised when:

- amounts due to VAT traders that have an established revenue repayment claim relating to the financial year, but the date the claim is received is after the end of the reporting period
- amounts of receivables and accrued revenue receivable that when received will be passed to a third-party after adjusting for expenditure, e.g. National Insurance Contributions due to the National Insurance Funds and National Health Services
- amounts in respect of Corporation Tax, income tax and other small taxes likely to be repayable by HMRC pending finalisation of taxpayer liabilities, and for expected Corporation Tax overpayments.

Deferred revenue includes duties and taxes paid in the current year which relate to future accounting periods.

There are no liabilities in the table above which fall due after one year.

5.1 Cash and cash equivalents

This reflects the net position of cash in HMRC bank accounts and payments that have been authorised to issue but the money has not cleared through the banking process as of 31 March.

6. Accounting estimates

The nature of tax legislation and our associated systems mean that some of the accrued revenue receivable figures and some other items are subject to statistical estimation. This note considers the significant revenue estimates. There are separate estimation disclosures on impairment of receivables and ARR (note 4.2), provision for liabilities and contingent liabilities (note 7) and devolved taxes (note 13).

Statistical models are used to produce the estimates, and these are based on a combination of projections including the most recent revenue flows and forecasts of economic variables on which future revenue flows depend. The forecasts are based on what HMRC believes to be the relevant inputs.

Actual outcomes could significantly differ from the estimates used, due to the areas of uncertainty involved. Estimation uncertainty has increased due to COVID-19, which may result in adjustments to the carrying values of our Accrued Revenue Receivables and Payables within the next financial year.

Due to the nature of tax legislation, the most difficult taxes to estimate are Corporation Tax and Self Assessment income tax.

Estimates have been made to support the accrued revenue receivable (ARR) and accrued revenue payable (ARP) balances where tax returns reporting taxpayer liabilities or associated tax payments are not filed until after the Trust Statement has been published. The estimates take into consideration the economic assumptions prepared for the March 2020 Budget and also the published Coronavirus Reference Scenario provided by the Office of Budget Responsibility (OBR). Estimates have been prepared using the judgement of professional departmental economists and statisticians having substantial experience of tax forecasting.

6.1 Uncertainty around the estimates

Estimation uncertainty is based on a combination of factors, such as, evidence from the performance of our statistical models over previous years, changes to reflect the March 2020 Budget, and the published Coronavirus Reference Scenario provided by the OBR.

At the time of publication, the full impact of COVID-19 on accrued tax revenue is unknown, which increases the level of uncertainty within our estimations.

Each year HMRC reviews the performance of its estimation models. Last year, the ARR overestimation was £7 billion (1.1% of 2018 to 2019 total revenue) and the ARP underestimation was £0.8 billion (0.1% of 2018 to 2019 total revenue). The ARR overestimation was largely due to the two issues identified in our estimated Corporation Tax ARR calculations and more detail is shown within note 6.3.

The process for each significant estimate is described in more detail below:

6.2 Self Assessment income tax

Self Assessment (SA) ARR is estimated to be £18.5 billion this year (£17.9 billion in 2018 to 2019), which is included in the total income tax ARR of £35.4 billion (£37.2 billion in 2018 to 2019) in note 4.1. The ARR represents taxpayer liabilities due where the taxable event has already occurred, but the return has not been submitted by the taxpayer by the end of the financial year.

The SA regime involves long filing and payment lags, so the ARR estimate is driven by the March 2020 Budget forecasts and the underlying economic determinants in these forecasts, rather than by receipts data. Due to the timing of the UK lockdown on 23 March 2020 and its proximity to 31 March 2020, it is our judgment that SA ARR is largely unaffected by COVID-19 for 2019 to 2020.

The estimation process has three stages:

(i) Estimation of accrued tax liabilities for 2019 to 2020. Information from SA returns relating to 2019 to 2020 are not available at the point of estimation, therefore the 2020 Budget SA income tax forecast has been revised in line with the latest economic and tax receipts data that has been received.

(ii) Deduction from the estimated 2019 to 2020 accrued tax liabilities of relevant payments received by the end of the financial year.

(iii) A further deduction from the estimated 2019 to 2020 accrued tax liabilities for payments due by the end of the financial year but not made by that date. These amounts relate to payments on account due by 31 January. These are included within receivables (note 4.1).

There are several key economic factors that underpin these estimates. These include mixed income growth, dividend income growth and Average Effective Tax Rates (AETR). AETR is total tax liability as a proportion of total income across all individuals.

Sensitivity analysis has been applied to understand the degree of uncertainty if key assumptions were to change from the current estimates and the results are shown in the table below.

Based on historic data, changes in key assumptions are unlikely to exceed the percentages within the table below and therefore these percentages have been used for the purpose of sensitivity analysis.

Impact on SA income tax ARR of varying key economic factors

Key Assumption (Change)	Increase £bn	Decrease £bn
Mixed income growth (+/-2%)	0.4	(0.4)
Dividend income growth (+/-3%)	0.3	(0.3)
Mainly SA Non-Saving Non-Dividend AETR (+/-0.25%)	0.6	(0.6)
Dividend AETRs (+/-1%)	0.7	(0.7)
Mainly SA PAYE deduction Rate (+/-0.25%)	(0.2)	0.2

6.3 Corporation Tax

Corporation Tax (CT) ARR is £7.7 billion (£22.6 billion in 2018 to 2019) which includes an estimated amount of £5.9 billion (£19.7 billion in 2018 to 2019).

The ARR represents taxpayer liabilities due where the taxable event has already occurred, but the return has not been submitted by the taxpayer by the end of the financial year. As with SA, the filing of CT returns and payments are subject to a considerable lag, so the ARR estimate is subject to uncertainty, since there is less outturn data available.

CT ARR is lower than in 2018 to 2019 due to a number of factors, these are as follows:

(i) There has been a change in legislation for very large onshore companies, which brings forward payment instalment periods by four months. This means a greater proportion of CT receipts have been received prior to the end of the financial year and are no longer included in the ARR estimate.

(ii) Last year, it was identified that we have erroneously included some smaller companies that do not pay by instalment in our accrued revenue receivable estimate since 2014 to 2015. This is not in accordance with our accounting policy (note 1.2) agreed with HM Treasury and as a consequence, £4.5 billion was incorrectly included in prior years. This has been corrected in the 2019 to 2020 CT ARR opening balance as permitted by IAS 8. For further information see note 6.3.1.

(iii) Last year, we included a calibration factor adjustment of £2.1 billion, but having assessed the prior year estimate this was not required. This has been corrected in the 2019 to 2020 CT ARR opening balance as permitted by IAS 8. For further information see note 6.3.1.

(iv) This year, we have included an adjustment to reduce CT ARR by £1.2 billion for the estimated impact of COVID-19. This adjustment is based on our assessment that overall company profitability and therefore expected taxpayer liabilities will reduce due to the economic impacts of COVID-19. The adjustment is based on the published Coronavirus Reference Scenario provided by the Office for Budget Responsibility (OBR) in April 2020.

Factors (ii) and (iii) contributed to the 2018 to 2019 overestimation noted in note 6.1.

We have assessed and analysed the impact of the July 2020 OBR Fiscal Sustainability Report on CT ARR and the COVID-19 adjustment because there is an expectation that we should use the latest, most reliable information when producing our estimates. We have concluded that no further adjustment should be made to CT ARR because our assessment concluded that using the later publication would not have a significant impact.

The key drivers of the ARR estimate are outturn CT receipts received to date and applying a series of assumptions. These assumptions are needed to estimate the total amount of accrued tax liabilities from CT returns that relate to 2019 to 2020 but are not available at the point of estimation and are explained further below.

Sensitivity analysis has been applied to understand the degree of uncertainty if key assumptions were to change from the current estimates and the results are shown in the table below.

Based on historic data, changes in key assumptions are unlikely to exceed the percentages within the table below and therefore these percentages have been used for the purpose of sensitivity analysis.

Impact on CT ARR of varying key economic factors

Key Assumption (Change)	Increase £bn	Decrease £bn
Late payments (+/-2%)	0.6	(0.6)
Overpayments (+/-2.5%)	(1.0)	0.8
CT liability growth (+/-10%)	3.0	(2.0)

It is widely understood that the impacts of COVID-19 on the economy are uncertain. Furthermore, we do not have historic data upon which to form an estimate of the likely minimum and maximum impact of COVID-19. We have estimated the impact of COVID-19 based on the Coronavirus Reference Scenario provided by the Office for Budget Responsibility's (OBR) in April 2020 and have calculated that if the impact is doubled (to represent a downside scenario) then CT ARR would decrease by £1.2 billion and if the impact was halved (to represent an upside scenario) CT ARR would increase by £0.6 billion.

Separate ARR estimates have been calculated for onshore and North Sea companies because of differences in how these companies operate and, in particular, the number of instalments paid. Further detail can be found below.

Onshore companies

CT for large onshore companies is paid by four quarterly instalment payments. CT ARR has been estimated where between one and four quarterly instalment payments (QIPs) for onshore companies have been received, using a model that forecasts companies' CT liabilities based on the number and value of QIPs received by a given date.

For accounting periods where no QIPs have been received, ARR has been estimated using the OBR March 2020 Corporation Tax forecast, updated to reflect their published Coronavirus Reference Scenario in April 2020.

CT is assumed to accrue evenly throughout the companies' accounting periods. Assumptions for the proportions of companies' CT liabilities that are remitted with each QIP and adjustments for overpayments and late payments of CT liabilities are based on analysis of historical data.

ARP has been estimated for expected overpayments based on historical trends.

As agreed with HM Treasury, Corporation Tax for smaller companies that do not pay by instalment are accounted for on a partial accrual basis, as a reliable ARR estimate for these companies cannot be formed.

North Sea companies

North Sea companies pay their CT liabilities in three instalment payments (TIPs).

Most TIPs relating from 1 January to 31 March are not due in sufficient time to be included in the TIPs estimation model and these amounts are therefore estimated. This estimate is based on the OBR's March 2020 North Sea taxes forecast updated to reflect their published Coronavirus Reference Scenario in April 2020.

6.3.1 Opening balance correction for 2019 to 2020

Following the publication of the 2018 to 2019 Trust Statement, we identified two issues with our Corporation Tax accrued revenue receivable estimation model. These are as follows:

Classification of companies estimation correction

Historically, we erroneously included data about some smaller companies that do not pay by instalment in our methodology for estimating the Corporation Tax accrued revenue receivable (CT ARR) estimate since 2014 to 2015. This is not in accordance with our accounting policy agreed with HM Treasury and therefore CT revenue has been overstated by £4.5 billion in previous years.

2018 to 2019 calibration factor correction

Last year, for the first time, a judgement was made to include an adjustment of £2.1 billion to our CT ARR estimation model, which was based on a prior year analysis of model performance. As part of preparing this year's accounts, we have revisited last year's estimate and have concluded that this adjustment was not necessary and therefore CT revenue was overstated by £2.1 billion in 2018 to 2019.

We have assessed these issues under IAS 8 and, due to the complexities around our estimation model, we have concluded it to be impracticable to recreate reliable estimates for periods prior to 31 March 2019. These estimates are required to determine the effect on each reporting period of the classification issue and therefore, we have corrected these issues by adjusting the 2019 to 2020 opening balances of CT ARR and the Balance on Consolidated Fund Account (see note 8), as permitted under IAS 8.

The following table summarises the impact of this correction.

	As previously reported £bn	Adjustments £bn	Revised opening balance £bn
Non-current assets	**1.5**	**—**	**1.5**
Accrued revenue receivable	115.9	(6.6)	109.3
Receivables	19.4	—	19.4
Total current assets	**135.3**	**(6.6)**	**128.7**
Total assets	**136.8**	**(6.6)**	**130.2**
Total current liabilities	**(58.3)**	**—**	**(58.3)**
Assets less current liabilities	**78.5**	**(6.6)**	**71.9**
Non current liabilities	(13.0)	—	(13.0)
Net assets	**65.5**	**(6.6)**	**58.9**

6.4 Value Added Tax

Value Added Tax (VAT) ARR is £35.8 billion (£33.9 billion in 2018 to 2019) and ARP is £14.1 billion (£13.1 billion in 2018 to 2019). Only a small proportion of these balances is estimated because a large amount is based on actual VAT return data and is not therefore subject to significant estimation uncertainty. It is necessary to estimate a small percentage as some returns relating to the current financial year are not available at the time of producing the estimate. An estimate is produced by calculating the value of these returns last year as a proportion of the total value of the returns in the preceding period last year. Those proportions are then applied to the value of returns for the corresponding period this year.

To construct final estimates of ARR and ARP, a number of further adjustments need to be made so as to reflect VAT that is accounted for outside the process described above. These adjustments relate to import VAT, repayments made to government departments and officers' assessments of errors in submitted VAT returns. These are based largely on actual return information although some forecast element remains using the methodology described above.

7. Provision for liabilities and contingent liabilities

Provisions are recognised when HMRC has a present legal or constructive obligation as a result of a past event, it is probable that HMRC will be required to settle that obligation and an amount can be estimated reliably.

The contingent liabilities relate to legal cases for which the outcome is uncertain and HMRC consider that there is only a possible rather than probable likelihood that a payment will be required, or the amount cannot be measured reliably.

Provision for liabilities

	Legal claims £bn	Oil and gas field decommissioning £bn	Total 2019-20 £bn	Total 2018-19 £bn
Balance as at 1 April	4.7	8.3	13.0	18.8
Provided in the year	1.0	1.6	2.6	2.3
Provision not required written back	(0.6)	—	(0.6)	(7.4)
Provision utilised in the year	(0.2)	(0.5)	(0.7)	(0.7)
Balance as at 31 March	**4.9**	**9.4**	**14.3**	**13.0**

Analysis of expected timing of cash flows

	Legal claims £bn	Oil and gas field decommissioning £bn	Total 2019-20 £bn
Amounts payable ≤5yrs	4.7	1.7	6.4
Amounts payable >5yrs	0.2	7.7	7.9
Balance as at 31 March	**4.9**	**9.4**	**14.3**

7.1 Provisions in-year expenditure movement

	Legal claims £bn	Oil and gas field decommissioning £bn	Total 2019-20 £bn	Total 2018-19 £bn
Total provided in the year	1.0	1.6	2.6	2.3
Provision not required written back	(0.6)	—	(0.6)	(7.4)
Net movement increase/(decrease)	**0.4**	**1.6**	**2.0**	**(5.1)**

7.2 Legal claims

Provision for liabilities

HMRC is involved in a number of legal and other disputes which can result in claims against HMRC by taxpayers. It is in the nature of HMRC's business that a number of these matters may be the subject of litigation over several years. The department, having taken legal and other specialist advice, has established a provision having regard to the relevant facts and circumstances of each matter in accordance with accounting requirements. Due to the inherent uncertainty in the estimate of the provision, the ultimate liability for such matters may vary from the amounts provided and is dependent upon the outcome of litigation proceedings, investigations and possible settlement discussions. Provisions were reviewed during 2019 to 2020; discounting has not been applied on the basis of materiality.

Contingent liabilities

Contingent liabilities are disclosed at a value made in accordance with a best estimate based on the information available at the end of the reporting period. Those estimates are subject to change and, for some legal cases, are inherently uncertain. Regular review of the contingent liabilities leads to cases being revalued, recognised as provisions, or removed from the contingent liability disclosures where the probability that HMRC will be required to make a payment to settle the liability is now considered to be remote.

As at 31 March, HMRC has five cases estimated to have a value of £2.2 billion (compared to six cases with an estimated value of £2.3 billion in 2018 to 2019) where the maximum potential tax repayment, before losses, capital allowances and other tax reliefs, is over £100 million. Each case may include a lead case with follower claimants and cover a range of heads of duty, including Corporation Tax, income tax and VAT.

The total value of estimates has reduced in 2019 to 2020 for a variety of reasons, including revised costings, reduced likelihood of repayment, cessation of litigation action or recognition as a provision.

In general, potential claimants who may opt to follow a lead case but are not yet known to HMRC or the Courts and which are difficult to quantify with sufficient reliability and consistency, are not recognised in the Accounts or disclosed in these notes. Potential wider adoption claims of this nature are deemed to fall outside the criteria set out in relevant accounting standards.

7.3 Exchequer liabilities arising from oil and gas infrastructure

There are two taxes levied on companies exploring and producing oil and gas from the UK Continental Shelf (UKCS): Petroleum Revenue Tax (PRT) and offshore Corporation Tax (CT), the latter comprising of two elements: Ring-fenced Corporation Tax and Supplementary Charge.

The legislation governing the losses from decommissioning costs (Oil Taxation Act 1975) allows participators in an oil and gas field liable to PRT to carry-back decommissioning losses almost indefinitely against profits it has previously made from the field, or which previous participators in the field have made. This may result in the repayment of PRT. With respect to offshore CT, the Corporation Tax Act 2010 allows for a company's decommissioning loss to be carried back against its own historical profits dating back to April 2002. Again, this may result in a repayment of offshore CT.

Provision for oil and gas field decommissioning

The provision is estimated as the appropriately discounted sum of all forecast decommissioning repayments over the expected life-time of the North Sea oil and gas fields. Repayment profiles are derived from the output produced by HMRC's North Sea Forecasting Model developed at the individual company and field level. There has been no significant change in the model since last year.

A provision of £9.4 billion has been identified in 2019 to 2020 based on the estimated tax repayments of PRT £3.6 billion (£2.9 billion in 2018 to 2019) and offshore CT £5.8 billion (£5.4 billion in 2018 to 2019) by HMRC to companies incurring losses from decommissioning expenditure over the period to 2065.

The key determinants of the provision estimate are future decommissioning costs from the Oil and Gas Authority's (OGA) Asset Stewardship Survey, economic determinants (including oil & gas prices, production and the US Dollar/Sterling exchange rate) from the Office for Budget Responsibility's (OBR) July 2020 Fiscal Sustainability Report (FSR) as well as the discount rates from HM Treasury.

There has been a £1.1 billion increase in the overall provision since last year. The impact of the lower forecast oil and gas prices used this year was to increase the provision due to increased forecast repayments, but this effect was partially offset by reduced decommissioning costs in nominal terms. This is consistent with the target of reducing overall UKCS decommissioning costs referenced in the OGA Decommissioning Strategy.

The provision utilised in-year is the tax repayments in 2019 to 2020 due to decommissioning expenditure.

Uncertainty around the estimate of the provision

The largest impact on the size of the provision, and biggest source of uncertainty in estimating it, is future decommissioning costs. Annually, the OGA estimates the total costs of remaining oil and gas decommissioning for the UKCS, including newly sanctioned projects, and changes to the portfolio of potential, as yet unsanctioned projects.

Recognising the uncertainty around this, the OGA gives a range for expected decommissioning costs for UKCS oil and gas infrastructure over the remaining life of the North Sea basin.

The £9.4 billion provision included in the Trust Statement is calculated using the OGA's central estimate for decommissioning costs of £51 billion in 2019 prices. Using the OGA's lower (£40 billion) and upper (£66 billion) decommissioning cost estimates would instead give provision estimates of £7.5 billion and £12.4 billion respectively.

The main economic determinant which drives the provision are oil and gas prices. The model uses projections from the OBR where available and then applies a growth rate to project prices for later years. By using the July 2020 OBR FSR projections account has been made for the oil price fall in March 2020. Compared to the baseline oil and gas prices a ten percent increase (decrease) would decrease (increase) the provision by £0.8 billion (£0.7 billion).

The provision is also impacted by interest rate and foreign exchange rates as follows:

a) An increase in the discount rate will reduce the present value of the provision. An overall increase in the discount rates of 50 basis points will decrease the overall provision by £0.6 billion. The same decrease in discount rates would increase the provision by £0.6 billion.

b) As oil prices are denominated in US Dollars, the overall provision is impacted by changes in the US Dollar/Sterling exchange rate. A 10 cent appreciation in the US Dollar gives rise to higher Sterling oil prices resulting in a £0.5 billion decrease in the provision. A 10 cent depreciation of the Dollar results in a £0.5 billion increase in the required provision.

The likely impact of COVID-19 is included in the provision. Key economic determinants have been sourced from the OBR's FSR published in July 2020 as noted above and forecast decommissioning costs relate to the requirement for owners of oil and gas installations and pipelines to decommission their offshore infrastructure at the end of a field's economic life.

8. Balance on Consolidated Fund Account

Movements on Consolidated Fund account:	Note	**2019-20 £bn**	**2018-19 £bn**
Balance on Consolidated Fund as at 1 April as previously reported		65.5	60.1
Opening balance correction	6.3.1	(6.6)	—
Corrected balance on Consolidated Fund as at 1 April		58.9	60.1
Net revenue for the Consolidated Fund		459.2	464.8
Less amount paid to Consolidated Fund		(463.2)	(459.4)
Balance on Consolidated Fund Account		**54.9**	**65.5**

9. Certificates of tax deposits

Under the Certificate of Tax Deposits (CTD) scheme, HMRC previously accepted deposits from people liable to UK taxes and other liabilities. Relevant taxes and liabilities can be found on the HMRC website (www.gov.uk). HMRC administers this scheme on behalf of HM Treasury, and the accounts of the National Loans Fund include the principal and accrued interest for all issued CTDs as at 31 March.

From 23 November 2017, the CTD scheme has been closed for new purchases but existing certificates will continue to be honoured until 23 November 2023. The value redeemed for the year ended 31 March 2020 totalled £126 million (£545 million in 2018 to 2019).

Delays in processing between redemption of CTDs and the transfer of funds to and from the National Loans Fund can result in an outstanding balance at the year end; this balance is included within receivables in the Statement of Financial Position in the Trust Statement.

10. R.N. Limited

R.N. Limited is a registered company that administers, on behalf of HMRC, the holding of charges securing tax debts owed to HMRC. These debts are already fully reflected in the Trust Statement. The company's parent undertaking and controlling party is HMRC.

R.N. Limited also holds on behalf of HMRC, assets that have been assigned to HMRC in settlement of debts. These are not recognised in the Trust Statement until realised. There is no designation order requiring R.N. Limited's financial statement to be consolidated within HMRC's Accounts. R.N. Limited's accounts can be viewed at Companies House.

11. Third party assets

The department holds cash and other assets which have been seized in relation to ongoing legal proceedings. These assets do not belong to the department and do not form part of these accounts, although where seized assets are forfeited without legal proceedings, proceeds are recognised as penalty income.

The department holds Euro deposits in relation to traders who have registered with HMRC to use the VAT Mini One Stop Shop (VAT MOSS) scheme. This entails the making of payments to HMRC who will then forward any relevant amounts onto the tax authorities in the member state(s) where the consumers of telecommunications, broadcasting and e-services are subsequently located. Neither the department nor the government have any beneficial interest in these funds.

12. Related party transactions

Due to the nature of HMRC's business, we have a large number of transactions, relating to taxation income, with other government departments and other central government bodies. No board member, key manager or other related party has undertaken material transactions with the department during the year.

13. Devolved taxes

13.1 Scottish income tax

The Scottish Parliament has the power to set and change its own tax rate bands and limits, introduce new ones, and include a zero rate, to all non-savings non-dividend (NSND) income tax paid by Scottish taxpayers (Scotland Acts 2012, 2016). These powers were fully effective from 6 April 2017.

13.1.1 Scottish income tax estimate for 2019 to 2020

The provisional estimate of revenue raised from Scottish income tax (SIT) in 2019 to 2020 is £11.7 billion.

This figure has been estimated because actual data is unavailable. For example, minimal disclosure has been made to HMRC in respect of SA revenue for the 2019 to 2020 tax year, and PAYE revenue is not available for taxpayers whose accounts have not been reconciled before this document is published. It also includes estimates for the impact of budget measures, Gift Aid and other effects, such as broader demographic changes before the amount is apportioned between Scotland and the remainder of the UK.

The Scottish share of income tax liabilities is estimated using a model based on the HMRC Survey of Personal Incomes which reflects data collected in 2017 to 2018 and is also adjusted to take account of the latest 2018 to 2019 SIT final outturn data. This latter adjustment involves scaling the provisional estimate in 2019 to 2020 by the percentage difference between the 2018 to 2019 SIT final outturn data and the underlying methodology's estimate of 2018 to 2019 based on the HMRC Survey of Personal Incomes.

The underlying methodology estimated higher SIT receipts in 2018 to 2019 than the final outturn, therefore, the 2019 to 2020 provisional estimate has been scaled down by a proportionate amount.

HMRC has considered how the adverse macroeconomic conditions due to COVID-19 affect HMRC collection rates in-line with IFRS 9. This has resulted in HMRC recognising an additional £1.6 billion impairment for COVID-19 (note 4.2), of which we have estimated that £25 million relates to Scottish income tax.

13.1.2 Scottish income tax outturn for 2018 to 2019

A provisional estimate of £11.7 billion was disclosed in last year's accounts. Now that HMRC has established approximately 97% of the tax liabilities for the year, the final outturn figure for 2018 to 2019 has been calculated as £11.6 billion.

HMRC has considered the impact of COVID-19 on the Scottish Income Tax outturn for the 2018 to 2019 tax year and have concluded that no adjustment is required, as any effects from COVID-19 are unlikely to impact 2018 to 2019 liabilities.

For full details on the 2018 to 2019 outturn please refer to the HMRC publication released on 23 September 2020, https://www.gov.uk/government/statistics/scottish-income-tax-outturn-statistics-2018-to-2019. The outturn publication is not subject to NAO audit.

13.2 Welsh income tax

The Wales Act 2017 gives the National Assembly for Wales the power to set Welsh Rates of Income Tax (WRIT). This allows the Welsh Government to affect the amount of income tax that Welsh taxpayers pay and, as a result, the amount that the Welsh Government can spend in Wales. WRIT is calculated on a tax year basis and was introduced with effect from 6 April 2019 i.e. for the 2019 to 2020 tax year.

The Welsh rates for the 2019 to 2020 tax year were set at 10% for each of the tax bands. This means that a Welsh taxpayer paid the same amount of total income tax as someone from England and Northern Ireland earning the same amount of income, but for the Welsh taxpayer 10 percentage points of each tax band was owed to Wales with the remainder owed to the UK Consolidated Fund.

13.2.1 Welsh income tax estimate for 2019 to 2020

During 2019 to 2020 the provisional estimate of revenue raised from Welsh income tax is £2.0 billion.

The figures shown have been estimated because actual data is unavailable, for example in respect of SA revenue for the 2019 to 2020 tax year where minimal disclosure has been made to HMRC, and PAYE revenue for taxpayers whose accounts have not been reconciled before this document is published. It also includes estimates for the impact of budget measures, Gift Aid and other effects, such as broader demographic changes before the amount is apportioned between Wales and the remainder of the UK. The Welsh share of income tax liabilities is estimated using a simulation model based on sample data from the HMRC Survey of Personal Incomes for 2017 to 2018.

HMRC has considered how the adverse macroeconomic conditions due to COVID-19 affect HMRC collection rates in-line with IFRS 9. This has resulted in HMRC recognising an additional £1.6 billion impairment for COVID-19 (note 4.2), of which we have estimated that £4 million relates to Welsh income tax.

Further information on revenue for the tax year 2019 to 2020 that becomes available during 2020 to 2021 will allow refinement of these calculations. Updated figures will be disclosed in the 2020 to 2021 Trust Statement, allowing a final reconciliation for the 2019 to 2020 tax year.

HM Treasury is responsible for ensuring that the proceeds are made available to fund expenditure by the Welsh Government; these transfers are not accounted for in the HMRC Trust Statement.

The costs of collecting and administering are charged to the Welsh Government and accounted for in the parliamentary accountability section (see table 41 on page 172).

14. Events after the reporting period

The World Health Organization (WHO) announced the Coronavirus (COVID-19) pandemic on 11 March 2020, and therefore early impacts of COVID-19 have been built into our estimation modelling and provisions held on the Statement of Financial Position at the year end. However, the economic outlook has rapidly worsened since 31 March 2020 as COVID-19 and the near-term outlook is highly uncertain. We expect the impact to be increasingly visible as we move through 2020 to 2021.

Management have considered the key areas of HMRC's Trust Statement impacted by this and the later publication, are disclosing the following:

Adjusting Events

Legal case provision

A court decision in June 2020 has resulted in HMRC recognising an additional legal provision of £0.1 billion.

These accounts have been authorised for issue by the Accounting Officer on the same date as the Comptroller and Auditor General's Audit Certificate.

Accounts direction given by HM Treasury

Accounts direction given by HM Treasury in accordance with Section 2 of the Exchequer and Audit Departments Act 1921.

1. This direction applies to those government departments listed in appendix 2.

2. The Department shall prepare a Trust Statement ("the Statement") for the financial year ended 31 March 2020 for the revenue and other income, as directed by the Treasury, collected by the department as an agent for others, in compliance with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual by HM Treasury ("FReM") which is in force for 2019-20.

3. The Statement shall be prepared, as prescribed in appendix 1, so as to give a true and fair view of (a) the state of affairs relating to the collection and allocation of taxes, licence fees, fines and penalties and other income by the Department as agent and of the expenses incurred in the collection of those taxes, licence fees, fines and penalties insofar as they can properly be met from that revenue and other income; (b) the revenue and expenditure; and (c) the cash flows for the year then ended.

4. The Statement shall also be prepared so as to provide disclosure of any material expenditure or income that has not been applied to the purposes intended by Parliament or material transactions that have not conformed to the authorities which govern them.

5. When preparing the Statement, the Department shall comply with the guidance given in the FReM (Chapter 8). The Department shall also agree with HM Treasury the format of the Principal Accounting Officer's Foreword to the Statement, and the supporting notes, and the accounting policies to be adopted, particularly in relation to revenue recognition. Regard shall also be given to all relevant accounting and disclosure requirements in Managing Public Money and other guidance issued by HM Treasury, and to the principles underlying International Financial Reporting Standards.

6. Compliance with the requirements of the FReM will, in all but exceptional circumstances, be necessary for the accounts to give a true and fair view. If, in these exceptional circumstances, compliance with the requirements of the FReM is inconsistent with the requirement to give a true and fair view, the requirements of the FReM should be departed from only to the extent necessary to give a true and fair view. In such cases, informed and unbiased judgement should be used to devise an appropriate alternative treatment which should be consistent with both the economic characteristics of the circumstances concerned and the spirit of the FReM. Any material departure from the FReM should be discussed in the first instance with HM Treasury.

7. The Statement shall be transmitted to the Comptroller and Auditor General for the purpose of his examination and report by a date agreed with the Comptroller and Auditor General and HM Treasury to enable compliance with the administrative deadline for laying the audited accounts before Parliament.

8. The Trust Statement, together with this direction (but with the exception of the related appendices) and the Report produced by the Comptroller and Auditor General under section 2 of the Exchequer and Audit Departments Act 1921 shall be laid before Parliament at the same time as the Department's Resource Accounts for the year unless the Treasury have agreed that the Trust Statement may be laid at a later date.

Vicky Rock
Director, Public Spending
Her Majesty's Treasury

18 June 2020

Resource Accounts

Consolidated Statement of Comprehensive Net Expenditure

for the year ended 31 March 2020

This statement summarises the expenditure incurred and income generated on an accruals basis. Other comprehensive expenditure and income includes changes to the values of non-current assets that cannot yet be recognised as income or expenditure.

Consolidated Statement of Comprehensive Net Expenditure

	Note	Core department and agency	2019-20 £m Departmental group	Core department and agency	2018-19 £m Departmental group
Cash items:					
Personal tax credits	4.1.1	18,331.3	18,331.3	22,288.3	22,288.3
Corporation tax reliefs	4.1.4	10,100.7	10,100.7	5,876.9	5,876.9
Child Benefit		11,465.8	11,465.8	11,469.9	11,469.9
Tax Free Childcare		245.5	245.5	115.7	115.7
Lifetime ISA		225.8	225.8	251.0	251.0
Help to Save[1]		23.8	23.8	7.7	7.7
Staff and related costs		2,701.6	2,735.3	2,451.6	2,482.2
Goods and services		863.6	824.7	835.0	806.8
Service charges		330.0	330.0	256.9	256.9
Payments in lieu of tax relief and rates		205.1	205.1	169.1	169.1
Other cash expenditure		294.8	295.4	254.4	255.1
Non-cash items:					
Transfer of personal tax credit receivables to DWP		605.1	605.1	306.9	306.9
Amortisation	6	238.8	238.8	221.5	221.5
Provisions		78.9	78.9	98.8	94.9
Depreciation	5	73.6	73.7	72.7	72.8
Other		18.7	18.7	24.4	24.4
Total operating expenditure	2	**45,803.1**	**45,798.6**	**44,700.8**	**44,700.1**
Total operating income		**(355.3)**	**(350.8)**	**(220.0)**	**(219.3)**
Net operating expenditure		**45,447.8**	**45,447.8**	**44,480.8**	**44,480.8**
Other comprehensive net expenditure					
Items that will not be reclassified to net operating costs:					
Net loss/(gain) on:					
– revaluation of property, plant and equipment		(5.1)	(5.1)	(5.4)	(5.4)
– revaluation of intangible assets		(20.1)	(20.1)	(28.1)	(28.1)
– actuarial revaluation of pension scheme		13.2	13.2	(11.3)	(11.3)
Total comprehensive expenditure for the year		**45,435.8**	**45,435.8**	**44,436.0**	**44,436.0**

1 Help to Save was previously reported under Child Benefit. Prior year figures have been restated.

The notes on pages 215 to 248 form part of these accounts.

Consolidated Statement of Financial Position

as at 31 March 2020

This statement presents the financial position of the department. It comprises three main components: assets owned or controlled; liabilities owed to other bodies; and equity, the remaining value of the entity.

Consolidated Statement of Financial Position

	Note	2019-20 £m Core department and agency	2019-20 £m Departmental group	2018-19 £m Core department and agency	2018-19 £m Departmental group
Non-current assets:					
Property, plant and equipment	5	565.4	565.8	502.5	502.8
Intangible assets	6	1,396.4	1,396.4	1,344.9	1,344.9
Receivables	8	1,876.2	1,869.2	2,156.3	2,142.3
Pension Asset	11	6.7	6.7	21.0	21.0
Total non-current assets		**3,844.7**	**3,838.1**	**4,024.7**	**4,011.0**
Current assets:					
Inventories		1.8	1.8	1.9	1.9
Trade and other receivables	8	707.1	706.1	1,276.4	1,275.6
Cash and cash equivalents[1]		80.4	85.5	41.6	50.2
Total current assets		**789.3**	**793.4**	**1,319.9**	**1,327.7**
Total assets		**4,634.0**	**4,631.5**	**5,344.6**	**5,338.7**
Current liabilities:					
Trade and other payables	9	(9,608.3)	(9,605.8)	(6,233.9)	(6,228.0)
Provisions	10	(15.0)	(15.0)	(11.3)	(11.3)
Total current liabilities		**(9,623.3)**	**(9,620.8)**	**(6,245.2)**	**(6,239.3)**
Total assets less current liabilities		**(4,989.3)**	**(4,989.3)**	**(900.6)**	**(900.6)**
Non-current liabilities:					
Payables	9	(1,802.3)	(1,802.3)	(1,229.0)	(1,229.0)
Provisions	10	(225.2)	(225.2)	(204.6)	(204.6)
Total non-current liabilities		**(2,027.5)**	**(2,027.5)**	**(1,433.6)**	**(1,433.6)**
Total assets less total liabilities		**(7,016.8)**	**(7,016.8)**	**(2,334.2)**	**(2,334.2)**
Taxpayers' equity and other reserves:					
General fund[2]		7,111.7	7,111.7	2,435.0	2,435.0
Revaluation reserve		(94.9)	(94.9)	(100.8)	(100.8)
Total equity		**7,016.8**	**7,016.8**	**2,334.2**	**2,334.2**

1 The departmental group 31 March 2020 value includes £84.9 million (2018 to 2019: £48.1 million) held with the Government Banking Service. Of which, £79.8 million (2018 to 2019: £39.5 million) relates to the core department and agency. Following a review of GBS accounts, prior year figures have been restated.

2 General fund includes pension reserve figures that had previously been reported separately. Prior year figures have been restated.

Jim Harra
Accounting Officer
27 October 2020

The notes on pages 215 to 248 form part of these accounts.

Consolidated Statement of Cash Flows

for the year ended 31 March 2020

This statement shows the changes to the department's cash and cash equivalents during the reporting period. It shows how the department generates and uses these by classifying cash flows as operating, investing and financing activities. Cash flows arising from financing activities include Parliamentary Supply.

Consolidated Statement of Cash Flows

	Note	2019-20 £m Core department and agency	2019-20 £m Departmental group	2018-19 £m Core department and agency	2018-19 £m Departmental group
Cash flows from operating activities					
Net operating expenditure		(45,447.8)	(45,447.8)	(44,480.8)	(44,480.8)
Adjustments for non-cash transactions	2	1,015.1	1,015.2	724.3	720.5
(Increase)/decrease in trade and other receivables[1]		864.8	857.9	(402.3)	(395.9)
Adoption of IFRS 9: non-cash adjustment to personal tax credits receivables		—	—	307.6	307.6
Personal tax credits receivables, adjusted for impairment, transferred to DWP	4.1.2	(605.1)	(605.1)	(306.9)	(306.9)
(Increase)/decrease in inventories		0.1	0.1	0.4	0.4
Increase/(decrease) in trade and other payables[1]		3,203.0	3,206.7	3,099.1	3,105.1
Use of provisions	10	(54.6)	(54.6)	(42.9)	(42.9)
Net cash outflow from operating activities		**(41,024.5)**	**(41,027.6)**	**(41,101.5)**	**(41,092.9)**
Cash flows from investing activities					
Additions to property, plant and equipment	5	(140.6)	(141.0)	(75.3)	(75.3)
Less additions to leased property, plant and equipment		8.4	8.4	2.4	2.4
Additions to intangible assets	6	(276.9)	(276.9)	(314.3)	(314.3)
Less additions to leased intangible assets		3.0	3.0	—	—
Proceeds of disposal of property, plant and equipment		0.4	0.4	0.4	0.4
Net cash outflow from investing activities		**(405.7)**	**(406.1)**	**(386.8)**	**(386.8)**
Cash flows from financing activities					
From the Consolidated Fund (Supply) - current year		16,296.5	16,296.5	15,601.7	15,601.7
From the Consolidated Fund (non-Supply)		—	—	—	—
From the Trust Statement		24,948.6	24,948.6	25,584.0	25,584.0
From the National Insurance Fund		254.1	254.1	297.9	297.9
Capital element of payments in respect of finance leases and on-Statement of Financial Position PFI contracts		(29.2)	(29.2)	(22.4)	(22.4)
Net financing		**41,470.0**	**41,470.0**	**41,461.2**	**41,461.2**

Continued.

	Note	2019-20 £m Core department and agency	2019-20 £m Departmental group	2018-19 £m Core department and agency	2018-19 £m Departmental group
Net increase/(decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund		**39.8**	**36.3**	**(27.1)**	**(18.5)**
Payments of amounts due to the Consolidated Fund		(1.0)	(1.0)	(0.7)	(0.7)
Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund		**38.8**	**35.3**	**(27.8)**	**(19.2)**
Cash and cash equivalents at the beginning of the period		**41.6**	**50.2**	**69.4**	**69.4**
Cash and cash equivalents at the end of the period		**80.4**	**85.5**	**41.6**	**50.2**

1 Figures are net of items not passing through the Consolidated Statement of Comprehensive Net Expenditure.

The notes on pages 215 to 248 form part of these accounts.

Consolidated Statement of Changes in Taxpayers' Equity

for the year ended 31 March 2020

This statement shows the movement in the year on the different reserves held by the department, analysed into General Fund and revaluation reserve. The General Fund represents the total assets less liabilities of the department, to the extent that it is not represented by other reserves and financing items. The revaluation reserve reflects the change in asset values that have not been recognised as income or expenditure. The pension reserve represents changes in the underlying assumptions used by the actuaries to determine the valuation of pension scheme liabilities, such as financial assumptions, market expectations, mortality rates and projected salaries.

Core department and agency figures are the same as departmental group, therefore core department and agency are not shown.

Consolidated Statement of Changes in Taxpayers' Equity

				2019-20 Departmental group			2018-19 Departmental group
		General Fund[1]	Revaluation reserve[2]	Total reserves	General Fund[1]	Revaluation reserve[2]	Total reserves
	Note	£m	£m	£m	£m	£m	£m
Balance at 1 April		**(2,435.0)**	**100.8**	**(2,334.2)**	**202.7**	**100.9**	**303.6**
Change in reporting – implementation of IFRS 9	4.1.2	—	—	—	307.6	—	307.6
Restated balance at 1 April		**(2,435.0)**	**100.8**	**(2,334.2)**	**510.3**	**100.9**	**611.2**
Net Parliamentary funding – drawn down		16,296.5	—	16,296.5	15,601.7	—	15,601.7
Net Parliamentary funding – deemed[3]		41.5	—	41.5	69.3	—	69.3
Net Parliamentary funding - balance to surrender[4]	9	(806.3)	—	(806.3)	—	—	—
Funding from Trust Statement[5]		24,948.6	—	24,948.6	25,584.0	—	25,584.0
National Insurance Fund		271.3	—	271.3	275.3	—	275.3
Supply (payable)/receivable adjustment		—	—	—	(41.5)	—	(41.5)
Income payable to the Consolidated Fund		(1.0)	—	(1.0)	(0.7)	—	(0.7)
Net expenditure for the year		(45,447.8)	—	(45,447.8)	(44,480.8)	—	(44,480.8)
Other net comprehensive expenditure:							
Revaluation of property, plant and equipment		—	5.1	5.1	—	5.4	5.4
Revaluation of intangible assets		(7.0)	27.1	20.1	—	28.1	28.1
Transfer between reserves		38.1	(38.1)	—	33.6	(33.6)	—
Pension reserve actuarial (losses)/gains		(13.2)	—	(13.2)	11.2	—	11.2
Contributions to LGPS pension fund by DWP		0.7	—	0.7	0.8	—	0.8
Non-cash charges – auditor's remuneration	2	1.9	—	1.9	1.8	—	1.8
Balance at 31 March		**(7,111.7)**	**94.9**	**(7,016.8)**	**(2,435.0)**	**100.8**	**(2,334.2)**

1 General Fund includes Pension Reserve figures previously reported as separate column.
2 The 31 March 2020 balance comprised £38.4 million in relation to property, plant and equipment assets (31 March 2019 £45.0 million, 1 April 2018 £44.2 million) and £56.4 million in relation to intangible assets (31 March 2019 £55.8 million, 1 April 2018 £56.7 million).
3 This is any Supply drawn down in the previous year but not spent at that year-end and, therefore, is available to be spent in subsequent financial year.
4 As a result of the decrease in net cash requirement at Supplementary Estimate, the department had a balance to surrender which was owed to the Consolidated Fund. The balance remained outstanding at 31 March 2020 and therefore has been recognised as a payable.
5 Personal tax credits and corporation tax reliefs are funded out of tax receipts from the Trust Statement. Please see the Statement of Revenue, Other Income and Expenditure in the Trust Statement, page 185.

The notes on pages 215 to 248 form part of these accounts.

Notes to the departmental Resource Accounts

Notes to the financial statements provide additional information required by statute and accounting standards to explain a particular feature of the financial statements. The notes which follow will also provide explanations and additional disclosure to assist readers' understanding and interpretation of the financial statements.

1. Statement of accounting policies

1.1 Basis of accounting

These financial statements have been prepared in accordance with the Government Financial Reporting Manual (FReM) for the financial year 2019 to 2020 issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. The Resource Account is prepared on a going concern basis.

2019-20 FReM:
https://www.gov.uk/government/publications/government-financial-reporting-manual-2019-20

Where the FReM permits a choice of accounting policy, HM Revenue and Customs has applied the most appropriate to give a true and fair view.

1.2 Accounting convention

These accounts have been prepared on an accruals basis under the historical cost convention modified to account for the revaluation of property, plant and equipment and intangible assets.

1.3 Basis of consolidation

This account consolidates the results of the bodies falling within the departmental boundary as defined by the FReM. For HMRC these are core department, Valuation Office Agency (VOA) and Revenue and Customs Digital Technology Services Limited (RCDTS Ltd).

1.4 Tax credits

1.4.1 Personal tax credits

Tax credits awards are based upon initial estimates and finalised at the end of the tax year. The process for finalising awards, after awards are paid, means overpayments are a feature of the system. As such, overpayments are not by arrangement, and are not credit assessed or loan agreements. Individuals are given a certain time to settle the debt (receivable) - or enter into an arrangement to pay debt – but the debt is considered to be past due after 30 days.

The HMRC business model for managing personal tax credit overpayment debt is to collect the contractual cash flows only, there is no intention to sell the asset, and has been no historic sales of tax credit receivables. Tax credit debt is being transferred to the Department for Work and Pensions (DWP) as part of the transition to Universal Credit, this is a transfer between government bodies and not a sale of the asset. The contractual cash flows are solely payments of principal debt, as they are simple financial instruments held only to collect overpayments, and thus the asset is measured at amortised cost.

In accordance with the FReM, the IFRS 9 simplified approach to impairing assets is used to impair personal tax credits overpayment debt over the lifetime of the debt.

There is not a definition of default for personal tax credits receivables due to the nature of the legislation surrounding the recovery of overpaid personal tax credits. Personal tax credit receivables are reported net of losses which are detailed in the Losses Statement which is reported in the parliamentary, public and stakeholder accountability section on page 170. Losses are made up of remissions and write-offs. Remission is the process used to identify and separate money owed to HMRC which we have decided not to pursue - for example, on the grounds of value for money. Write-offs is the term used to describe money owed to HMRC that was considered to be irrecoverable - for example, because there were no practical means for pursuing it.

1.4.2 Corporation tax reliefs

In the absence of a specific applicable accounting standard, management have determined the following accounting policy for recognising and measuring expenditure on corporation tax reliefs in line with the principles of IFRS. Expenditure on these reliefs is recognised as companies engaged in qualifying activities incur their qualifying expenditure, not when subsequent claims are received. This provides a consistent recognition point for income and expenditure between these Resource Accounts and the HMRC Trust Statement where the related corporation tax income is recognised as the taxable events occur, not when returns are filed.

Expenditure is measured using an estimate which is derived from an analysis of historic relief claims made by companies. The filing requirements for companies are such that these returns are not due until 12 months after the accounting period end. Additionally, claims can be received up to 24 months after the accounting period end, i.e. amendments can be made to returns already submitted within this period. Consequently, historic claim profiles are used to estimate expenditure and related accruals for the current year considering forecast growth rates and planned changes in relevant tax policy and rates. The accrual is unwound based on the expected receipt of claims following the year of recognition.

In subsequent accounting periods the department evaluates any new information available from claims received during the year and determines whether previous estimates of expenditure need to be adjusted. A final estimate is made five years after initial recognition with the resulting amount considered to be a reasonable proxy for final outturn in the absence of readily available actual outturn values.

All reliefs expenditure is funded by the Trust Statement. This funding is recognised in reserves.

1.5 Child Benefit

Child Benefit expenditure is recognised in the financial year a claim for Child Benefit is approved.

Child Benefit expenditure includes amounts paid to higher rate taxpayers earning greater than £50,000 per annum and recovered via future income tax charges. These income tax charges are accounted for in the Trust Statement.

Where under or overpayments are identified adjustments are made to expenditure, with receivables and payables recognised appropriately. Overpayments are treated as receivables and the department seeks to recover these from future benefit entitlement or through direct repayment.

Child Benefit receivables are reported net of losses which are detailed in the Losses Statement which is reported in the parliamentary, public and stakeholder accountability section on page 170. Losses are made up of remissions and write-offs. Remission is the process used to identify and separate money owed to HMRC which we have decided not to pursue – for example, on the grounds of value for money. Write-offs is the term used to describe money owed to HMRC that was considered to be irrecoverable – for example, because there were no practical means for pursuing it.

1.6 Non-current assets

1.6.1 General

Furniture, vehicles, IT hardware, software licences and website development costs reported by the core department are capitalised (excluding certain low value assets). Accommodation refurbishments are capitalised once costs exceed £150,000 (VOA: £15,000). For other assets a £5,000 capitalisation threshold applies.

Assets capitalised under finance leases are recorded at the lower of fair value and the present value of the minimum lease payments, at the inception of the contract.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Assets under construction are recorded at cost. Non-property assets are valued on a depreciated historical cost basis as a proxy for fair value as they are of low value with short lives.

Assets are stated at cost less accumulated depreciation/amortisation and impairment losses. These are depreciated/amortised at rates calculated to write them down to estimated residual values on a straight-line basis over their useful lives. All intangible assets are assessed to have a finite useful life over which they are amortised. Asset useful lives are normally in the following ranges:

Asset category – property, plant and equipment	Useful life
Land	Not depreciated
Freehold buildings	50 years
Leased serviced accommodation	Period of the lease
Leased IT assets	Period of the lease
Accommodation refurbishments	Remainder of the lease to which they relate
Office equipment	5 to 20 years
Computer equipment	4 to 7 years
Vehicles	5 to 8 years
Furniture and fittings	10 to 15 years
Scientific aids	3 to 10 years

Asset category – intangible assets	Useful life
Developed computer software	10 years unless known to be otherwise
Software licences	Period of the licence
Website development costs	10 years unless known to be otherwise

The useful life of all assets is considered on an annual basis and changed if required.

A formal impairment review is undertaken on an annual basis for buildings, accommodation refurbishments and developed computer software assets.

The impact of COVID-19 is not thought to have had a short-term effect on HMRC asset values, although there may be a more obvious impact in the medium to long term which will be addressed in future revaluation and impairment exercises.

1.6.2 Property Plant and Equipment

Property

Where substantially all risks and rewards of ownership of a leased asset are borne by the department, at the inception of the contract, the asset is recognised and recorded at the lower of fair value and the present value of the minimum lease payments. The interest element of the finance lease payment is charged to expenditure over the period of the lease at a constant rate in relation to the balance outstanding.

Private Finance Initiative (PFI) transactions where the department has control within a contract and a material residual interest, property is recognised as a non-current asset and the liability to pay for it is accounted for as a finance lease. Contract payments are apportioned between Consolidated Statement of Comprehensive Net Expenditure, financing and service charges and a Consolidated Statement of Financial Position finance lease liability.

The majority of the freehold and leasehold property assets occupied by HMRC were acquired from the predecessor departments by Mapeley STEPS Contractor Ltd in March 2001 under a 20 year PFI contract (see note 7.2) and these assets have been capitalised as finance leases. Of these, only buildings have been treated as finance leases and the related land has been treated as operating leases. The department has also capitalised other PFI property interests as finance leases being service concession arrangements. The department has capitalised both its short-term leases with third-party private landlords which Mapeley manages on its behalf, and its short-term leases held directly with third-party private landlords where appropriate. Land reported in these Accounts represents the HMRC share of ownership of land at 100 Parliament Street.

Buildings to which we are contracted under Building our Future locations strategy are operating leases. Further such leases will be reviewed on a case-by-case basis to ensure they are classified correctly.

Property assets have been stated at current value in existing use using professional valuation on a rolling five year programme, all assets will be professionally revalued within this time period. Each year, 100 Parliament Street and 20% of the remaining estate is physically revalued with the remainder undergoing a desktop revaluation exercise to identify material changes. The basis of the valuation is in accordance with the professional standards of the Royal Institute of Chartered Surveyors : RICS Valuation – Global Standards 2017 and the RICS Valuation – Professional Standards UK (January 2014, revised April 2015). Compliance with the RICS professional standards and valuation practice statements gives assurance also of compliance with the International Valuers Standards.

Information Technology

Where applicable, the IT non-current assets recognised by our IT partners and used in providing the IT service to the department have been capitalised as finance leases and are disclosed at the lower of fair value and the present value of the minimum lease payments, at the inception of the contract. It is not possible to separate these assets between the core department and the VOA as they are used in common to deliver the service. These joint assets are held by the core department and are treated as an operating lease by the VOA. Whilst consolidated figures will report the correct aggregate position, this difference in approach is to be noted.

Assets under construction

Assets under construction are separately reported in note 5. In respect of the Building our Future locations strategy, this includes accommodation refurbishment and furniture assets. Costs are accumulated until the asset is available for use whereupon it is transferred to the relevant asset class and depreciation commences.

1.6.3 Intangible

Developed Computer Software

Computer software that has been developed by the department and its IT service partners, and for which the department has ownership rights has been capitalised. This capitalisation includes the staff costs for developing, integrating and testing IT software in the development of the programs.

Excluding additions in the financial year, and any software formally valued during the year, software assets are revalued annually by applying an index. As the major cost of developing computer software is IT labour costs, the index used is "Office of National Statistics – 'AWE: Information & Communication Index: Non Seasonally Adjusted Total Pay Including Arrears'. This index focuses on tracking changes in pay within the Information and Communications Industries.

Software Licenses

Software Licences are capitalised where their useful life is greater than 12 months and value is over £5,000.

Assets under construction

Intangible assets under construction relate to software development by the department, our IT Partners and RCDTS Ltd. Intangible assets under construction are separately reported in note 6. Costs are accumulated until the asset is available for use whereupon it is transferred to the relevant asset class and amortisation commences.

1.7 Pensions

1.7.1 Civil Service Pension Schemes

The Principal Civil Service Pension Scheme (PCSPS) and the Civil Servants and Others Pension Scheme (CSOPS) known as Alpha, are unfunded and contributory defined benefit schemes. The departmental group recognises the expected cost of these elements. This is determined systematically and rationally over the period during which we benefit from employees' services by payment to the PCSPS and CSOPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS and CSOPS. Further information can be found within the accounts of Civil Service Pensions.

Civil Service Pensions
https://www.civilservicepensionscheme.org.uk/about-us/resource-accounts/

1.7.2 Local Government Pension Scheme

A number of the Valuation Office Agency employees are members of the Local Government Pension Scheme (LGPS). The LGPS is one of the largest public sector pension schemes in the UK. It is a nationwide defined benefit pension scheme designed for people working in local government or for individuals employed by other organisations who have chosen to participate in it.

Further information can be found within the Valuation Office Agency accounts (HC 720) that can be viewed at **www.gov.uk/government/organisations/valuation-office-agency.**

1.7.3 Partnership pensions

The partnership pension account is a stakeholder pension arrangement with employees able to choose a stakeholder pension product from a panel of providers. The partnership pension account is a defined contribution scheme, provided as an alternative option for members who do not wish to join one of our defined benefit arrangements (classic, classic plus, premium, nuvos and alpha).

1.7.4 Aviva Friends Life plc

A number of RCDTS Ltd employees are members of the Aviva Friends Life plc pension scheme. A contract-based defined contribution pension scheme which is administered by Aviva plc and overseen by the RCDTS Ltd Board.

Further information can be found within the RCDTS Ltd accounts available at Companies House at: **www.gov.uk/government/organisations/companies-house** by 31 December 2020.

1.8 Provisions and Contingent liabilities

The department discloses provisions and contingent liabilities in excess of the de minimis limit for reporting of £0.1 million.

We recognise provisions in accordance with IAS 37 (Provisions, Contingent Liabilities and Contingent Assets). The expenditure required to settle the obligation is calculated based on the best available information, but the actual future outcomes of items provided for may differ from expectations.

Where the time value of money is significant, provisions and contingent liabilities are stated at discounted amounts, as directed by Revised Public Expenditure System (PES) (2019) 11.

1.8.1 Early departure costs

The department is required to meet the additional cost of benefits beyond the normal PCSPS benefits in respect of employees who have taken early departure or retirement under the Civil Service Compensation Scheme. The department has made provision in full for early retirement costs. The estimated risk-adjusted cash flows are discounted at -0.50% as set by HM Treasury (2018 to 2019: 0.29%).

1.8.2 Remote Contingent liabilities

For Parliamentary reporting and accountability purposes certain statutory and non-statutory contingent liabilities where the likelihood of a transfer of economic benefit is remote, are disclosed separately, in accordance with the requirements of Managing Public Money. Remote contingent liabilities are reported in the parliamentary, public and stakeholder accountability Section on page 173.

Public Expenditure Statistical Analyses 2019
https://www.gov.uk/government/statistics/public-expenditure-statistical-analyses-2019

1.9 Value Added Tax (VAT)

Most of the activities of the department are outside the scope of VAT. A proportion of the activities of the department will attract VAT, and output VAT will apply in these circumstances. The department also has recoverable and non-recoverable elements for input VAT on purchases. Some purchase VAT on a restricted number of services is recovered under Section 41 of the VAT Act 1994 and in accordance with the HM Treasury 'Contracting-out Direction'. Section 41 is intended to remove any disincentive to government departments of contracting-out activities performed 'in-house' where there is a sound basis for doing so. Non-recoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of non-current assets. Income and expenditure is otherwise shown net of VAT.

1.10 Critical accounting judgements and key sources of estimation

The preparation of financial statements in accordance with IFRS requires the use of certain accounting estimates. It also requires management to exercise judgement in the process of applying the department's accounting policies.

The areas that involve a higher degree of judgement or complexity, or where the assumptions and estimates are significant to the Resource Accounts, are as follows:

Personal tax credits expenditure

Personal tax credits, reported at 4.1.1, consist of Child Tax Credit and Working Tax Credit. HMRC analysts provide receivable and payable balances based on data from tax credits systems to move personal tax credits from a cash-based disbursements figure to an accruals accounting basis. A range for the estimate of the results of the current year finalisation exercise is also provided. The estimate produced for financial year 2019 to 2020 considers the impact of claimants migrating to DWP under Universal Credit throughout 2020 to 2021 using the best available information, the extent to which policies impact on the estimate and utilises the latest compliance information. It is therefore subject to uncertainty.

The accrual for personal tax credits is calculated using the actual split of Working Tax Credit and Child Tax Credit payments made in the current year.

Corporation tax reliefs

The accounting policy for corporation tax reliefs is a judgement in the context of these accounts because management has determined an appropriate policy for recognition and measurement in the absence of a specific accounting standard. In adopting the current policy, we have selected a recognition point that maintains consistency between relief expenditure recognised in these accounts and the related corporation tax income recognised in the Trust Statement.

Expenditure is recognised for corporation tax reliefs in advance of claims being received because of the timing difference between when qualifying expenditure is incurred by companies and when they make claims. Estimation uncertainty results from this timing difference because assumptions about qualifying expenditure need to be made based on historic experience and the expected amounts need to be adjusted to reflect forecast growth rates and planned changes in relevant tax policy and rates. Note 4.1.4 provides further detail on the estimation uncertainty relating to corporation tax reliefs.

Personal tax credits error and fraud

In arriving at our personal tax credits estimates we consider two types of uncertainty - variance, which is a consequence of the sample size, and bias. In particular, we seek to manage the risk of potential bias through customer non-response in several ways including; ensuring that compliance officers are in a position to make a valid decision without customer response, completion of extensive quality checks of error and fraud cases, and monitoring of the outcome of non-response cases against those where customers do respond.

Error and fraud results are reported at note 4.1.3.

For error and fraud in the claimant's favour, the difference in the proportion of cases that are incorrect is not statistically significant. Consequently, HMRC have no concerns about non-response causing bias in the statistics for error and fraud favouring the claimant.

For error in HMRC's favour, the difference in the proportions is statistically significant, but for HMRC to consider making an adjustment we would need a high level of certainty that we would find more errors on these cases if the customer did respond, and no evidence is held to suggest this.

Consequently, no adjustment is made to the estimate of error and fraud favouring the claimant or HMRC to account for non-response.

Impairment of receivables

Receivables in the Statement of Financial Position are reported after impairment, which is estimated based on our analysis of existing receivables and historical trends in debt recovery, losses, discharges, amendments and cancellations.

The following receivables balances have been impaired: personal tax credits, Child Benefit, law costs, and other receivables (see note 8).

To calculate the impairment for personal tax credits receivables we use an Expected Credit Losses (ECL) model that estimates future debt recoveries of personal tax credits debt based on historic debt recovery rates.

The main judgements that we have made when producing the ECL model are:

- recent debt recovery experience is a reasonable proxy for recovery rates that inform our scenario analysis
- the probability weighting of the high, medium and low scenarios are an appropriate reflection of expected outcomes
- external future economic developments will not significantly affect recovery rates.

Note 4.1.2 provides further details on the estimation uncertainty and judgements relating to personal tax credits ECL.

Provisions and contingent liabilities

The department undertakes a quarterly review of provisions and contingent liabilities. These are estimated by appropriate business areas based on the likelihood of a liability materialising.

1.11 Impending application of newly issued accounting standards not yet effective

New and revised standards and interpretations have been issued but are not yet effective and have not therefore been adopted in this account.

IFRS 16 Leases

Implementation of IFRS 16 leases has been deferred by one year as a consequence of COVID-19. It is now being applied by HM Treasury in the Government Financial reporting Manual (FReM) from 1 April 2021 (except for the limited option for early adoption from 1 April 2019).

IFRS 16 Leases replaces IAS 17 Leases and fundamentally changes the accounting treatment of leases for lessees. The current IAS 17 model, which requires entities to distinguish between finance leases (on Statement of Financial Position (SoFP)) and operating leases (off SoFP) will be replaced by a 'right-of-use' model that requires lessees to recognise on SoFP their right-of-use of assets and associated liabilities.

At the date of initial application, HM Treasury mandate that as a practical expedient, an entity is not required to reassess whether a contract is, or contains, a lease. Therefore, HMRC will apply this Standard to all contracts previously identified as leases applying IAS 17 and IFRIC 4, and not apply this Standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

IFRS 16 provides a single lessee accounting model and requires lessees to recognise assets and liabilities for leases with a term of more than 12 months remaining at 1 April 2021, unless the underlying asset is of low value.

HM Treasury mandate that IFRS 16 in the public sector will be implemented using the cumulative catch-up method, therefore comparatives will not be restated and the cumulative effect of initially applying the Standard at 1 April 2021 will be recognised as an adjustment to taxpayers' equity.

HMRC will use a discount rate provided by HM Treasury when they cannot readily obtain the rate implicit in the lease contract.

In preparation for the transition into IFRS 16, HMRC are reviewing existing and future contracts to identify lease and non-lease (i.e. service) elements. HMRC exposure falls primarily into two areas, Estates and IT. Key stakeholders from all business areas have been engaged to assist with this work, alongside Legal and Commercial teams.

New IT solutions are being developed in order to manage the lease portfolio and to enable efficient routine reassessment of leases throughout their lifecycle, as required by IFRS 16. This will enable real time amendments to lease parameters in line with contractual changes.

For information on HMRC lease commitments please see note 7 - Commitments. This is our lease position as at 31 March 2020, the lease position as at 1 April 2021 may differ.

2. Expenditure

	Note	2019-20 £m Core department and agency	2019-20 £m Departmental group	2018-19 £m Core department and agency	2018-19 £m Departmental group
Personal tax credits	4.1.1	**18,331.3**	**18,331.3**	**22,288.3**	**22,288.3**
Corporation tax reliefs	4.1.4	**10,100.7**	**10,100.7**	**5,876.9**	**5,876.9**
Child Benefit					
Child Benefit[1]		11,463.4	11,463.4	11,467.6	11,467.6
Guardian's Allowance (funded from National Insurance Fund)		2.4	2.4	2.3	2.3
		11,465.8	**11,465.8**	**11,469.9**	**11,469.9**
Tax Free Childcare		**245.5**	**245.5**	**115.7**	**115.7**
Lifetime ISA		**225.8**	**225.8**	**251.0**	**251.0**
Help to Save[2]		**23.8**	**23.8**	**7.7**	**7.7**
Staff and related costs	Page 135				
Wages and salaries		1,934.1	1,961.7	1,836.7	1,861.8
Other pension costs		498.4	500.6	367.8	369.7
Less capitalised costs		(30.2)	(30.2)	(35.7)	(35.7)
Social security costs		191.0	194.1	185.1	187.9
Travel, subsistence and hospitality		65.9	66.7	67.2	68.0
Recruitment and training		30.8	30.8	22.0	22.0
Early severance schemes		11.6	11.6	8.5	8.5
		2,701.6	**2,735.3**	**2,451.6**	**2,482.2**
Service charges					
IT Public Private Partnership contract (PPP) payments		148.1	148.1	137.9	137.9
Accommodation PFI and non-PFI contract payments		155.6	155.6	89.9	89.9
Accommodation interest charges		23.9	23.9	26.9	26.9
Indexation of liability on PFI deals		1.7	1.7	1.7	1.7
IT Public Private Partnership interest charges		0.7	0.7	0.5	0.5
		330.0	**330.0**	**256.9**	**256.9**
Goods and services					
IT services and consumables		512.1	473.7	479.5	450.9
Contracted out services		165.9	165.9	162.0	162.0
Printing, postage, stationery and office supplies		50.1	50.1	52.4	52.9
Legal and investigation		40.2	40.2	43.8	43.8
Telephone expenses		23.5	23.0	31.8	31.7
Enforcement costs		35.8	35.8	29.9	29.9
Other goods and services		18.9	18.9	24.5	24.5
Consultancy		17.1	17.1	11.1	11.1
		863.6	**824.7**	**835.0**	**806.8**

Continued.

	Note	Core department and agency	2019-20 £m Departmental group	Core department and agency	2018-19 £m Departmental group
Payments in lieu of tax relief and rates		**205.1**	**205.1**	**169.1**	**169.1**
Other cash expenditure					
Accommodation expenses		128.2	128.2	118.3	118.3
Other operating leases[3]		66.5	66.5	52.7	52.7
National Insurance Fund other government department collection service		50.2	50.2	48.9	48.9
Losses (excluding Child Benefit and tax credits) and special payments		5.6	5.6	4.2	4.2
Auditors remuneration and expenses[4]		—	0.1	—	—
Other		44.3	44.8	30.3	31.0
		294.8	**295.4**	**254.4**	**255.1**
Non-cash items:					
Amortisation, depreciation and impairments					
Amortisation	6	238.8	238.8	221.5	221.5
Depreciation	5	73.6	73.7	72.7	72.8
Loss on impairment of non-current assets		2.1	2.1	10.5	10.5
		314.5	**314.6**	**304.7**	**304.8**
Provisions for liabilities and charges	10	**78.9**	**78.9**	**98.8**	**94.9**
Other non-cash					
Transfer of personal tax credits receivables to DWP		605.1	605.1	306.9	306.9
Auditors remuneration and expenses[4]		1.9	1.9	1.8	1.8
Other		14.7	14.7	12.1	12.1
		621.7	**621.7**	**320.8**	**320.8**
Total non-cash items		**1,015.1**	**1,015.2**	**724.3**	**720.5**
Total operating expenditure		**45,803.1**	**45,798.6**	**44,700.8**	**44,700.1**

1 Child Benefit expenditure includes amounts paid to higher rate taxpayers earning greater than £50,000 per annum. It is estimated that £396 million (2018 to 2019: £354 million) will be recovered via future income tax charges arising from payments of Child Benefit to those earning over £50,000 in 2019 to 2020. These income tax charges are accounted for in the Trust Statement.
2 Help to Save was previously reported under Child Benefit. Prior year figures have been restated.
3 Other operating leases now includes charges for operating leases plant and machinery and developer contribution; the former having been reported within other cash expenditure and the latter reported separately in 2018 to 2019. Prior year figures have been restated.
4 The NAO was not paid for any work of a non-audit nature during the period.

3. Statement of operating expenditure by operating segment

This note shows how resource expenditure is apportioned against the main areas of core business activity.

Each segment relates to a core business activity reported to the Chief Executive and the board using relevant management information covering expenditure and income and which is used by the board to make decisions.

A revised approach to determining segment values has resulted in the restatement of comparatives.

3.1 Expenditure and income by reportable segment

	2019-20 £m Gross expenditure	2019-20 £m Income	2019-20 £m Net expenditure	2018-19 £m Gross expenditure	2018-19 £m Income	2018-19 £m Net expenditure
Reportable segment						
Customer Compliance	1,253.1	60.9	1,192.2	1,149.3	59.2	1,090.1
Customer Services	869.7	27.3	842.4	876.1	34.4	841.7
Chief Digital and Information Officer Group	702.7	36.4	666.3	640.7	23.4	617.3
Chief Finance Officer Group	673.2	160.8	512.4	533.5	29.6	503.9
Chief People Officer, CEO and Corporate Communications Group	233.2	16.9	216.3	197.4	4.6	192.8
Customer Strategy and Tax Design	222.3	21.3	201.0	218.3	24.6	193.7
Solicitors Office and Legal Services	123.2	6.4	116.8	108.1	7.0	101.1
Border Coordination	30.0	—	30.0	13.1	0.1	13.0
Valuation Office Agency	207.6	41.3	166.3	192.7	42.8	149.9
Total	**4,315.0**	**371.3**	**3,943.7**	**3,929.2**	**225.7**	**3,703.5**

3.2 Reconciliation between operating segments and Consolidated Statement of Comprehensive Net Expenditure

Information on all other net expenditure is included in the table below. This information is reported to the board, however as it is centrally managed it is reported in a different format than the reportable segments in the management accounts which compares budgeted spend to full year forecast spend at the segment level.

Reconciliation between operating segments and Consolidated Statement of Comprehensive Net Expenditure

	2019-20 £m	2018-19 £m
Total net expenditure reported for operating segments	**3,943.7**	**3,703.5**
Personal tax credits	18,331.3	22,288.3
Corporation tax reliefs	10,100.7	5,876.9
Child Benefit and Child Trust Fund	11,465.8	11,469.9
Tax Free Childcare	245.5	115.7
Lifetime ISA	225.8	251.0
Help to Save	23.8	7.7
Transfer of personal tax credits receivables to DWP	605.1	306.9
Depreciation/Amortisation/Impairment	306.2	296.7
Payments in lieu of tax relief	116.0	97.4
Payments of Local Authority Rates	83.9	66.8
Net Operating Cost in Statement of Comprehensive Net Expenditure	**45,447.8**	**44,480.8**

4. Tax credits and Child Benefit

4.1 Tax credits

Since financial year 2011 to 2012, both personal tax credits expenditure and certain corporation tax reliefs are reported in these Resource Accounts. Tax credits can comprise of an element that is treated as negative taxation, being the extent to which the relief is less than or equal to the recipient's tax liability. They can also contain an element that is in excess of the tax liability, this being a payment of entitlement. Personal tax credits are treated as public expenditure on social benefits for the National Accounts.

4.1.1 Analysis of personal tax credits expenditure

Personal tax credits consist of Child Tax Credit and Working Tax Credit.

Awards are initially assessed and paid throughout the year on a provisional basis, based on claimants' assessments of their personal circumstances, and then adjusted after the end of each award year, once claimants' actual circumstances are known. Finalisation is the process by which claimants confirm their actual income and other circumstances for the previous award year. This process finalises the award for the award year that has ended and where the payments made do not match the revised entitlement based on the final information provided, this will give rise to under or overpayments which are accounted for as soon as identified. Finalisation is not complete until after the Account has been published and consequently there is uncertainty around the level of adjustments likely to arise. Finalisation also forms the basis for the provisional award for the subsequent year.

Analysis of personal tax credits expenditure

			2019-20 £m			2018-19 £m
	Child Tax Credit	Working Tax Credit	Total tax credits	Child Tax Credit	Working Tax Credit	Total tax credits
Tax credits	14,886.4	3,205.5	18,091.9	18,234.0	4,167.7	22,401.7
Movement in impairment for receivables	114.8	24.9	139.7	(281.1)	(64.3)	(345.4)
Remissions/write-offs	61.1	38.6	99.7	161.5	70.5	232.0
Total tax credits	**15,062.3**	**3,269.0**	**18,331.3**	**18,114.4**	**4,173.9**	**22,288.3**

Please see note 1.10 for the estimation techniques used to apportion between Child Tax Credit and Working Tax Credit.

Background about the operation of personal tax credits can be found at **www.gov.uk/government/organisations/hm-revenue-customs**.

4.1.2 Personal tax credits receivables

Where under or overpayments are identified, either during the award year or subsequently, adjustments are made to expenditure. Overpayments are treated as receivables and the department seeks to recover these from future personal tax credits awards or through direct repayment.

The Department for Work and Pensions (DWP) has taken on the debt associated with personal tax credits for customers who have made a claim to Universal Credit (UC). The debt started to transfer in April 2016 and is planned to continue to transfer over the coming years as more customers move to UC. In line with the Government Financial Reporting Manual this transfer has been treated as a capital grant in kind and disclosed as such throughout the Financial Statements. The debt has then been impaired under IFRS 9 (Impairment of Assets) and in line with HMRC and DWP policy, based on historical recoveries and write-offs. COVID-19 has negatively impacted the migration of personal tax credits debts to DWP which have been temporarily paused since April 2020.

Personal tax credits receivables

	Note	2019-20 £m	2018-19 £m
Receivables as at 1 April		**6,232.9**	**6,869.0**
Adjustment to prior year finalisation estimate		(11.7)	247.1
Estimated overpayment of awards prior to finalisation[1]		195.0	660.0
Overpayments identified from change of circumstances in year		758.1	548.4
Transferred to DWP[2]		(1,185.0)	(679.9)
Recoveries made		(1,046.4)	(1,179.7)
Remissions/write-offs		(99.7)	(232.0)
Receivables as at 31 March		**4,843.2**	**6,232.9**
Impairment as at 1 April		**3,050.2**	**4,076.2**
IFRS 9 adjustment		—	(307.6)
Restated Opening Balance		**3,050.2**	**3,768.6**
– Transferred to DWP[3]		(579.9)	(373.0)
– Movement in impairment		139.7	(345.4)
Impairment at 31 March		**2,610.0**	**3,050.2**
Net receivables at 31 March		**2,233.2**	**3,182.7**
Of which:			
Amounts expected to be recovered within one year	8	364.0	1,040.5
Amounts expected to be recovered in more than one year	8	1,869.2	2,142.2
Total		**2,233.2**	**3,182.7**

1 The range of the estimate is £130 million to £260 million (2018 to 2019: £460 million to £860 million).

Summary of receivables transferred to DWP

2 Gross receivables	1,185.0	679.9
3 Impairments	(579.9)	(373.0)
Net receivables transferred to DWP	**605.1**	**306.9**

Personal tax credits Expected Credit Loss (ECL)

As simple financial instruments, tax credit overpayment debt has been impaired over the lifetime of the debt as required by the Financial Reporting Manual (FReM) interpretations and adaptations for the public sector, context Chapter 6.2 table 6.2 interpretation 6.

Credit risk is not routinely assessed because the debt relates to overpayments made to benefit claimants, not lending by formal arrangement and as such a credit risk assessment is not a feature of the instrument.

The ECL is the difference between the cash flows that are due to HMRC in accordance with our contractual relationship with our customers and the cash flows that we expect to receive.

HMRC routinely assess likely recovery of debt, accepting that the individual credit risk associated with these debts rises as they age.

The main data inputs to the model are:

- historic monthly stocks and flows of debt, including recoveries, remissions and transfers to DWP
- the finalisation estimate (further detail below under the heading personal tax credits finalisation)
- latest claimant migration profile to Universal Credit
- the discount rate promulgated in PES papers by HM Treasury of 3.7%.

The key assumptions/judgements included in the ECL model are:

- Recent debt recovery experience is a reasonable proxy for past recoveries to inform future recovery rates
- Three debt recovery scenarios could occur:
  - the upper scenario considers the past 3 years debt recovery rates and takes the highest rate and applies that rate to future recoveries.
  - the middle scenario assumes that last year's debt recovery rate will apply to future years.
  - the lower scenario considers the past 3 years and takes the lowest rate and applies that rate to future recoveries.
- How the migration of claimants affects debt movements. This requires isolating the effect of HMRC's actual recovery efficiency on debt recovery from the effect of the rate of transition to Universal Credit.

This year we have further developed the ECL estimation model to improve robustness, reliability and greater flexibility for inputting changes to the ECL model variables:

- the model now includes and weighs an upper, middle and lower scenario (as described above). The middle scenario is the most likely outcome and has an 80% weighting. The upper and lower scenario each have a 10% weighting. The weighting does not have a material impact on the ECL because we have experienced a relatively consistent recovery rate in personal tax credits receivables in recent years, and this is expected to continue as the methods of recovery used by HMRC are expected to remain unchanged.
- the model includes the impact of the increase in the basic element of Working Tax Credits for 2020 to 2021 due to COVID-19 (further detail below under the heading personal tax credits finalisation).
- the model takes into account of the debt being paid over several years and applied the discount rate promulgated in PES papers by HM Treasury of 3.7% to forecast recoveries of personal tax credits debt. The effect of applying the discount rate is immaterial, but as below has the largest impact from the main changes.

We have assessed the improvements to the ECL model as a change in accounting estimate. The cumulative impact of the improvements to the model are immaterial. If the current version of the model had been used for the financial year 2018 to 2019 the impairment as at 31 March 2019 would have increased by £181 million to £3,231 million. This is primarily due to the introduction of discounting.

HMRC have explored possible correlations between the unemployment rate and live recovery of personal tax credits debt; and between the Average Earnings Index and Consumer Price Index and Direct Recovery of personal tax credits debt. After testing, no robust relationships were found between these economic determinants and debt recovery, therefore forecasts of future economic conditions are not included in our ECL model. We therefore consider historic recovery experience to be a suitable proxy for future debt recovery.

The table below provides summary impairment information for age bands, although debt is not banded by these ranges in the model calculations. In the model, the impairment is calculated in bandings of a year with historic recovery rates for each year applied to the aged debt balance.

	Gross Receivable £m	Impairment £m	Net Receivable £m
Total HMRC Debt	**4,843.0**	**2,610.0**	**2,233.0**
of which debt less than 1 year old	567.0	122.0	445.0
of which debt more than 1 but less than 5 years old	2,141.0	853.0	1,288.0
of which debt more than 5 but less than 10 years old	1,590.0	1,154.0	436.0
of which debt more than 10 years old	545.0	481.0	64.0

Sensitivity analysis

There is a significant degree of uncertainty around the assumptions that underpin the ECL. The sensitivity analysis below provides an indication of the impact if key assumptions were to change from the current estimate. This is based on our scenario analysis.

Scenario	Change to impairment as a percentage of gross receivables	Change to impairment £m
The upper recovery scenario was applied to 100% of the debt stock (as opposed to 10%).	-1%	**(60.0)**
The lower recovery scenario was applied to 100% of the debt stock (as opposed to 10%).	5%	**230.0**

Personal tax credits finalisation

HMRC analysts provide a range for the estimate of the results of the current year finalisation exercise. It is therefore subject to uncertainty and the estimate disclosed represents the mid-point of the range.

The range for the estimate is obtained by assessing the level of overpayment created in current and previous years and then considering the impact of other factors. The lower end of the range is £130 million and the upper end is £260 million.

The estimate produced for 2019 to 2020 considers the impact of claimants migrating to DWP under Universal Credit throughout 2020 to 2021 using the best available information. We have considered how COVID-19 has impacted on the finalisation and the ECL estimates. The effects of the pause in compliance activity, and the switch to auto renewals on the costing assumptions, and the effect of the adjustments made to Universal Credit migration profile due to the transfer spike on the input data have been included. The COVID-19 impacts are immaterial to the estimates and are estimated to have reduced the finalisation estimate by £227 million.

4.1.3 Personal tax credits error and fraud

HMRC measures the overall level of error and fraud by investigating a random sample of finalised awards, although because of the design of the tax credits scheme this cannot be completed until after claimants have finalised their awards for the preceding year. Some claimants, such as those taxpayers included within Self Assessment, may not finalise their awards for the preceding year until 31 January. HMRC used a tried and tested estimation methodology for the calculation of the finalisation estimate supported by annual review.

In September 2020, HMRC completed its testing on finalised awards for 2018 to 2019, based on a random sample of 4,000 enquiries.

Error and fraud has decreased to 4.9% this year, mainly due to a more stable claimant population by composition and better than expected compliance results. Please see page 50 of the Annual Report for more detail.

Value of personal tax credits error and fraud and as a percentage of final award value

			£m 2018-19 awards			£m 2017-18 awards[1]
Overpayments to claimants	1,000	to	1,220	1,280	to	1,550
	4.4%		5.4%	5.0%		6.1%
Underpayments to claimants	140	to	190	150	to	210
	0.6%		0.8%	0.6%		0.8%

1 Comparatives have been restated to reflect information received post publication of 2018 to 2019 annual report and accounts.

4.1.4 Corporation tax reliefs

In certain circumstances, companies are permitted to reduce their tax liability by making a claim for corporation tax reliefs. To be entitled to these reliefs, a company must be undertaking specific activities and meet the criteria set out for that relief. The corporation tax reliefs reported in these Resource Accounts, are treated as Annually Managed Expenditure. This treatment has been agreed with HM Treasury and relates to reliefs where there is or could be, by their design, a payable element that is in excess of any negative taxation. Other corporation tax reliefs are included in the Trust Statement.

Corporation tax reliefs

		2019-20 £m	2018-19 £m
Research and development: Small and Medium Enterprises (SME) scheme		4,840.9	2,738.4
Research and development expenditure credits (RDEC)		3,929.1	2,127.1
Creative industries	Film Tax Relief	635.1	534.9
	High-end Television Tax Relief	324.6	228.0
	Video Games Tax Relief	182.9	119.3
	Theatre Tax Relief	72.0	62.9
	Museums and Galleries Tax Relief	12.4	33.8
	Children's Television Tax Relief	25.6	13.7
	Orchestra Tax Relief	17.1	7.1
	Animation Tax Relief	21.4	4.9
Land Remediation Relief		39.6	9.4
Enhanced Capital Allowance		0.1	0.1
Vaccine Research Relief[1]		(0.1)	(2.7)
Total		**10,100.7**	**5,876.9**

1 Relief cessed in 2016 to 2017.

Of expenditure reported in 2019 to 2020, £1,455.3 million is additional expenditure relating to 2014 to 2015, in accordance with accounting policy 1.4.2. £1,988.8 was originally reported for 2014 to 2015. This revised estimate increases the total for 2014 to 2015 to £3,444.1 million as set out below:

Expenditure relating to 2014-15 (Accounting policy 1.4.2):

	Estimate reported in 2014-15 (£m)	Final estimate (£m)	Included in value reported in these Accounts (£m)
Research and development SME	738.4	1,313.2	574.8
Research and development RDEC	809.4	1,589.6	780.2
Creative Industries	413.6	516.0	102.4
Land Remediation	25.4	23.4	(2.0)
Vaccine Research	2.0	1.9	(0.1)
Total	**1,988.8**	**3,444.1**	**1,455.3**

Corporation tax reliefs are estimated by the department's statisticians using the latest available prior year estimates. An estimate is required due to the time-lag between the end of companies' accounting periods and the submission of their CT returns. For financial year 2019 to 2020, the latest available year's claim data used in the estimates relates to the financial year 2018 to 2019. The accounts for 2018 to 2019 were published closer to the end of the accounting period, in July 2019, which meant the latest available year's claim data used in that year's estimate related to financial year 2016 to 2017.

Actual values relating to the reporting year are not available. Growth and uplift assumptions are instead applied to the latest available data to determine values to be reported. Uncertainty results from the use of these assumptions.

Research & development reliefs methodology

Two improvements have been made to the estimate methodology for the R&D reliefs for 2019 to 2020:

- data on R&D tax relief claims are now sourced from a wider set of tables on HMRC's IT systems
- additional growth rates have been introduced to improve the accuracy of the forecast, as costs have been growing more quickly than predicted by the OBR determinant. This change in accounting estimate has increased the 2019 to 2020 estimate by £956.7 million.

Research & development reliefs assumptions and sensitivity

The key assumptions underpinning the 2019 to 2020 R&D relief estimates are that:

- at the cut-off date for producing the 2018 to 2019 outturn estimate, some CT returns for that financial year had not yet been received and processed. The estimate has been 'uplifted' to account for this. When calculating the uplift factor it is assumed that the proportion of 2018 to 2019 R&D tax relief claimed after the cut-off date is similar to previous years. The calculations use the average of two or three previous years depending on the available data:
  - Uplift applied to R&D SME relief claims: 26% (Negative taxation element) 11% (Payment element)
  - Uplift applied to R&D Expenditure Credit (RDEC) claims: 19%.
- R&D expenditure, on which R&D SME relief is claimed, will grow by 25.6% in 2019 to 2020
- R&D expenditure, on which R&D Expenditure Credit (RDEC) is claimed, will grow by 7.6% in 2019 to 2020

Sensitivity analysis has been applied to understand the degree of uncertainty if key assumptions were to change from the current estimates and the results are shown in the table below. The ranges we have estimated are based on both historic data and judgment about the level of uncertainty, although it is possible that actual values may exceed these.

Sensitivity analysis

Change to key assumption:	Change in Assumption	Variation £m	Change in Assumption	Variation £m
R&D SME uplift for 2018-19 varies by up to 3%	Increase by 3%	210	Decrease by 3%	(210)
RDEC uplift for 2018-19 varies by up to 6%	Increase by 6%	205	Decrease by 6%	(205)
R&D SME expenditure growth in 2019-20 varies by up to 5%	Increase by 5%	175	Decrease by 5%	(175)
RDEC expenditure growth in 2019-20 varies by up to 4%	Increase by 4%	110	Decrease by 4%	(110)

Creative Industries reliefs

The key assumptions underpinning the Creative Industries reliefs are similar to those used for R&D relief. It is assumed that the Creative Industries reliefs will grow in line with the OBR nominal GDP growth rate determinant.

4.1.5 Corporation tax reliefs – R&D error and fraud

HMRC estimates the error and fraud by combining an estimate for the population reviewed by HMRC compliance processes using compliance results, and an estimate for the remaining population using comparable error rates from Tax Gaps.

To estimate error and fraud in 2019 to 2020, we have estimated the error and fraud percentage based on claims received in previous years and applied resulting percentages to the estimated R&D tax relief expenditure for financial year 2019 to 2020 as reported at note 4.1.4.

2019 to 2020 is the first year for which an R&D error and fraud estimate has been prepared for the Resource Accounts.

Estimated value of R&D error and fraud in 2019-20 and as a percentage of the estimated R&D tax relief expenditure

	Best Estimate of the rate of error and fraud for 2019-20	Implied monetary value of error and fraud £m
Error and Fraud - SME Scheme	5.6%	271
Error and Fraud - RDEC	1.0%	40
Total	3.6%	311

There is significant uncertainty with the estimate as:

- the estimated rate of error and fraud is extrapolated from the results of historic compliance activity based on the error and fraud risks understood to exist at that time
- it assumes the error rate in the non-reviewed population is consistent for R&D with more general error rates identified in the Tax Gaps
- the estimate does not anticipate any changes to our compliance approach in the future that may serve to reduce error and fraud in claims relating to 2019 to 2020
- the value of R&D expenditure is itself an estimate based on expected claims which are yet to be received, increasing the uncertainty in the derived monetary value of error and fraud presented.

Given these uncertainties inherent in the estimate, we are unable to produce a meaningful range of outcomes for a sensitivity analysis based on the currently available information.

4.2 Child Benefit

The Child Benefit Error & Fraud Analytical Programme (EFAP) exercise took a stratified random sample of 2,700 cases which were selected to be representative of the Child Benefit population. Claims will be deemed non-compliant by HMRC compliance officers in the following circumstances:

Group 1. The claimant replies and the information provided proves ineligibility to Child Benefit; or
Group 2. The claimant does not reply to requests for information during the estimation exercise.

Based on the evidence available, 69% of non-respondents (Group 2) are assessed as likely to be eligible, 31% ineligible.

For cases where error and fraud was determined from the reply (Group 1), several themes are apparent. In particular, there are error and fraud risks due to violation of Full Time Non-Advanced Education (FTNAE) status and also risks potentially related to migration. There are a small number of cases that may be due to family or household makeup risks.

These estimates are based on a relatively small sample size and so are associated with a high degree of uncertainty. This is a higher level of uncertainty than in 2018 to 2019 due to fewer cases in the sample where the claimant's eligibility is based on a response.

Value of Child Benefit error and fraud and as a percentage of estimated Child Benefit expenditure

	£m 2019-20	£m 2018-19
Group 1: Claimant reply proves ineligibility	55 (0.5%)	40 (0.3%)
Group 2: Claimant non-reply, assumed ineligible	50 (0.4%)	35 (0.3%)
Total	105 (0.9%)	75 (0.6%)

5. Property, plant and equipment

	Land[1] £m	Buildings[1] £m	Accommodation refurbishments[1] £m	Office and computer equipment £m	Vehicles £m	Furniture and fittings £m	Assets under construction £m	Scientific Aids £m	Total £m
Cost or valuation									
At 1 April 2019	51.9	507.6	202.8	315.9	18.2	56.4	63.3	4.8	1,220.9
Additions	—	—	—	19.6	1.9	3.1	116.4	—	141.0
Donations	—	—	—	—	—	—	—	—	—
Disposals	—	(6.9)	(8.2)	(33.2)	(2.3)	(6.7)	—	(1.4)	(58.7)
Impairments	—	—	—	—	—	(0.5)	—	—	(0.5)
Reclassifications	—	—	5.3	2.6	—	3.5	(12.7)	0.3	(1.0)
Revaluations[2]	0.5	4.7	—	(0.6)	—	0.1	—	—	4.7
At 31 March 2020	**52.4**	**505.4**	**199.9**	**304.3**	**17.8**	**55.9**	**167.0**	**3.7**	**1,306.4**
Depreciation									
At 1 April 2019	—	(286.7)	(145.2)	(247.4)	(14.5)	(21.3)	—	(3.0)	(718.1)
Charged in year	—	(20.5)	(13.9)	(33.5)	(1.1)	(3.9)	—	(0.8)	(73.7)
Disposals	—	6.3	5.9	30.6	2.1	4.9	—	1.3	51.1
Impairments	—	—	—	—	—	—	—	—	—
Reclassifications	—	—	—	—	—	—	—	—	—
Revaluations[2]	—	(0.1)	—	0.2	—	—	—	—	0.1
At 31 March 2020	**—**	**(301.0)**	**(153.2)**	**(250.1)**	**(13.5)**	**(20.3)**	**—**	**(2.5)**	**(740.6)**
Carrying amount at 31 March 2019	51.9	220.9	57.6	68.5	3.7	35.1	63.3	1.8	502.8
Carrying amount at 31 March 2020	**52.4**	**204.4**	**46.7**	**54.2**	**4.3**	**35.6**	**167.0**	**1.2**	**565.8**
The assets are financed as follows:									
Owned	52.4	—	46.7	48.7	4.3	35.6	167.0	1.2	355.9
Finance leased	—	1.9	—	0.7	—	—	—	—	2.6
PFI contracts	—	202.5	—	4.8	—	—	—	—	207.3
Carrying amount at 31 March 2020	**52.4**	**204.4**	**46.7**	**54.2**	**4.3**	**35.6**	**167.0**	**1.2**	**565.8**
Of the total:									
Core department	52.4	204.2	46.6	51.0	4.3	32.6	165.3	1.2	557.6
Valuation Office Agency	—	0.2	0.1	2.8	—	3.0	1.7	—	7.8
Revenue and Customs Digital Technology Services Limited	—	—	—	0.4	—	—	—	—	0.4
Carrying amount at 31 March 2020	**52.4**	**204.4**	**46.7**	**54.2**	**4.3**	**35.6**	**167.0**	**1.2**	**565.8**

Continued

	Land[1] £m	Buildings[1] £m	Accommodation refurbishments[1] £m	Office and computer equipment £m	Vehicles £m	Furniture and fittings £m	Assets under construction £m	Scientific Aids £m	Total £m
Cost or valuation									
At 1 April 2018	51.0	526.0	173.0	299.1	18.4	57.6	57.2	3.1	1,185.4
Additions	—	—	—	20.2	0.3	2.9	51.9	—	75.3
Donations	—	—	—	—	—	—	—	—	—
Disposals	—	(22.0)	(0.5)	(10.3)	(0.5)	(10.7)	—	(0.7)	(44.7)
Impairments	—	—	—	—	—	—	—	—	—
Reclassifications	—	—	30.3	6.4	—	6.6	(45.8)	2.4	(0.1)
Revaluations[2]	0.9	3.6	—	0.5	—	—	—	—	5.0
At 31 March 2019	**51.9**	**507.6**	**202.8**	**315.9**	**18.2**	**56.4**	**63.3**	**4.8**	**1,220.9**
Depreciation									
At 1 April 2018	—	(291.1)	(130.5)	(225.8)	(13.2)	(26.3)	—	(2.9)	(689.8)
Charged in year	—	(19.8)	(15.1)	(30.9)	(1.8)	(4.4)	—	(0.8)	(72.8)
Disposals	—	21.5	0.4	9.5	0.5	9.4	—	0.7	42.0
Impairments	—	—	—	—	—	—	—	—	—
Reclassifications	—	—	—	—	—	—	—	—	—
Revaluations[2]	—	2.7	—	(0.2)	—	—	—	—	2.5
At 31 March 2019	**—**	**(286.7)**	**(145.2)**	**(247.4)**	**(14.5)**	**(21.3)**	**—**	**(3.0)**	**(718.1)**
Carrying amount at 31 March 2018	51.0	234.9	42.5	73.3	5.2	31.3	57.2	0.2	495.6
Carrying amount at 31 March 2019	**51.9**	**220.9**	**57.6**	**68.5**	**3.7**	**35.1**	**63.3**	**1.8**	**502.8**
The assets are financed as follows:									
Owned	51.9	—	57.6	65.2	3.7	35.1	63.3	1.8	278.6
Finance leased	—	4.2	—	—	—	—	—	—	4.2
PFI contracts	—	216.7	—	3.3	—	—	—	—	220.0
Carrying amount at 31 March 2019	**51.9**	**220.9**	**57.6**	**68.5**	**3.7**	**35.1**	**63.3**	**1.8**	**502.8**
Of the total:									
Core department	51.9	220.7	57.5	64.6	3.7	31.8	61.1	1.8	493.1
Valuation Office Agency	—	0.2	0.1	3.6	—	3.3	2.2	—	9.4
Revenue and Customs Digital Technology Services Limited	—	—	—	0.3	—	—	—	—	0.3
Carrying amount at 31 March 2019	**51.9**	**220.9**	**57.6**	**68.5**	**3.7**	**35.1**	**63.3**	**1.8**	**502.8**

1 See note 1.6.2 for the accounting policy for property assets.
2 See notes 1.2 and 1.6.2 for the accounting policy regarding revaluation of property, plant and equipment.

Property revaluation

Valuations were performed by the Valuation Office Agency, an executive agency of HM Revenue and Customs, whose services include providing valuation and estate surveying services to government departments.

6. Intangible assets

	Licences £m	Software £m	Website development £m	Assets under construction £m	Total £m
Cost or valuation					
At 1 April 2019	65.8	3,498.9	19.0	425.0	4,008.7
Additions	10.3	2.8	—	263.8	276.9
Disposals	(1.4)	(57.3)	—	—	(58.7)
Impairments	—	(1.6)	—	—	(1.6)
Reclassifications	3.2	242.4	0.9	(245.6)	0.9
Revaluation[1]	—	75.1	—	—	75.1
At 31 March 2020	**77.9**	**3,760.3**	**19.9**	**443.2**	**4,301.3**
Amortisation					
At 1 April 2019	(32.1)	(2,621.1)	(10.6)	—	(2,663.8)
Charged in year	(12.1)	(224.7)	(2.0)	—	(238.8)
Disposals	1.2	51.5	—	—	52.7
Impairments	—	—	—	—	—
Reclassifications	—	—	—	—	—
Revaluation[1]	—	(55.0)	—	—	(55.0)
At 31 March 2020	**(43.0)**	**(2,849.3)**	**(12.6)**	**—**	**(2,904.9)**
Carrying amount at 31 March 2019	33.7	877.8	8.4	425.0	1,344.9
Carrying amount at 31 March 2020	**34.9**	**911.0**	**7.3**	**443.2**	**1,396.4**
The assets are financed as follows:					
Owned	34.9	910.5	7.3	443.2	1,395.9
Finance leased	—	0.5	—	—	0.5
PFI contracts	—	—	—	—	—
Carrying amount at 31 March 2020	**34.9**	**911.0**	**7.3**	**443.2**	**1,396.4**
Of the total:					
Core department	34.9	898.6	7.3	435.4	1,376.2
Valuation Office Agency	—	12.4	—	7.8	20.2
Revenue and Customs Digital Technology Services Limited	—	—	—	—	—
Carrying amount at 31 March 2020	**34.9**	**911.0**	**7.3**	**443.2**	**1,396.4**

Continued

	Licences £m	Software £m	Website development £m	Assets under construction £m	Total £m
Cost or valuation					
At 1 April 2018	51.6	3,349.4	18.8	314.4	3,734.2
Additions	10.0	—	—	304.3	314.3
Disposals	(0.5)	(123.1)	—	—	(123.6)
Impairments	—	(10.5)	—	—	(10.5)
Reclassifications	4.7	188.9	0.2	(193.7)	0.1
Revaluation[1]	—	94.2	—	—	94.2
At 31 March 2019	**65.8**	**3,498.9**	**19.0**	**425.0**	**4,008.7**
Amortisation					
At 1 April 2018	(22.8)	(2,455.3)	(8.5)	—	(2,486.6)
Charged in year	(8.5)	(210.9)	(2.1)	—	(221.5)
Disposals	0.5	111.4	—	—	111.9
Impairments	—	—	—	—	—
Reclassifications	(1.3)	1.3	—	—	—
Revaluation[1]	—	(67.6)	—	—	(67.6)
At 31 March 2019	**(32.1)**	**(2,621.1)**	**(10.6)**	**—**	**(2,663.8)**
Carrying amount at 31 March 2018	28.8	894.1	10.3	314.4	1,247.6
Carrying amount at 31 March 2019	**33.7**	**877.8**	**8.4**	**425.0**	**1,344.9**
The assets are financed as follows:					
Owned	33.7	877.8	8.4	425.0	1,344.9
Finance leased	—	—	—	—	—
PFI contracts	—	—	—	—	—
Carrying amount at 31 March 2019	**33.7**	**877.8**	**8.4**	**425.0**	**1,344.9**
Of the total:					
Core department	33.7	862.6	8.4	419.1	1,323.8
Valuation Office Agency	—	15.2	—	5.9	21.1
Revenue and Customs Digital Technology Services Limited	—	—	—	—	—
Carrying amount at 31 March 2019	**33.7**	**877.8**	**8.4**	**425.0**	**1,344.9**

1 See notes 1.2 and 1.6.3 for the accounting policy regarding revaluation of intangible assets.

7. Capital and other commitments

7.1 Commitments under leases

Leases are categorised as either operating or finance leases. A lease is classified as a finance lease if it transfers substantially all risks and rewards incidental to ownership, whereas an operating lease doesn't. The property leases vary in length and the department has no right of purchase at the end of the contract but would re-negotiate leases where continued occupation is desired.

7.1.1 Operating leases

Total future minimum lease payments under operating leases are given in the table below. The buildings payments relate to property leased by Mapeley from third-party landlords on behalf of the department, property leased by the department direct from private landlords and the minor occupation of other government department buildings. The other commitments relate to a number of IT and vehicle leasing contracts.

In accordance with HMRC's Building Our Future Location strategy, the operating lease balance includes the commitment for the Regional Centres (RC) in operation at Belfast, Bristol and Croydon, together with commitments where Agreements For Leases are held for the other locations.

Regional Centre	Total Commitment Value[1] (£m)
Belfast	60.2
Birmingham	140.8
Bristol	89.9
Cardiff	125.3
Croydon	169.1
Edinburgh	113.7
Glasgow	112.2
Leeds	220.5
Liverpool	139.0
Manchester	63.6
Nottingham	128.6
Stratford	262.0
Total	**1,624.9**

1 Total commitment value is based on annual payments and duration of lease.

Obligations under operating leases

	2019-20 £m		2018-19 £m	
	Core department and agency	Departmental group	Core department and agency	Departmental group
Land and buildings				
Due within one year	127.3	127.3	117.6	117.6
Due between one year and five years	363.5	363.5	379.8	379.8
Due later than five years	1,335.5	1,335.5	1,336.9	1,336.9
	1,826.3	**1,826.3**	**1,834.3**	**1,834.3**
Other				
Due within one year	40.8	40.8	49.0	49.0
Due between one year and five years	20.7	20.7	31.9	31.9
Due later than five years	—	—	—	—
	61.5	**61.5**	**80.9**	**80.9**

7.1.2 Finance leases

The following commitments are in respect of assets that have been brought onto the department's Consolidated Statement of Financial Position under IAS 17. Total finance lease charges are given in the table below. The buildings payments relate to property leased by Mapeley from third-party landlords on behalf of the department and property leased by the department direct from private landlords.

Obligations under finance leases

	2019-20 £m		2018-19 £m	
	Core department and agency	Departmental group	Core department and agency	Departmental group
Buildings				
Due within one year	1.3	1.3	1.3	1.3
Due between one year and five years	1.7	1.7	2.8	2.8
Due later than five years	—	—	0.2	0.2
	3.0	**3.0**	**4.3**	**4.3**
Other				
Due within one year	1.2	1.2	—	—
Due between one year and five years	—	—	—	—
Due later than five years	—	—	—	—
	1.2	**1.2**	—	—

7.2 Commitments under PFI and other service concession arrangements

7.2.1 Off-Statement of Financial Position

The department has no off-Statement of Financial Position PFI contracts.

7.2.2 On-Statement of Financial Position

The following commitments are in respect of assets that have been brought onto the department's Statement of Financial Position under IAS 17 and IFRIC 12 Service Concession Arrangements. They comprise commitments relating to the STEPS contract (Mapeley-owned) freehold and historic leasehold properties, Newcastle Estates Partnership (NEP) held with DWP, the building known as 100 Parliament Street and St. John's House, Bootle and also commitments in relation to IT infrastructure.

The total amount charged in the Consolidated Statement of Comprehensive Net Expenditure in respect of on-Statement of Financial Position PFI and other service concession arrangement transactions (there were no off-Statement of Financial Position transactions) was £237.4 million (2018 to 2019: £229.5 million). This amount is included within the figures reported in note 2 as PPP and PFI service charges.

The substance of each contract is that the department has a finance lease and that payments comprise two elements - finance lease charges and service charges.

Details of the obligations for lease payments

		2019-20 £m		2018-19 £m
	Core department and agency	Departmental group	Core department and agency	Departmental group
Minimum lease payments:				
Due within one year	44.6	44.6	45.0	45.0
Due between one year and five years	100.1	100.1	117.1	117.1
Due later than five years	253.2	253.2	275.8	275.8
Total minimum lease payments due in future periods	**397.9**	**397.9**	**437.9**	**437.9**

Details of the obligations for service elements

		2019-20 £m		2018-19 £m
	Core department and agency	Departmental group	Core department and agency	Departmental group
Service elements due in future periods:				
Due within one year	85.8	85.8	111.9	111.9
Due between one year and five years	173.2	173.2	248.3	248.3
Due later than five years	109.4	109.4	243.7	243.7
Total service elements due in future periods	**368.4**	**368.4**	**603.9**	**603.9**
Total Commitments	**766.3**	**766.3**	**1,041.8**	**1,041.8**

7.3 Capital commitments

The capital commitments reported relate to the future cost of the development work in the estate.

Contracted capital commitments at 31 March not otherwise included in these financial statements

	2019-20 £m		2018-19 £m	
	Core department and agency	Departmental group	Core department and agency	Departmental group
Property, plant and equipment	93.9	93.9	12.6	12.6
Intangible assets	18.5	18.5	1.7	1.7
	112.4	**112.4**	**14.3**	**14.3**

7.4 Other financial commitments

The department has entered into a non-cancellable contract (which is not a lease, PFI contract or other service concession arrangement) to support development of transformation capability within HMRC.

The payments to which the department are committed are as follows:

	2019-20 £m		2018-19 £m	
	Core department and agency	Departmental group	Core department and agency	Departmental group
Due within one year	18.8	18.8	0.1	0.1
Due between one year and five years	148.3	148.3	—	—
Due later than five years	11.8	11.8	—	—
	178.9	**178.9**	**0.1**	**0.1**

8. Trade receivables, financial and other assets

	Note	Core department and agency	2019-20 £m Departmental group	Core department and agency	2018-19 £m Departmental group
Amounts expected to be received in more than one year:					
Personal tax credits	4.1.2	1,869.2	1,869.2	2,142.2	2,142.2
RCDTS Ltd funding[1]		7.0	—	14.0	—
Accrued income, other prepayments		—	—	0.1	0.1
		1,876.2	**1,869.2**	**2,156.3**	**2,142.3**
Amounts expected to be received within one year:					
Personal tax credits	4.1.2	364.0	364.0	1,040.5	1,040.5
Child Benefit[2]		2.7	2.7	9.2	9.2
Help to Save		4.3	4.3	—	—
Trade receivables		5.1	5.1	6.0	6.0
Other receivables[3,4]		41.7	41.7	34.1	34.2
Deposits and advances		79.8	79.8	71.4	71.4
Value Added Tax		19.4	18.2	17.0	15.9
Prepayments - Child Benefit		64.8	64.8	—	—
Accrued income, other prepayments		125.3	125.5	98.2	98.4
		707.1	**706.1**	**1,276.4**	**1,275.6**

1 HMRC has funded RCDTS Ltd for general working capital and investment purposes. This has been accounted for as a long-term loan arrangement.
2 This figure is net of provision for impairment amounting to £3.4 million (2018 to 2019: £13.9 million).
3 This figure is net of provision for impairment amounting to departmental group: £20.9 million (2018 to 2019 departmental group: £21.7 million).
4 Includes values relating to trade debtors previously reported under Deposits and advances. Prior year figures have been restated.

9. Trade payables and other liabilities

	2019-20 £m		2018-19 £m	
	Core department and agency	Departmental group	Core department and agency	Departmental group
Amounts expected to be paid within one year:				
Personal tax credits	501.7	501.7	518.4	518.4
Child Benefit	42.3	42.3	10.3	10.3
Help to Save[1]	30.2	30.2	7.7	7.7
Trade payables	90.7	91.1	67.5	67.9
Taxation and social security excluding VAT	47.1	48.1	47.1	48.1
IT Public Private Partnership	2.6	2.6	1.6	1.6
Accommodation PFI	23.3	23.3	19.7	19.7
Accommodation non-PFI	1.1	1.1	1.1	1.1
Other payables	6.7	6.7	5.8	5.8
Accruals - corporation tax reliefs	7,315.5	7,315.5	4,754.4	4,754.4
Accruals - Child Benefit	202.0	202.0	285.9	285.9
Deferred income, other accruals	538.7	534.8	472.8	465.5
Amounts issued from the Consolidated Fund for Supply but not spent at year end	—	—	41.5	41.5
Balance to surrender payable to the Consolidated Fund[2]	806.3	806.3	—	—
Consolidated Fund Extra Receipts due to be paid to the Consolidated Fund				
received	0.1	0.1	0.1	0.1
receivable	—	—	—	—
	9,608.3	**9,605.8**	**6,233.9**	**6,228.0**
Amounts expected to be paid in more than one year:				
Accruals - corporation tax reliefs	1,592.3	1,592.3	997.6	997.6
IT Public Private Partnership	3.5	3.5	2.0	2.0
Accommodation PFI	205.1	205.1	226.9	226.9
Accommodation non-PFI	1.4	1.4	2.5	2.5
	1,802.3	**1,802.3**	**1,229.0**	**1,229.0**

1 Help to Save was previously reported under Child Benefit. Prior year figures have been restated.
2 As a result of the decrease in net cash requirement at Supplementary Estimate, the department had a balance to surrender which was owed to the Consolidated Fund. The balance remained outstanding at 31 March 2020 and therefore has been recognised as a payable.

9.1 Reconciliation of liabilities arising from financing activities

	Balance at 1 April 2019	Cash Flows		Non-Cash Changes				Balance at 31 March 2020
		Financing cash flows[1]	Net Cash Requirement	Acquisition	Forex Movements	Fair Value changes	Disposal	
	£m	£m	£m	£m	£m	£m	£m	£m
Supply – current year	41.5	16,216.2	(16,257.7)	—	—	—	—	—
Supply – prior year	—	—	—	—	—	—	—	—
Parliamentary funding – balance to surrender	—	80.3	726.0	—	—	—	—	806.3
From the Trust Statement	—	24,948.6	(24,948.6)	—	—	—	—	—
From the National Insurance Fund	1.5	254.1	(271.3)	—	—	—	—	(15.7)
Lease Liabilities	253.7	(29.2)	—	11.4	—	1.7	(0.6)	237.0
Total liabilities from financing activities	**296.7**	**41,470.0**	**(40,751.6)**	**11.4**	**—**	**1.7**	**(0.6)**	**1,027.6**

	Balance at 1 April 2018	Cash Flows		Non-Cash Changes				Balance at 31 March 2019
		Financing cash flows	Net Cash Requirement	Acquisition	Forex Movements	Fair Value changes	Disposal	
	£m	£m	£m	£m	£m	£m	£m	£m
Supply - current year	69.3	15,601.7	(15,629.5)	—	—	—	—	41.5
Supply - prior year	—	—	—	—	—	—	—	—
From the Trust Statement	—	25,584.0	(25,584.0)	—	—	—	—	—
From the National Insurance Fund	(21.1)	297.9	(275.3)	—	—	—	—	1.5
Lease Liabilities	274.7	(22.4)	—	2.4	—	1.8	(2.8)	253.7
Total liabilities from financing activities	**322.9**	**41,461.2**	**(41,488.8)**	**2.4**	**—**	**1.8**	**(2.8)**	**296.7**

1 The £16,216.2 million reported as Supply - current year, together with the £80.3 million reported as Parliamentary funding - balance to surrender, are reported as financing from the Consolidated Fund (Supply) - current year in the Consolidated Statement of Cash Flows.

10. Provisions for liabilities and charges

Provisions are recognised when HMRC has a present legal or constructive obligation as a result of a past event, it is probable that HMRC will be required to settle that obligation and an amount has been reliably estimated.

Provisions for liabilities and charges

	2019-20 £m		2018-19 £m	
	Core department and agency	Departmental group	Core department and agency	Departmental group
Balance at 1 April	**215.9**	**215.9**	**160.0**	**163.9**
Provided in the year	138.1	138.1	116.1	116.1
Provisions not required written back	(59.2)	(59.2)	(17.3)	(21.2)
Borrowing costs (unwinding of discounts)	—	—	—	—
Net expenditure	78.9	78.9	98.8	94.9
Provisions utilised in the year	(54.6)	(54.6)	(42.9)	(42.9)
Balance at 31 March	**240.2**	**240.2**	**215.9**	**215.9**

10.1 Analysis of expected timing of discounted flows

	2019-20 £m		2018-19 £m	
	Core department and agency	Departmental group	Core department and agency	Departmental group
Not later than one year	15.0	15.0	11.3	11.3
Later than one year and not later than five years	199.6	199.6	191.0	191.0
Later than five years	25.6	25.6	13.6	13.6
Balance at 31 March	**240.2**	**240.2**	**215.9**	**215.9**

	Child Trust Fund £m	Legal claims £m	Accommodation costs £m	Other £m	Total £m
Not later than one year	0.1	8.1	0.1	6.7	15.0
Later than one year and not later than five years	0.3	81.9	8.7	108.7	199.6
Later than five years	—	22.7	2.9	—	25.6
Balance at 31 March	**0.4**	**112.7**	**11.7**	**115.4**	**240.2**

10.2 Child Trust Fund

Child Trust Fund (CTF) endowments; eligibility to which ceased on 3 January 2011, provided assistance with the funding on long-term individual savings and investment accounts provided by approved financial institutions. A provision of £0.4 million was retained for general CTF payments amounts forecast to become payable in respect of children qualifying for CTF endowments.

10.3 Legal claims

A provision of £112.7 million (2018 to 2019: £87.7 million) has been made for costs relating to various legal claims against the department. The provision reflects all known claims, where legal advice indicates that it is probable that the claim will be successful.

10.4 Accommodation costs

A provision of £11.7 million has been made (2018 to 2019: £12.3 million) for buildings related claims giving rise to probable liabilities under tenancy agreements.

10.5 Other

Provisions relating to various other claims against the department amount to £115.4 million (2018 to 2019: £107.9 million).

11. Pension asset/liability

The Valuation Office Agency merged with The Rent Service on 1 April 2009, taking on staff who are members of the Local Government Pension Scheme. The pension assets and liabilities, part of the Local Government Pension Scheme are reflected in the Consolidated Statement of Financial Position (see page 211).

Further information can be found within the Valuation Office Agency accounts (HC 720) that can be viewed **www.gov.uk/government/organisations/valuation-office-agency**.

12. Contingent liabilities

Contingent liabilities are possible obligations that arise from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within HMRC's control. An example is legal action where the department may need to pay legal costs if it loses the case. These are not disclosed where disclosure could seriously prejudice the outcome of legal claims against the department.

The department has the following quantifiable contingent liabilities:

Legal claims – a contingent liability of £90.5 million (2018 to 2019: £84.2 million) exists for costs that may be awarded should various legal cases in which HMRC is involved be determined against the department. The contingent liability covers all such cases where the outcome is unknown or cannot be estimated reliably.

Guaranteed costs – possible liability where appointed liquidators have been guaranteed payment of their costs with a view to recovery of outstanding tax liabilities £0.6 million, 68 cases (2018 to 2019: £0.7 million, 89 cases).

Other — the department has a further number of contingent liabilities amounting to £67.0 million (2018 to 2019: £91.0 million).

13. Related-party transactions

The department is the parent of the Valuation Office Agency as well as Revenue and Customs Digital Technology Services Limited (RCDTS Ltd). These bodies are both regarded as a related-party with which the department has had various material transactions during the year.

The Valuation Office Agency has had a significant number of material transactions with other government departments. Most of these transactions have been with the Ministry for Housing, Communities and Local Government, the Department for Work and Pensions and the Welsh Government.

RCDTS Ltd provides a managed IT service to HMRC, funding is provided from HMRC to RCDTS Ltd.

In addition, the department has had a small number of transactions with other government departments and other central government bodies.

No board member, key manager or other related party has undertaken any material transactions with the department during the year. Details of compensation for key management personnel can be found in the remuneration report within the accountability section.

14. Entities within the departmental boundary

The Valuation Office Agency is a supply-financed agency. Its Annual Report and Accounts are published at **www.voa.gov.uk**

Revenue and Customs Digital Technology Services Limited is an Arms Length Body. Its Annual Report and Accounts are published at **www.gov.uk/government/organisations/companies-house**

15. Investments in other public sector bodies

The department holds no loans, public dividend capital or other interests in public bodies outside the departmental boundary.

16. Events after the reporting period date

The government introduced various measures to support employers, businesses and individuals during the COVID-19 pandemic. Since 31 March 2020, HMRC has implemented the following schemes, which we recognise as material non-adjusting events after the reporting date:

- The Coronavirus Job Retention Scheme (CJRS) - set up to pay a proportion of the wages of staff who were furloughed during the coronavirus outbreak. CJRS went live on 20 April 2020 and is due to continue until December 2020.
- The Self-Employed Income Support Scheme (SEISS) - was established to support self-employed individuals and members of partnerships who have lost income due to Coronavirus. Applications for the first grant opened on 13 May 2020 and closed on 14 July 2020. Customers could claim for a second grant from 17 August 2020 to 19 October 2020. As part of the Government's Winter Economy Plan, the Chancellor announced on 24 September 2020 that two further grants will be paid to cover the period from November 2020 to April 2021.
- Eat Out to Help Out (EOHO) - set up to encourage people to return to eating out at restaurants. EOHO went live on 3 August 2020. Eligible claims could be made for the period from 3 August 2020 to 31 August 2020. EOHO closed on 30 September 2020.

As at the 30 September 2020, HMRC had received claims for CJRS of £39.2 billion and a total of £13.3 billion for SEISS tranche 1 and 2. For EOHO, HMRC received total claims of £522 million as at 31 August 2020 (see Annual Report page 15). There will be further payments up until the schemes close. The exact cost of further payments is uncertain as it depends on the take-up of the schemes.

Furthermore, the following are schemes we anticipate delivering and including in our 2020 to 2021 financial statements:

- Job Retention Bonus (JRB) - the government announced on 8 July 2020 an intention to provide additional support to employers who keep furloughed employees in employment after CJRS ends. JRB is intended to be a one-off payment to employers. JRB is anticipated to go live on 15 February 2021 but this may be reviewed in the light of the CJRS extension.
- Job Support Scheme (JSS) - as part of the Winter Economy Plan, the government announced on 24 September 2020 a Job Support Scheme, which it announced it would expand on 9 October 2020. JSS, which was scheduled to begin 1 November 2020, has been postponed until CJRS ends.

The cost of payments for these is uncertain and depends on take-up of the schemes.

These accounts have been authorised for issue by the Accounting Officer on the same date as the Comptroller and Auditor General's Audit Certificate.

Glossary to the financial statements

Accrued Revenue Payable (ARP) - there are three distinct types of ARP. These comprise:

- firstly, amounts due to traders that have an established revenue repayment claim relating to the financial year, but the date the claim is received is after the end of the reporting period
- secondly, amounts of receivables and accrued revenue receivable that will, when received, be passed to a third-party, for example national insurance contributions due to the National Insurance Funds and National Health Services
- thirdly, amounts in respect of Corporation Tax and income tax likely to be repayable by HMRC pending finalisation of tax payer liabilities.

Accrued Revenue Receivable (ARR) - ARR represents taxes and duties relating to the financial year that are not yet due or received from taxpayers, where these have not been included in receivables.

Administration costs - these relate to the internal administration costs of running the department, for example human resources, finance, estates management, and includes both costs and associated operating income.

Amortisation - this is the method of spreading the cost of a non-current intangible asset over its useful life.

Annually Managed Expenditure (AME) - departments are allocated a separate annually managed spending limit called AME which has a shorter term view than the DEL limit. AME is more volatile than DEL expenditure and therefore is more difficult to explain or control as it is spent on programmes which are demand-led - such as tax credits or Child Benefit.

CFER - Consolidated Fund Extra Receipts. This is income which the department is not entitled to retain and it is passed over to HM Treasury.

Consolidated Fund - the Consolidated Fund is the government's general bank account at the Bank of England. Payments from this account must be authorised in advance by the House of Commons.

Consolidated Statement of Cash Flows (CSoCF) - a statement that reports the cash flows during the financial year from operating, investing and financing activities.

Consolidated Statement of Changes in Taxpayers' Equity (CSoCTE) - a statement which explains the movements in the department and departmental group's net assets between the start and end of a financial year.

Consolidated Statement of Comprehensive Net Expenditure (CSoCNE) - this is the performance statement, the equivalent of the 'Profit and Loss' Account and Statement of Total Recognised Gains and Losses. It reports a summary of the departmental group's expenditure and income for the financial year, along with its gains and losses.

Consolidated Statement of Financial Position (CSoFP) - previously known as the Balance Sheet, it provides a snapshot of the assets and liabilities of the group as at the end of the reporting period.

Contingent liabilities - contingent liabilities are possible obligations that arise from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within HMRC's control. An example is legal action where the department may need to pay legal costs if it loses the case. These are not disclosed where disclosure could seriously prejudice the outcome of legal claims against the department.

Current assets - a current asset is cash and any other entity asset that will be turning to cash within one year from the department's reporting date.

Current liabilities - a current liability is an obligation that is due within one year of the department's reporting date.

Deferred revenue - this includes duties and taxes paid in the current year that relate to future accounting periods.

Departmental Expenditure Limits (DEL) - this is the spending budget that is allocated to and spent by Government departments. This amount, and how it is split between Government departments, is set at Spending Reviews on a three yearly basis. It is normally categorised as Capital DEL and Resource DEL. Departmental expenditure includes the running of the services and the everyday cost of resources such as staff. The DEL limit is tightly controlled by HM Treasury. A department's expenditure is deemed to be DEL unless HM Treasury has specified otherwise.

Depreciation - this is the method of spreading the cost of a non-current tangible asset over its useful life.

Excess Vote - if a department breached either the total resource-based estimates or the cash limits this will result in an Excess Vote.

Finalisation (personal tax credits) - this is the process, occurring after the financial year end, by which claimants confirm their actual income and other circumstances for the previous award year. The award is finalised for the award year that has ended and appropriate adjustments for under or overpayments of tax credits are made.

Financial Reporting Manual (FReM) - this is the HM Treasury technical accounting guide to the preparation of financial statements for government.

IAS - International Accounting Standards.

IASB - International Accounting Standards Board.

IFRIC - the IFRS Interpretations Committee (IFRIC) develop guidance on appropriate accounting treatment of particular issues. They are approved by the International Accounting Standards Board (IASB).

IFRS - International Financial Reporting Standards. The Financial Statements of Government adopted IFRS from 2009-10 as the basis for preparation of their accounts which were previously prepared under UK based Generally Accepted Accounting Practice (UK GAAP).

Impairment of accrued revenue receivables - the process of reducing accrued revenue receivables to a fair value that is likely to be collected

Impairment of receivables - (formerly known as 'Provision for Doubtful Debt' [PDD]) - the process of reducing receivables to a fair value that is likely to be collected

Indemnities - will be ordered by the court, on behalf of the insolvency practioner or solicitors, in case the department has incorrectly wound up a viable business. These indemnities are unlimited, although we calculate a likely value for reporting purposes. The calculation is based on the likely amount that a business could be awarded in proceedings and the likelihood of a successful claim for that amount being made. The indemnity will be in place until the case is settled and the liquidation confirmed.

Intangible assets - these are non-physical assets, for example, developed computer software and website development costs.

Losses - losses are made up of remissions and write-offs. Remission is the process used to identify and separate receivables which the department has decided not to pursue, for example on the grounds of value for money. Write-offs are receivables that are considered to be irrecoverable, for example because there is no practical means for pursuing them.

Managing Public Money - this is a HM Treasury publication giving guidance on how to handle public funds.

Negative tax - this occurs where the amount of the tax credit is less than or equal to the recipient's tax liability.

Net Cash Requirement - the amount of funding that the department is entitled to draw down from the Consolidated Fund.

Non-current assets - an asset that is not likely to turn to cash or cash equivalent within one year of the department's reporting date.

Non-current liabilities - a liability not due to be paid within one year of the department's reporting date.

Non-Voted expenditure - expenditure which is not subject to annual Parliamentary approval and mainly relates to tax credits and costs in respect of the National Insurance Fund.

Payables - are amounts recognised as owing by the department at the end of the reporting period but payment has not been made.

Payments of entitlement - this is the element of a relief which is in excess of the recipient's tax liability.

Private Finance Initiative (PFI) - is a way of creating public-private partnerships (PPPs) by funding public infrastructure projects with private capital.

Programme costs - these relate to the costs incurred in the delivery of front line services such as the parts of the department which interact directly with our external customers. In addition it includes the payments made for tax credits, Child Benefit and other disbursements by the department. All expenditure and associated operating income for the Valuation Office Agency is treated as Programme.

Provisions for liabilities - these are recognised when HMRC has a present legal or constructive obligation as a result of a past event, it is probable that HMRC will be required to settle that obligation and an amount has been reliably estimated.

Receivables - these represent all amounts recognised as owing to the department at the end of the reporting period but payment has not been received. A proportion of the receivable balance relates to revenue that is not yet overdue for payment.

Receivable Days - the average number of days it takes to receive payment. The department calculates Receivable Days as, 'total receivables/total revenue x 365 days'.

Resource Accounts - the financial statements which report the cost of running the department and include payments of tax credits, Child Benefit and certain reliefs.

Statement of Parliamentary Supply (SoPS) - this is the primary parliamentary accountability statement and is unique to central government financial reporting. It reports the total outturn (how much has been spent) for the departmental group compared with the amounts approved by Parliament in the Estimate, in the various categories of expenditure.

Supply Estimates process - this is the means by which a government department seeks funds from Parliament and authority is given for departmental expenditure each year.

Suspended debt - a suspended debt is an indirect tax, penalty or surcharge that is under challenge, dispute or appeal. The value is currently included in the receivables but excluded from the debt balance as currently no recovery action can be taken.

Tax debt - Debt Management Directorate calculates and reports monthly the department's debt balance which consists of debts that are overdue or where recovery action can be taken at this time. This provides key operational information for the management of overdue, recoverable debt. This differs to the debt reported in the financial statements which is termed 'Receivables' and is defined earlier in this glossary.

Trust Statement - the financial statement which reports the revenues, expenditure, assets and liabilities related to taxes and duties collected by the department.

UK GAAP - the generally accepted accounting principles in the UK which are the body of accounting standards and guidance published by the Financial Reporting Council.

Voted expenditure - monies voted to the department by Parliament to cover our expenditure, following the submission of our Estimates. Parliament votes annually on each government department's future expenditure.

Annex 1: Statistical tables

This table provides further detail by category on HMRC spending.

Table 1: Total departmental spending (£000)

	2015-16 Outturn	2016-17 Outturn	2017-18 Outturn	2018-19 Outturn	2019-20 Outturn	2020-21 Plans
Resource DEL[1]						
HMRC Administration	3,219,241	3,505,243	3,450,380	3,483,718	3,813,617	3,885,410
VOA Administration	-1,425	-2,743	143,476	142,738	164,797	163,737
Utilised Provisions	29,793	17,500	31,631	42,918	54,597	30,000
National Insurance Fund	328,579	315,500	320,306	282,548	254,332	251,999
Total Resource DEL	**3,576,188**	**3,835,500**	**3,945,793**	**3,951,922**	**4,287,343**	**4,331,146**
Of which:						
Staff costs	2,250,106	2,406,240	2,401,849	2,360,289	2,602,310	2,338,060
Purchase of goods and services	1,156,655	1,269,919	1,145,766	1,199,928	1,207,607	1,319,902
Income from sales of goods and services	-423,119	-426,857	-202,750	-201,710	-204,751	-180,700
Current grants to persons and non-profit bodies (net)	20,463	2,841	2,327	1,714	6,277	1,670
Current grants abroad (net)	1,301	1,286	1,054	1,418	1,287	1,700
Subsidies to private sector companies	—	—	—	387	—	—
Rentals	201,221	203,739	195,611	208,542	296,210	360,193
Depreciation[2]	271,151	278,038	296,974	288,680	296,137	379,428
Change in pension scheme liabilities	291	1,828	1,847	1,324	-210	—
Other resource	98,119	98,466	103,115	91,350	82,476	110,893
	3,576,188	**3,835,500**	**3,945,793**	**3,951,922**	**4,287,343**	**4,331,146**

1 Outturn values are consistent with those reported in SoPS 1.1 on page 161.
2 Includes impairments.
Note: The totals may differ to the information in the Statement of Parliamentary Supply due to rounding.

Table 1: Public spending (£000)

	2015-16 Outturn	2016-17 Outturn	2017-18 Outturn	2018-19 Outturn	2019-20 Outturn	2020-21 Plans
Resource AME[1]						
Child Benefit	11,700,897	11,651,914	11,689,654	11,475,319	11,487,105	11,786,942
Tax Free Childcare	—	6	28,783	115,730	245,524	709,319
Providing payments in lieu of tax relief to certain bodies	75,399	70,068	85,027	97,388	116,035	140,065
Lifetime ISA	—	—	—	251,019	225,808	420,000
HMRC Administration	28,547	32,000	37,975	93,672	82,016	30,000
VOA - Payments of rates to LAs on behalf of certain bodies	66,995	63,836	76,085	66,785	83,886	93,460
VOA Administration	2,902	3,100	5,690	7,094	1,523	2,000
Utilised Provisions	-29,798	-17,412	-31,633	-42,920	-54,607	-30,020
Personal Tax Credit	28,450,152	27,143,623	26,362,989	22,288,296	18,331,274	31,448,676
Other Reliefs and Allowances	2,898,728	3,381,936	3,705,182	5,879,196	10,103,140	12,230,960
COVID-19	—	—	—	—	—	52,000,000
Total Resource AME	**43,193,822**	**42,329,071**	**41,959,753**	**40,231,579**	**40,621,704**	**108,831,402**
Of which:						
Purchase of goods and services	81,710	94,963	91,916	71,679	89,110	98,417
Income from sales of goods and services	-3,774	-3,764	-4,725	-4,894	-5,224	-4,957
Current grants to persons and non-profit bodies (net)	41,977,679	40,706,128	39,665,624	34,231,898	30,418,746	45,411,538
Subsidies to private sector companies	1,126,492	1,531,740	2,204,456	5,876,916	10,100,691	63,324,424
Depreciation[2]	131	-2,144	1,854	477	1,290	—
Take up of provisions	30,771	26,137	41,811	100,289	82,249	30,000
Release of provision	-29,798	-18,912	-31,633	-42,920	-54,607	-30,020
Change in pension scheme liabilities	—	—	—	—	—	2,000
Other resource	10,611	-5,077	-9,550	-1,866	-10,551	—
Total Resource Budget	**43,193,822**	**42,329,071**	**41,959,753**	**40,231,579**	**40,621,704**	**108,831,402**
Resource budget[1]						
Total resource DEL	3,576,188	3,835,500	3,945,793	3,951,922	4,287,343	4,331,146
Total resource AME	43,193,822	42,329,071	41,959,753	40,231,579	40,621,704	108,831,402
Total Resource Budget	**46,770,010**	**46,164,571**	**45,905,546**	**44,183,501**	**44,909,047**	**113,162,548**
Of which:						
Depreciation[2]	271,282	275,894	298,828	289,157	297,427	379,428

1 Outturn values are consistent with those reported in SoPS 1.1 on page 161.
2 Includes impairments.
Note: The totals may differ to the information in the Statement of Parliamentary Supply due to rounding.

Table 1: Public spending (£000)

	2015-16 Outturn	2016-17 Outturn	2017-18 Outturn	2018-19 Outturn	2019-20 Outturn	2020-21 Plans
Capital DEL[1]						
HMRC Administration	220,162	314,622	273,268	353,476	328,666	357,991
VOA Administration	7,569	11,778	7,517	8,742	6,362	7,475
Total Capital DEL	**227,731**	**326,400**	**280,785**	**362,218**	**335,028**	**365,466**
Of which:						
Purchase of assets	228,970	327,774	308,339	387,376	420,306	463,466
Income from sales of assets	-1,239	-1,374	-27,554	-25,158	-85,278	-98,000
	227,731	**326,400**	**280,785**	**362,218**	**335,028**	**365,466**
Capital AME[1]						
Child Benefit	5	4	2	2	10	10
Total Capital AME	**5**	**4**	**2**	**2**	**10**	**10**
Of which:						
Capital grants to persons & non-profit bodies (net)	5	4	2	2	10	10
	5	**4**	**2**	**2**	**10**	**10**
Capital budget[1]						
Total capital DEL	227,731	326,400	280,785	362,218	335,028	365,466
Total capital AME	5	4	2	2	10	10
Total Capital Budget	**227,736**	**326,404**	**280,787**	**362,220**	**335,038**	**365,476**

1 Outturn values are consistent with those reported in SoPS 1.2 on page 162.
Note: The totals may differ to the information in the Statement of Parliamentary Supply due to rounding.

This table shows HMRC administration expenditure, utilised provisions and the administration element of the National Insurance Fund. This table does not include programme expenditure.

Table 2: Administration budget (£000)

	2015-16 Outturn	2016-17 Outturn	2017-18 Outturn	2018-19 Outturn	2019-20 Outturn	2020-21 Plans
Resource DEL						
HMRC Administration	717,025	788,643	754,343	773,467	767,280	938,506
Utilised Provisions	13,642	8,596	8,596	7,057	2,208	14,000
National Insurance Fund	61,223	74,100	78,597	59,264	51,552	44,981
Total administration budget	**791,890**	**871,339**	**841,536**	**839,788**	**821,040**	**997,487**
Of which:						
Staff costs	328,875	359,968	329,804	335,364	401,196	368,807
Purchase of goods and services	417,815	474,151	350,347	341,999	245,209	478,765
Income from sales of goods and services	-126,465	-134,700	-40,483	-35,670	-34,256	-71,310
Current grants to persons and non-profit bodies (net)	1,920	1,988	1,687	1,671	1,660	1,466
Rentals	90,869	95,355	103,038	94,795	132,956	105,213
Depreciation	68,609	68,359	88,050	76,452	63,784	107,808
Other resource	10,267	6,218	9,093	25,177	10,491	6,738
	791,890	**871,339**	**841,536**	**839,788**	**821,040**	**997,487**

Note: The totals may differ to the information in the Statement of Parliamentary Supply due to rounding.

HM Revenue & Customs 2019-20 Accounts

Report by the Comptroller and Auditor General

This Report is published alongside the 2019-20 Accounts of HM Revenue & Customs

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

Gareth Davies
Comptroller and Auditor General
National Audit Office

2 November 2020

This report provides the findings and overall conclusion of work conducted under section 2 of the Exchequer and Audit Departments Act 1921, by which the Comptroller and Auditor General must consider the adequacy of the systems to assess, collect and allocate tax revenues.

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Contents

Coverage of this report

HMRC corporate document	Coverage of this report
Trust Statement	HM Revenue & Customs (HMRC) reported £636.7 billion of tax revenue for 2019-20. Under the Exchequer and Audit Departments Act 1921, the Comptroller and Auditor General (C&AG) must certify whether the Trust Statement is true and fair and whether HMRC has used the income and expenditure for the purposes Parliament intended. The C&AG has concluded that: • the figures in The Trust Statement are true and fair; and • HMRC has used income and expenditure for the purposes Parliament intended. The 1921 Act also requires the C&AG to consider whether HMRC's systems to collect taxes are adequate. We found that HMRC's systems are adequate, subject to the observations in this report and our other reports to Parliament.
Resource Accounts	The cost of running HMRC in 2019-20 was £3.8 billion. HMRC paid out £40.6 billion, including £18.3 billion of Personal Tax Credits payments and £11.5 billion of Child Benefit. Under the Government Resources and Accounts Act 2000, the C&AG must certify whether HMRC's Resource Accounts are true and fair and whether HMRC has used the income and expenditure for the purposes Parliament intended. The C&AG concluded that: • the Resource Accounts are true and fair; but • HMRC has breached its Net Cash Requirement Parliamentary control total; • a material level of error and fraud in research and development Corporation Tax reliefs has been identified (see the separate Report on Accounts that follows the C&AG's audit certificate); and • there remains a material level of error and fraud in Personal Tax Credits expenditure (Part Three).
Annual Report	We reviewed HMRC's performance against its objective of collecting tax revenues and considered the main components of the £636.7 billion raised during 2019-20 (Part One). We review if HMRC is getting value for money and report our findings to Parliament under section 6 and section 9 of the National Audit Act 1983.

Summary

HM Revenue & Customs performance, 2019-20

1 HM Revenue & Customs (HMRC) is responsible for administering the UK's tax system. HMRC's objectives are to:

- collect revenues due and bear down on avoidance and evasion;
- transform tax and payments for its customers; and
- design and deliver a professional, efficient and engaged organisation.

2 This report is our factual commentary on HMRC's performance during 2019-20 and the key strategic issues it is addressing. It draws on the findings from our statutory audit work in respect of HMRC during the period, including the audits of HMRC's financial statements; the adequacy of its systems for collecting revenue; and the work we have carried out to assess the value for money it achieved from its spending (see Appendix Two). Each audit comes under different legislation (see 'Coverage of this report', page R4). This report does not reach a separate conclusion on the value for money of HMRC's expenditure.

3 In this report we cover:

- HMRC's performance against its objective of collecting revenues and look at the main components of the £636.7 billion raised during 2019-20 (Part One);
- HMRC's approach to the strategic challenges it faces, specifically: HMRC's implementation of the government's response to the COVID-19 pandemic and the impact of COVID-19 on its operations; HMRC's progress and plans to transform the tax system; and HMRC's preparations for the end of the transition period following the UK's exit from the EU (Part Two); and
- the basis of the Comptroller and Auditor General's (C&AG's) qualification of his opinion on the regularity of HMRC's Resource Accounts; the causes and rate of error and fraud in Personal Tax Credits (tax credits); and the future challenges presented by the replacement of tax credits by Universal Credit (Part Three).

Summary findings

Tax revenues

4 **Total tax revenues have increased in each of the last five years, but the rate of increase has reduced from 7.1% in 2016-17 to 1.4% in 2019-20.** The value and rate of increase has declined from £38.1 billion (7.1%) between 2015-16 and 2016-17 with HMRC reporting total tax revenue of £636.7 billion in 2019-20, an increase of £8.8 billion (1.4%) since 2018-19. The three largest components of revenue were income tax, National Insurance Contributions, and Value Added Tax. The revenue figures reported by HMRC relate to the tax liabilities incurred by taxpayers during 2019-20. Due to the timing of the annual tax cycle, which allows certain taxpayers a set amount of time after the end of the tax year to assess and pay their liabilities, HMRC is required to estimate the amount of tax it will receive in respect of these taxpayers. Of the reported total tax revenue of £636.7 billion, HMRC has included £138.8 billion in relation to tax liabilities which had not been paid by 31 March 2020 (paragraphs 1.2, 1.6 and Figure 1).

5 **HMRC estimates that the tax gap, the difference between the amount of tax that should, in theory, be paid to HMRC, and what is actually paid, was £31 billion (4.7%) in 2018-19.** The tax gap can occur for several reasons including mistakes, failure to comply, avoidance of tax and insolvency and can be affected by other factors such as changes in the economy and demographics. HMRC has estimated that the tax gap for 2018-19 – the latest year for which data are available – was £31 billion (4.7% of the total theoretical tax liabilities of £651 billion). In July 2020, we published *Tackling the tax gap,* which examines the effectiveness of HMRC's approach, in partnership with HM Treasury, in reducing the tax gap.[1] We found that the tax gap figures can be subject to considerable revision each year making it difficult to use the tax gap as a measure to assess performance, particularly in the short term. The analysis does, however, help in understanding the relative size of each area of the tax gap (paragraphs 1.17, 1.18 and Figure 4).

1 Comptroller and Auditor General, *HM Revenue & Customs, Tackling the tax gap*, Session 2019–2021, HC 372, National Audit Office, July 2020.

6 **HMRC estimates that the yield from its tax compliance activities in 2019-20 was £36.9 billion, against a target of £34.5 billion.** While most tax revenue is paid to HMRC without the need for further intervention, some of the tax revenue is only received as a result of specific compliance actions undertaken. Compliance yield measures the effectiveness of these compliance and enforcement activities. It is one of HMRC's main internal performance measures, which it uses to agree to targets with HM Treasury for spending on compliance work. In 2019-20, HMRC reported that it had achieved £36.9 billion (2018-19: £34.1 billion) of compliance yield against a target of £34.5 billion (2018-19: £30.0 billion). Yield from compliance activities comprises revenue losses prevented, cash receipts expected, the impact of legal and process changes to close loopholes and reduce opportunities to avoid or evade tax and estimates of assessed tax for future accounting periods as a result of compliance activities completed in the year (paragraphs 1.20 and 1.21).

Customer service performance

7 **HMRC met three of its eight customer service performance targets in 2019-20.** HMRC met its two targets for the average time taken to handle new Tax Credits and Child Benefit claims and changes of circumstances for UK customers (achieved 13.2 days against a target of 22 days) and international customers (65.7 days against a target of 92 days). HMRC also met its target for customer satisfaction with digital services (81.6% against a target of 80%). Against its two targets for speed of answering telephone calls and its two targets for responding to tax correspondence, HMRC's performance dipped between the end of 2018 and mid-2019 and then improved between May and December 2019. However, overall, HMRC missed these four targets in 2019-20. HMRC also missed its target to respond to 95% of i-forms and secure emails within seven days, achieving 87.6%. HMRC reports that its performance was impacted by recruitment challenges and the priority it had given to EU Exit work in 2018-19 leading to a backlog of work in 2019-20, along with an increase in the demand for and complexity of its contacts with customers. In 2019-20 HMRC also recruited 268 (8.3%) fewer staff to its customer service group than planned and redeployed around 400 customer service staff, on average, per month to work on EU Exit, with a peak of more than 1,000 staff redeployed in October 2019 (paragraphs 1.33 to 1.35 and Figures 6, 7 and 8).

8 **HMRC has developed a broader range of performance measures which recognise the importance of customer service to the collection of tax revenues due.** The Committee of Public Accounts recommended that HMRC should, by the start of 2019-20, develop and report a scorecard of performance measures which provides a broader overview of the customer experience of both businesses and individuals. In response, HMRC has developed a new balanced scorecard, a framework to report internally on its customer service performance using a range of measures to understand the effectiveness of its customer service. HMRC has also published for the first time in 2019-20 experimental customer services performance data. HMRC told us that it aims to have new external performance targets in place for the start of 2021-22. During 2019-20, as part of its compliance strategy, HMRC has also been developing organisation-wide customer strategies to create the right experience to help taxpayers get their tax right initially and to remain compliant (paragraphs 1.23, 1.24, 1.36 to 1.39 and Figure 9).

HMRC's response to the COVID-19 pandemic

9 **HMRC is responsible for administering significant aspects of the government's response to COVID-19, incurring an estimated cost of more than £80 billion to support businesses and individuals.** For example, as of 20 September, the Coronavirus Job Retention Scheme has enabled employers to keep 9.6 million employees on a period of temporary leave or furlough at a cost of £39.3 billion. The Self-Employment Income Support Scheme, as at 20 September, has seen 4.8 million claims totalling £13.4 billion to support the self-employed. And as at 7 June businesses had deferred payment of £28.2 billion of VAT. Also, HMRC has implemented or is in the process of implementing more than 60 changes so that the tax and benefits system can operate within COVID-19 guidance on working from home, travel and social distancing. Most costs in respect of the measures being implemented by HMRC will be accounted for in the 2020-21 HMRC Resource Accounts and will be subject to our audit of the accounts for that year (paragraphs 2.2 to 2.5 and Figure 10).

10 **In implementing the government response to COVID-19 at pace HMRC has had to make judgements about the balance between getting help to as many people as possible, as fast as possible, and the controls necessary to protect the taxpayer from the risk of fraud.** From the initial government announcements in the middle of March 2020 HMRC implemented measures quickly with the Coronavirus Job Retention Scheme going live using a new IT system on 20 April and the Self-Employment Income Support Scheme online service available from 13 May. HMRC has put in place a governance structure to support decision making, manage risk and monitor implementation. HMRC has a number of significant risks to manage including the risk of legal challenge, the risk of businesses and individual building up significant debt which they will not be able to repay, and the risk of fraud and error. HMRC has several ways in which it intends to mitigate risk. On fraud and error HMRC has set out four levels of protection: the design of the schemes, and their eligibility criteria; online authentication using data which HMRC already holds about individuals and businesses; the ability for individuals to report abuse; and the option for HMRC to recover overpayments and take legal action at a later stage (paragraphs 2.6 to 2.13 and Figures 11 and 12).

11 **HMRC has estimated the level of fraud and error expected to arise from the Coronavirus Job Retention Scheme and Self-Employment Income Support Scheme to be between £2.1 billion and £4.2 billion.** Even with the protection HMRC has put in place through the design of the schemes and the checks made before payment, for planning purposes, HMRC has assumed a level of fraud and error. HMRC's estimate ranges from 1% to 2% for the Self-Employment Income Support Scheme (equating to between £134 million and £268 million of claims made as of 20 September 2020) and from 5% to 10% for the Coronavirus Job Retention Scheme (equating to between £2.0 billion and £3.9 billion of claims made as of 20 September 2020). HMRC's estimate of the level of fraud and error for these schemes is stated before the impact it aims to achieve through its post-payment compliance checks (paragraph 2.13).

12 **Tax receipts for the period April to August 2020 were nearly £70 billion (26%) lower in cash terms than for the period April to August 2019.** COVID-19 is having a significant impact on the economy which, together with policy decisions to allow the payment of certain tax liabilities to be deferred, has had a significant impact on the tax revenues collected by HMRC. The largest reduction is in VAT receipts – £38 billion (65%) – and is as a result of implementing the government's policy to allow deferral of VAT payments since 20 March 2020. During the first few months of 2020-21, while receipts have reduced overall, receipts from income tax and National Insurance Contributions increased in June and July 2020 and receipts from VAT increased significantly from £1 billion in June 2020 to more than £10 billion in both July and August 2020 (paragraphs 2.15 to 2.17 and Figures 14 and 15).

13 **COVID-19, and HMRC's role in the government's response, has had a significant impact on HMRC's operations.** The majority of HMRC staff are working from home and many have been reallocated to support the COVID-19 measures. Restrictions on travel and social distancing have affected HMRC's ability to visit customers, and many businesses have not been operating. This has had a significant impact on HMRC and its operations:

- HMRC estimates that the additional operating costs incurred for 2020-21 are £66.5 million, the largest element of which is the cost of IT (£53.2 million; 80%). HMRC has developed and implemented new IT solutions, for the Coronavirus Job Retention Scheme and the Self-Employment Income Support Scheme (paragraphs 2.19 and 2.20).
- HMRC reports that more than 50,000 staff, around 80% of its workforce, have been working at home on any one day. Some 5,000 HMRC staff have been working in the office, the majority providing services to customers, for example through telephone helplines that can only be operated in the office. HMRC has also reallocated a significant number of its staff to work in COVID-19-related roles. At the peak, in May 2020, of 58,592 full-time equivalent staff, 9,097 (16%) were reallocated to COVID-related roles (paragraphs 2.21, 2.22 and Figure 16).
- Because of the constraints COVID-19 is imposing on its activities, HMRC has reduced the number of new compliance cases it started. In April and May 2020 HMRC opened around one-third of the number of compliance cases that it opened at the same time in 2019. HMRC has since increased the number of new cases it has started – in June and July HMRC opened more than half of the number of cases opened at the same time in 2020. There has also been a significant reduction in the number of criminal investigations HMRC has been able to undertake. For comparison purposes, HMRC achieved a compliance yield of some £7.5 billion in the period April to June 2020, 51% less than the yield of £15.4 billion achieved in the same period in 2019-20. HMRC has been developing its plans for returning to more normal levels of compliance activity (paragraphs 2.23 to 2.25).
- Before the COVID-19 pandemic, most telephone calls were handled in the office and could not be handled from home due to the availability of equipment and the need for security and privacy. HMRC now has some 7,000 individuals trained and with access at home to handle telephone calls. From March 2020 there was an increase in the time HMRC took to answer telephone calls, peaking at 14:59 minutes in May and improving to 9:15 minutes in June 2020 (paragraphs 2.26 to 2.28 and Figure 17).

EU Exit and the end of the transition period

14 **HMRC has a significant role in ensuring the UK is ready for the end of the transition period on 31 December 2020.** HMRC is responsible for key customs and border-related programmes and was the third-highest spending department for work relating to EU Exit between June 2016 and January 2020. During 2019-20 HMRC budgeted £557.6 million for work relating to EU Exit and spent £516.9 million. The number of people at HMRC working on EU Exit has increased since 2018-19. HMRC's annual report shows that 6,100 staff worked on EU Exit in 2019-20, compared with 5,400 the previous year (paragraphs 2.29 to 2.32).

Transformation

15 **HMRC reports that it is close to achieving its planned savings, with a significant proportion of those savings achieved through change in its business and pay restraint.** HMRC planned to achieve efficiency savings through its transformation portfolio comprising 15 programmes with each programme consisting of many individual projects; and wider change led by HMRC's business groups. HMRC reports that it spent £1.45 billion on programmes in its transformation portfolio over the period 2016-17 to 2019-20. HMRC also reports that it made sustainable, cumulative efficiency savings of £1,862 million over the Spending Review period, close to its Spending Review 2015 target of £1,866 million, and reached annual savings of £696 million by 2019-20. More than half of the savings over the Spending Review period came from wider change led by HMRC's business groups (£916 million); and departmental pay restraint (£126 million). Since the end of the Spending Review 2015 period HMRC has carried out a reprioritisation exercise to determine its change portfolio for the next five-year period. HMRC's IT systems will require significant investment if future plans for transformation are to achieve their planned benefits (paragraphs 2.33 to 2.40 and Figures 19 and 20).

Benefits and credits

16 **The C&AG has qualified his opinion on the regularity of HMRC's 2019-20 Resource Accounts due to the material level of error and fraud in Personal Tax Credits expenditure.** The most recent available estimates indicate that overpayments by HMRC decreased from 5.5% (£1.41 billion) of expenditure on tax credits in 2017-18 to 4.9% (£1.11 billion) in 2018-19, meeting HMRC's target to have error and fraud overpayments below 5%. Underpayments by HMRC in 2018-19 amounted to 0.7% of expenditure (£170 million), equal to HMRC's target and unchanged from the rate of underpayment in 2017-18 (paragraphs 3.5 to 3.8, 3.13 and Figure 21).

17 The estimated 2018-19 overpayment rate of 4.9% is lower than HMRC's forecast rate of 6.2%. HMRC's initial analysis indicates that the lower than expected rate is because its claimant base is becoming more stable as tax credits end for claimants with more frequent changes in circumstances and these claimants move to Universal Credit; and due to greater than expected success in its compliance activity (paragraph 3.14).

18 HMRC has not yet forecast what the level of error and fraud might be in 2019-20 but expects that it is likely to be the same or higher than in 2018-19. HMRC is re-examining some of its core assumptions given its forecast overestimated the rate of overpayments in 2018-19. For its 2020-21 forecast, it is also engaging in analysis to understand the impact of COVID-19. In response to COVID-19, 1.7 million awards have benefited from an increase of up to £1,045 in the basic element of Working Tax Credit. This has resulted in an estimated 120,000 additional claimants receiving money from tax credits. HMRC also reallocated staff to handle the impact of COVID-19 on its business, leading to a reduction in compliance activity; and it extended the automatic renewal of tax credits claims to cover all but the most high-risk claimants. HMRC expects that these factors will increase the rate of overpayments in 2020-21 (paragraphs 3.15, 3.16 and 3.26 to 3.29).

Conclusion

19 In fulfilling our statutory duties under the Exchequer and Audit Departments Act 1921, while recognising that no tax collection system can ensure that everyone meets their tax obligations, we conclude that, in 2019-20, HMRC framed adequate regulations and procedures to secure an effective check on the assessment, collection and proper allocation of revenue, and that they are duly carried out. This assurance is subject to the observations on specific aspects of the administration of taxes in this report and our other reports to Parliament.

20 COVID-19 has had a significant impact on HMRC and its operations, with the Department implementing key aspects of the government's response to the pandemic at pace, while managing the challenges of remote working on its core areas of responsibility. As the delivery phase of the COVID-19 grants schemes come to an end, HMRC will need to ensure that it has appropriate plans in place to identify, measure and recover erroneous or fraudulent claims made, as part of its overall plans to return compliance activity to more normal levels when it is safe to do so. This is set against the backdrop of the ongoing demands of preparing for the end of the EU transition period and addressing its challenging programme of wider-business transformation objectives through the next Spending Review period.

21 In addition to our statutory duties under the Exchequer and Audit Departments Act 1921, the C&AG has again qualified his regularity opinion on the HMRC Resource Accounts due to material levels of error and fraud in Personal Tax Credits. HMRC should continue its work to understand the causes of error and fraud, including the impact of its interventions, to ensure it is targeting its finite resources to best effect. The measures administered by HMRC in response to COVID-19, and the impact of COVID-19 on its compliance activities, are likely to have increased the risk of error and fraud in tax credits for 2020-21 and future years, increasing the importance of its work in this area.

22 The impact of COVID-19 on the migration from tax credits to Universal Credit, and the timeframe for all claimants to transfer, is uncertain. HMRC must continue to work with the Department for Work & Pensions (DWP) to ensure that claimants are aware that there may be differences in entitlement between tax credits and Universal Credit and that applying for Universal Credit permanently ends any tax credits award; and to ensure that debt accumulated on tax credits cases can be collected by DWP once this debt transfers.

Part One

Performance in 2019-20

1.1 This part of the report sets out HM Revenue & Customs' (HMRC's) performance against its strategic objective of collecting revenues due and bearing down on avoidance and evasion. This is measured by the revenues reported in HMRC's Trust Statement, and compliance yield, which is disclosed in its Annual Report. This part also considers customer service performance reported by HMRC during 2019-20.

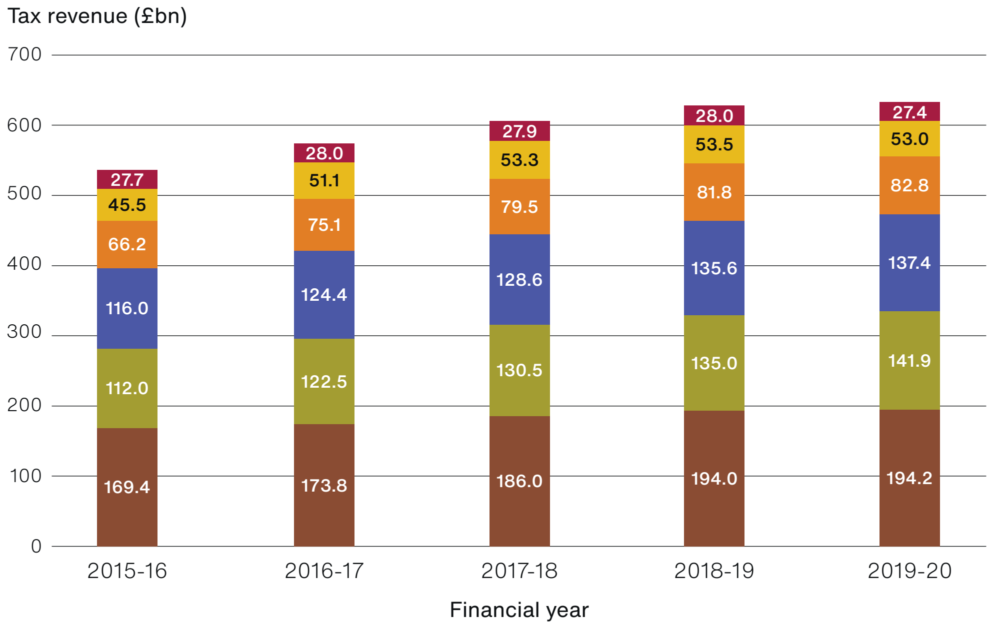
Tax revenue in 2019-20

1.2 The total revenue HMRC reported in its Trust Statement in 2019-20 was £636.7 billion (£627.9 billion in 2018-19) (**Figure 1**). Over the past five years, the rate of increase in tax revenues has reduced from 7.1% in 2016-17 to 1.4% in 2019-20. The increase since 2018-19 is largely accounted for by a £6.9 billion (5.1%) increase in National Insurance Contributions. HMRC attributes the growth in National Insurance Contributions to an increase in the number of people in employment, growth in average weekly earnings, an above-inflation increase in the upper earnings limit for National Insurance Contributions in 2019-20 and increases in the personal tax allowance to £12,500 and the higher rate threshold to £50,000 in 2019-20. HMRC records revenue in the Trust Statement on an accruals basis, other than for those taxes disclosed in Note 1.2 of the Trust Statement accounts. Accounting for tax on an accruals basis means that the revenue figures reported relate to tax due on earned income or activities during the financial year, regardless of when the cash is received.

Figure 1

Total tax revenues reported by HM Revenue & Customs from 2015-16 to 2019-20

Tax revenues have increased in each of the past five years, but the rate of increase has declined



	2015-16	2016-17	2017-18	2018-19	2019-20
Total revenue (£bn)	**536.8**	**574.9**	**605.8**	**627.9**	**636.7**
Change in total revenue (£bn)	–	38.1	30.9	22.1	8.8
Change in total revenue (%)	–	7.1	5.4	3.6	1.4

- Hydrocarbon oils
- Corporation Tax
- Other
- Value Added Tax
- National Insurance Contributions
- Income tax

Note

1 Other revenue includes, for example, stamp taxes, inheritance tax, fuel, alcohol and tobacco duties, insurance premium tax, capital gains tax, student loan recoveries, environmental taxes, customs duty and fines and penalties.

Source: National Audit Office analysis of HM Revenue & Customs, Annual Report and Accounts 2015-16 to 2019-20

Repayments

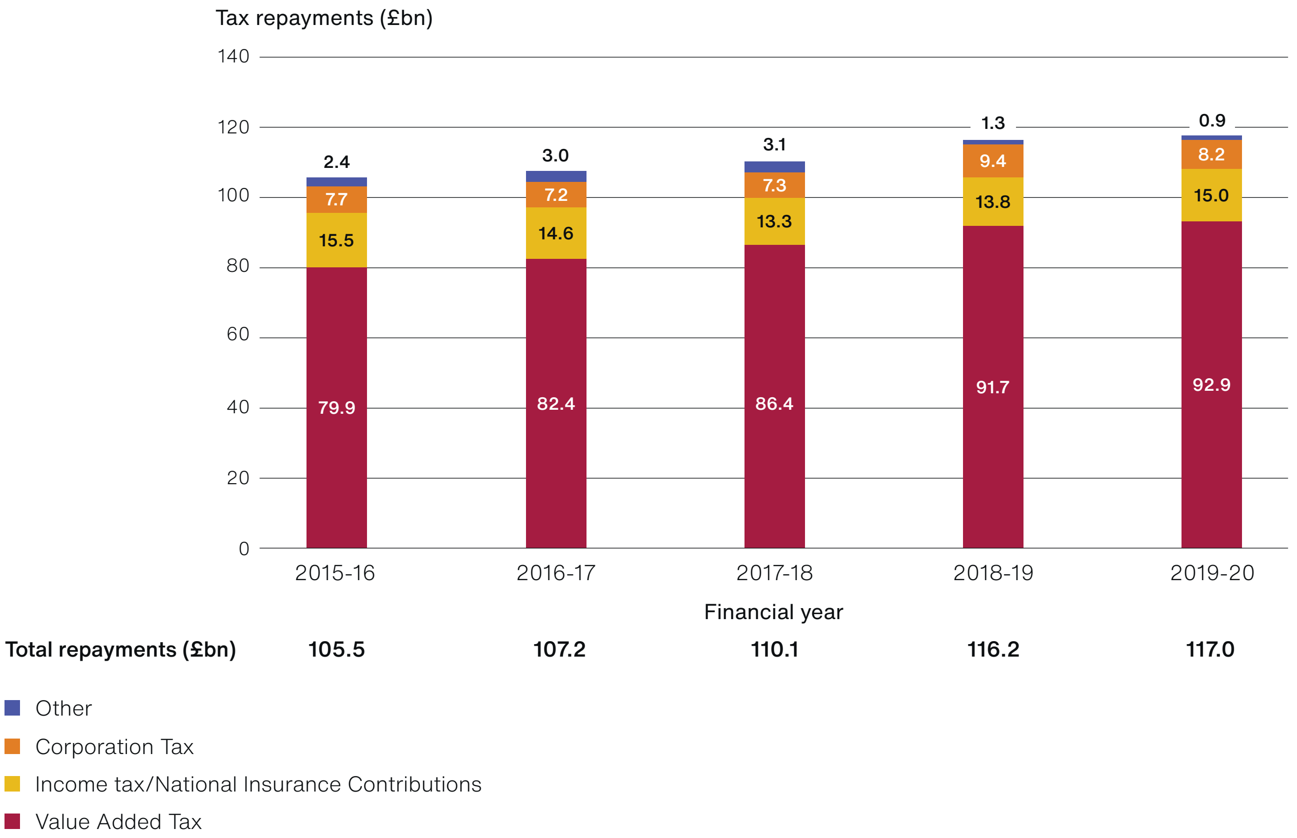
1.3 The total revenue figure of £636.7 billion is net of £117.0 billion of repayments to taxpayers (£116.2 billion in 2018-19) (**Figure 2**). Repayments are a necessary part of tax administration and can arise for a variety of reasons. For instance, HMRC may demand payments on account from taxpayers before their full liability is assessed, which can lead to repayments.

1.4 Most repayments relate to Value Added Tax (VAT) (£92.9 billion in 2019-20). VAT-registered taxpayers can claim back VAT on certain purchases they have made where they relate to the sale of goods and services. This is repaid to taxpayers net of the VAT due to HMRC on the sale of those goods and services.

Figure 2

Repayments made by HM Revenue & Customs to taxpayers by tax type from 2015-16 to 2019-20

Repayments have increased in each of the past five years



Note

1 Other includes alcohol duties, bank levy, bank surcharge, capital gains tax, customs duties, hydrocarbon oils tax, inheritance tax, petroleum revenue tax, and stamp duty.

Source: National Audit Office analysis of HM Revenue & Customs, Trust Statements 2015-16 to 2019-20

Receivables, impairment and revenue losses

Receivables

1.5 Receivables represent money due to HMRC for all taxpayer liabilities that have been established, irrespective of whether they are due or overdue. They can include taxes, duties, recovery of tax credits, penalties and interest charges owed by individuals and businesses.

1.6 As of 31 March 2020, HMRC expected to receive £138.8 billion – 21.8% of revenue (2018-19: £145.7 billion, 23.2%). This balance consisted of:

- an estimated £101.6 billion (73.2%) (2018-19: £116.9 billion; 80.2%) of taxes not yet due from taxpayers but relating to 2019-20 revenues where a tax return has not been received from the taxpayer by the end of the reporting period (accrued revenue receivables); and
- £37.2 billion (26.8%) due from taxpayers but not yet received (receivables). This is an increase in the value and proportion due since 31 March 2019 (£28.8 billion; 19.8%).

1.7 Of the £101.6 billion accrued revenue receivable balance, 92% comprises taxpayer liabilities for income tax and National Insurance Contributions (£50.0 billion); VAT (£35.8 billion); and Corporation Tax (£7.7 billion). For income tax (self-assessment) and Corporation Tax in particular, the accrued revenue receivable amounts calculated by HMRC are subject to an inherent degree of estimation, as explained in Note 6 of the Trust Statement. They are calculated using models that are based on different assumptions about how much tax revenue will ultimately be due once the relevant tax returns have been received and the tax liabilities assessed.

1.8 We review those models and assumptions as part of our financial audit of HMRC and are satisfied that the estimates are reasonable based on the data available to HMRC at the time.

Impairments

1.9 The receivables balance of £37.2 billion is money that taxpayers have not yet paid but have a liability to pay at the end of the financial year. There is a risk that some of the receivables balance will not be collected or may prove not to be due. HMRC estimates the amounts that may not be recovered from taxpayers, for instance where the taxpayer is experiencing financial difficulty, and processes a reduction to the receivables balance in the accounts to reflect this, known as an impairment. HMRC has estimated that it may not be able to collect £9.4 billion (2018-19: £7.9 billion) of these receivables. When adjusted to reflect this, the overall receivables balance due from taxpayers is £27.8 billion (2018-19: £20.9 billion).

1.10 HMRC has undertaken work to estimate the impact of COVID-19 on the recoverability of receivables and accrued revenue receivables reported at 31 March 2020. As a result, HMRC has included an additional impairment adjustment of £1.6 billion in the accounts. The adjustment is based on HMRC's estimate of how COVID-19 might affect the number of insolvencies that arise, which may ultimately result in HMRC being unable to recover the amounts due. Given the full impact of COVID-19 will not be known for some time, the actual value of tax not capable of being recovered is subject to significant estimation uncertainty. Further details of HMRC's approach and key judgements in this respect are set out in Note 4.2 of the Trust Statement accounts.

Losses

1.11 In certain cases, HMRC stops debt collection activity where it is considered more costly to pursue than the value of the tax outstanding, or where there is no practical means to do so, for instance where a company or individual becomes insolvent. In these instances, a 'revenue loss' occurs – such losses are likely to relate to tax revenue due in earlier financial years. There are two forms of revenue losses: write-offs of £3.5 billion during 2019-20 (£3.7 billion in 2018-19) and remissions of £0.5 billion in 2019-20 (£0.8 billion in 2018-19). Write-offs are where debts are irrecoverable because there is no practical means of pursuing the liability. Remissions are where HMRC decides not to pursue the liability on value-for-money or hardship grounds. Losses reduce the amount of revenue that is received by HMRC.

Provisions and contingent liabilities

1.12 HMRC recognises a provision in the Trust Statement where it considers that it is probable that it will need to repay taxes already received in the current and previous financial years, in accordance with accounting standards. HMRC's contingent liabilities relate to legal cases for which the outcome is uncertain and HMRC considers that there is only a possible rather than probable likelihood that a payment will be required, or the amount cannot be reliably measured. HMRC has identified two categories of liability:

- **Legal claims**, where taxpayers have disputed the interpretation of legislation through the courts and want the tax payable to be reassessed. The outcome depends on a court ruling. In 2019-20, HMRC repaid £0.2 billion to taxpayers in respect of legal provisions (2018-19: £0.2 billion). As of 31 March 2020, HMRC expects it will have to repay £4.9 billion (2018-19: £4.7 billion). The main reasons for the increase since 2018-19 are that HMRC's current legal advice indicates that its exposure to ongoing legal cases has increased and HMRC has provided for two new cases. HMRC also separately discloses contingent liabilities for legal claims, where it considers that it is possible that it will be required to repay tax, including Corporation Tax, income tax and VAT. Contingent liabilities were £2.2 billion as at 31 March 2020 arising from five legal cases (2018-19: £2.3 billion from six cases).[2]

- **Oil and gas field decommissioning costs**, where companies decommissioning oil and gas infrastructure in the North Sea are entitled to recover tax previously paid in relation to profits from those oil and gas fields. As of 31 March 2020, HMRC estimates that it will have to repay £9.4 billion of tax in relation to oil and gas field decommissioning (2018-19: £8.3 billion). This is the estimated amount that HMRC will repay to oil and gas companies and is based on an estimate of the decommissioning costs that they will incur in future periods. In 2019-20, companies recovered £0.5 billion of Petroleum Revenue Tax (PRT) from HMRC in relation to decommissioning losses. In addition to repayments of PRT, HMRC estimates that it will forgo a further £7.4 billion of future tax income because of decommissioning expenditure reducing taxable profits.

2 Contingent liabilities arise from legal cases where the maximum potential tax repayment, before losses, capital allowances and other tax reliefs, is more than £100 million.

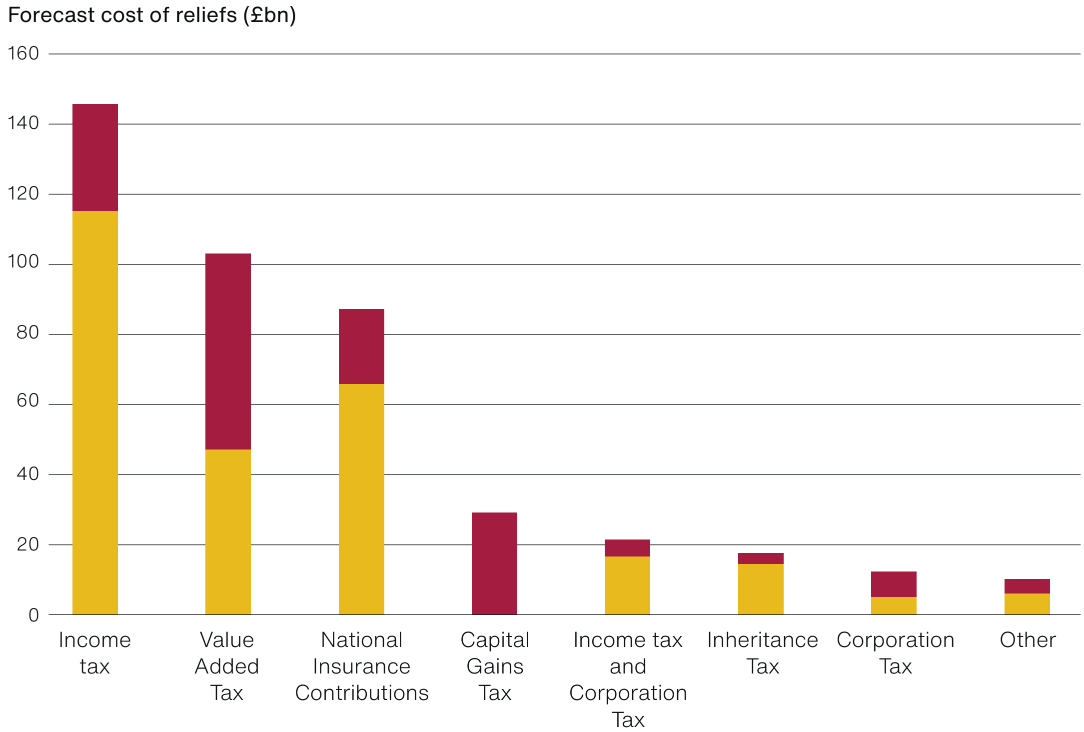
Tax reliefs

1.13 HMRC publishes information on the estimated cost of tax reliefs.[3] Based on the latest data available, as of October 2019, there were 1,190 tax reliefs. HMRC's estimated cost of the 196 tax reliefs, where it reported cost estimates in October 2019, is £426 billion in 2018-19 (£413 billion in 2017-18) (**Figure 3**). HMRC notes that 2018-19 estimates are based on previous years' actual data and do not represent the amount gained if the reliefs were to be removed, as they do not take account of taxpayers changing their activity in response to tax changes. HMRC notes that the estimates are subject to a high degree of uncertainty.

Figure 3

Estimated cost of tax reliefs by tax type for 2018-19

HM Revenue & Customs (HMRC) has reported estimated costs for 196 tax reliefs at £426 billion in 2018-19



	Income tax	Value Added Tax	National Insurance Contributions	Capital Gains Tax	Income tax and Corporation Tax	Inheritance Tax	Corporation Tax	Other
Tax expenditures (£bn)	30	56	21	29	5	3	7	4
Structural reliefs (£bn)	115	47	66	0	17	14	5	6

Notes

1 Most 2018-19 cost estimates for individual reliefs included in the aggregates above are projections based on previous years' actuals.

2 Tax reliefs are presented in categories used by HMRC.

3 Excludes experimental cost estimates for 47 non-structural tax reliefs published by HMRC in May 2020.

Source: National Audit Office analysis of HM Revenue & Customs, *Estimated costs of tax reliefs*, October 2019

3 HMRC Tax Relief Statistics, available at: www.gov.uk/government/collections/tax-relief-statistics.

1.14 There are many tax reliefs for which no cost is currently available. HMRC explains that, in most cases, this is due to a lack of data available on which to base an estimate. In some cases, HMRC judges the cost of collecting the necessary data would be disproportionate. HMRC reports that it aims to improve its understanding of the cost of tax reliefs. In May 2020, HMRC published experimental cost estimates for 47 of the non-structural tax reliefs where costs were previously unavailable.[4] Some of these previously uncosted reliefs are large with HMRC estimating that kerosene used as heating fuel cost £2.4 billion, and redundancy payments cost £0.7 billion. HMRC plans to publish cost estimates for more tax reliefs in an autumn 2020 update to this publication and plans to continue to expand coverage into 2021 and 2022.

1.15 In February 2020, we concluded that HMRC and HM Treasury had responded to our past recommendations by increasing their oversight of tax expenditures and actively considering value for money.[5] We also concluded that these steps were still in development and would not be sufficient to enable HMRC and HM Treasury to assess whether the reliefs give value for money. We recommended that HMRC and HM Treasury should clarify arrangements for assessing value for money and improve the evaluation and public reporting of tax expenditures.

1.16 In July 2020, the Committee of Public Accounts concluded that HM Treasury and HMRC had an insufficient understanding of the cost and value for money of tax reliefs, as well as who benefits from them and need to improve their management of tax reliefs.[6] The Committee made a number of recommendations, including that HMRC should assess the groups and sectors benefiting from all significant reliefs and publicly report the results during 2021. Also, HMRC and HM Treasury should explain how they will respond when reliefs cost much more than expected, are subject to abuse, or are not achieving their objectives.

4 HM Revenue & Customs, *Non-structural tax reliefs – Additional cost estimates*, May 2020. HMRC defines experimental as meaning the statistics are newly developed and the publication is undergoing evaluation.

5 Comptroller and Auditor General, *The management of tax expenditures*, Session 2019-20, HC 46, February 2020, paragraphs 22 to 24.

6 HC Committee of Public Accounts, *Management of tax reliefs*, Twelfth Report of Session 2019–2021, HC 379, July 2020.

Tax gap

1.17 HMRC defines the tax gap as "the difference between the amount of tax that should, in theory, be paid to HMRC, and what is actually paid".[7] The gap occurs for a number of reasons. Inevitably some taxpayers make mistakes, others choose not to comply, and some cannot pay because of insolvency. In other cases, taxpayers interpret tax rules differently from HMRC, which can affect the amount of tax they pay or construct artificial arrangements to avoid tax. The gap can also be affected by other factors, such as the state of the economy, demographic changes and the perceived fairness of tax policy. The accounting framework under which the Trust Statement is produced requires HMRC to exclude the tax gap from the financial statements.

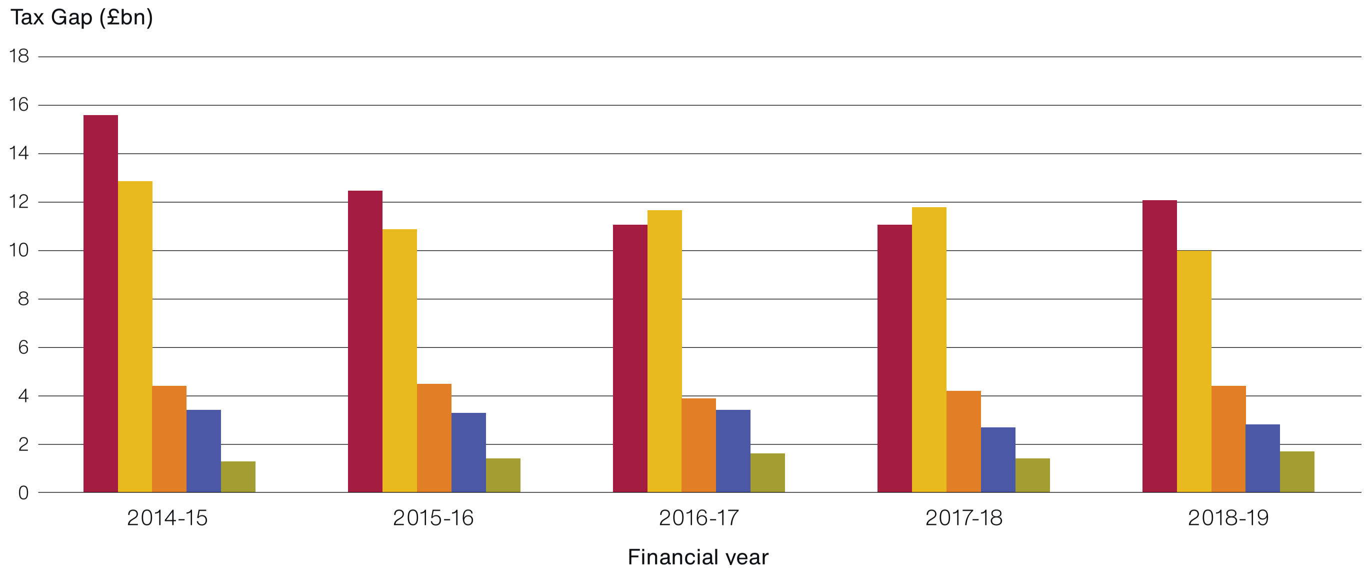
Size of the tax gap

1.18 HMRC has estimated that the tax gap for 2018-19 – the latest year for which data are available – was £31 billion (2017-18: £31 billion) (**Figure 4**).[8] This represents 4.7% of the total theoretical tax liabilities and remains consistent with the 5.0% tax gap estimated by HMRC for 2017-18. The figures can be subject to considerable revision each year, making it difficult to use the tax gap as a measure to assess performance, particularly in the short term.[9] In July 2020, HMRC made substantial revisions to previous tax gap estimates reflecting changes to the national statistics used to estimate VAT and the settlement of long-running tax disputes. For example, in 2019 HMRC reported that the tax gap had increased to £35 billion or 5.6% of tax owed in 2017-18. It now estimates the tax gap reduced to £31 billion or 5.0% of tax owed in that year. The analysis does, however, help in understanding the relative size of each area of the tax gap.

7 HM Revenue & Customs, *Measuring tax gaps 2020 edition*, July 2020.
8 See footnote 7.
9 Comptroller and Auditor General, *HM Revenue & Customs, Tackling the tax gap*, Session 2019–2021, HC 372, National Audit Office, July 2020.

Figure 4
The tax gap, 2014-15 to 2018-19

HM Revenue & Customs' (HMRC's) estimate of the tax gap for 2018-19 is £31 billion



	2014-15	2015-16	2016-17	2017-18	2018-19
Personal income taxes (£bn)	15.6	12.5	11.1	11.1	12.1
Value Added Tax (£bn)	12.9	10.9	11.7	11.8	10.0
Corporation Tax (£bn)	4.4	4.5	3.9	4.2	4.4
Excise duties (£bn)	3.4	3.3	3.4	2.7	2.8
Other taxes (£bn)	1.3	1.4	1.6	1.4	1.7
Total tax gap (£bn)	**38**	**33**	**32**	**31**	**31**
Total theoretical tax liabilities (£bn)	**551**	**565**	**600**	**623**	**651**
Total tax gap (%)	**6.8**	**5.8**	**5.3**	**5.0**	**4.7**

Notes

1 HMRC defines the tax gap as the difference between the amount of tax that should, in theory, be paid to HMRC (the total theoretical tax liabilities) and what is actually paid.

2 Components of the tax gap may not add up to the total tax gap due to rounding.

3 HMRC has revised figures for previous years.

Source: National Audit Office analysis of HM Revenue & Customs, *Measuring tax gaps 2020 edition*

Compliance activities

1.19 Compliance activities can take many different forms, such as disrupting organised criminal gangs or tackling the use of tax avoidance schemes and measures to promote compliance and prevent non-compliance such as guidance and through making tax digital. HMRC considers “the best way to tackle non-compliance is to prevent it happening in the first place, while cracking down on the minority who do break the rules”.[10] As such its strategy aims to:

- **Promote** compliance by designing it into systems and processes, enabling taxpayers to get things right from the outset.
- **Prevent** non-compliance by using data to spot mistakes, prevent fraudulent claims, personalise online services and automate tax calculations.
- **Respond** to non-compliance by identifying and targeting the areas of greatest risk, and tackle those who deliberately try to cheat the system.

Compliance yield

1.20 HMRC measures the effectiveness of its enforcement and compliance activities through compliance yield: its estimate of the additional revenues that HMRC considers it has generated, and the revenue losses it has prevented. It is one of HMRC’s main performance measures and is used to agree targets with HM Treasury for spending on compliance work.

1.21 HMRC agrees a target for compliance yield with HM Treasury each year and publishes information on compliance yield each quarter. In 2019-20, HMRC achieved £36.9billion (2018-19: £34.1 billion) of compliance yield against a target of £34.5 billion (2018-19: £30.0 billion). HMRC reports the compliance yield it has recorded under six categories:

- **‘Revenue losses prevented’**

  £10.6 billion (29%): the tax revenue HMRC has prevented from being lost to the Exchequer (for example, by stopping fraudulent repayment claims and disrupting criminal activity).
- **‘Cash expected’**

  £9.0 billion (24%): an estimate of the additional revenue due when HMRC identifies past non-compliance.
- **‘Future revenue benefit’**

  £9.0 billion (24%): an estimate of the effect of HMRC’s compliance work on taxpayers’ future behaviour.

10 HM Revenue & Customs, *HMRC Strategy*, July 2017.

- **'Upstream product and process yield'**

  £4.2 billion (11%): the annual impact on net tax receipts of legislative changes to close tax loopholes; and changes to HMRC's processes that reduce opportunities to avoid or evade tax.

- **'Upstream operational yield'**

  £4.1 billion (11%): an estimate of the impact of HMRC's operational activities undertaken to promote compliance and prevent non-compliance before it occurs.[11]

- **'Accelerated payments'**

  £0.1 billion (0.3%): the amount that users of avoidance schemes have paid to HMRC upfront while their dispute is being resolved, as well as an estimate of the behavioural change that this policy has generated.[12]

1.22 HMRC's compliance activities contribute towards its objective, as set out in its Single Departmental Plan, of raising an additional £5 billion per year by 2019-20, compared with 2015-16, by tackling tax avoidance and aggressive tax planning, evasion and non-compliance. HMRC reported that it had met this objective through a combination of measures to tackle tax avoidance and aggressive tax planning, evasion and non-compliance, which raised £4.4 billion by 2019-20 (**Figure 5**), and by exceeding its compliance yield target.

Figure 5

Exchequer impact of measures to tackle tax avoidance and aggressive tax planning, evasion and non-compliance

HM Revenue & Customs (HMRC) reported that it had raised an additional £4.4 billion by 2019-20

Tax year	2016-17	2017-18	2018-19	2019-20
Exchequer impact (£m)	990	1,945	3,565	4,390

Notes

1 This figure shows the additional impact on the Exchequer compared with the 2015-16 baseline.

2 The £5 billion commitment is the impact on the Exchequer rather than an amount of compliance yield.

Source: National Audit Office analysis of HM Revenue & Customs, *HMRC performance update: Spending Review 2015*, June 2020

11 HMRC published upstream operational yield as a distinct category for the first time in 2019-20 as it is now a more significant proportion of total yield. In previous years HMRC published this as part of the Cash Expected category.

12 The yields for each category do not add up to the total compliance yield due to rounding.

1.23 In our report *Tackling the tax gap,* we concluded that HMRC's measure of compliance yield remains the best indicator of its performance because it calculates the direct return from its work to tackle the tax gap. Performance against this measure suggests that HMRC's work to tackle non-compliance offers good value for money, with rates of return ranging from 7:1 to 44:1.[13] We found that HMRC is developing a wider set of measures to capture its performance in administering the tax system. These include overall collection of receipts due, the level of harm to the exchequer and to society and the extent to which harm is reduced, and the level of customer confidence. HMRC has yet to set realistic targets for these measures or what they will collectively show in terms of its overall performance. HMRC told us that it is developing its performance measurement approach in line with its strategy for the next Spending Review period and will set targets ahead of the 2021-22 financial year.

1.24 We also highlighted that, during 2019-20, HMRC has been developing organisation-wide customer strategies which focus on the whole customer experience, not only taxpayer compliance, which it aims to finalise by autumn 2020.[14] The aim is to create the right experience to help taxpayers get their tax right initially and to remain compliant. The completed customer group strategies should help HMRC to balance activities to promote compliance and prevent and respond to non-compliance. We also recommended that HMRC should set clear strategic objectives for tackling underlying non-compliant behaviours.

Approach to tax disputes

1.25 The Tax Assurance Commissioner oversees the assurance and governance arrangements for tax disputes. HMRC's Annual Report includes the Tax Assurance Commissioner's Report which details HMRC's approach to dealing with tax disputes. HMRC refers proposals for resolving the largest and most sensitive disputes to dispute resolution boards and ultimately to a panel of three HMRC commissioners of which one will always be the Tax Assurance Commissioner. In August 2020 HMRC appointed Justin Holliday as Tax Assurance Commissioner in addition to his Chief Finance Officer responsibilities.

1.26 Further detail is included in the Tax Assurance Commissioner's Report, including the number of cases referred to governance boards and to the commissioners and the outcomes of these cases. The report notes that the commissioners met 15 times to review 55 cases during 2019-20. Commissioners are given detailed papers prepared by case teams, who also attend those meetings, when considering cases. Standard templates are used to collate the key information about the background of cases, the tax being considered, proposals put forward by the taxpayer and legal opinion where this is appropriate.

13 See footnote 9.
14 See footnote 9.

1.27 The Tax Assurance Commissioner's Report also refers to HMRC's use of alternative dispute resolution. This involves using mediation to resolve disputes between taxpayers and caseworkers. In certain circumstances, it can help both the taxpayer and HMRC to avoid resolving disputes through tribunal and court processes, which can be prolonged and costly exercises for both parties.

Approach to disguised remuneration

1.28 Disguised remuneration schemes are tax avoidance arrangements that seek to avoid income tax and National Insurance Contributions by, for example, paying scheme users their income in the form of loans, usually via an offshore trust, with no expectation that the loans would ever be repaid.

1.29 The government introduced the Loan Charge from 5 April 2019, to tackle the historic use of disguised remuneration schemes over the previous 20 years. An independent review into whether the Loan Charge was justified in principle and whether its design was proportionate and fair supported the purpose of the Loan Charge but found that the 20-year look-back period was not proportionate and justified. The review concluded, and the government accepted, that the Loan Charge should not apply to loans entered into by either individuals or employers before 9 December 2010.[15,16]

1.30 In January 2020, HMRC published, and has subsequently updated, guidance on the key changes to the Loan Charge following the review and what those changes mean for different customer groups.[17] HMRC also drafted legislation, now the Finance Act 2020, to implement changes to the Loan Charge and to refund certain voluntary payments made to HMRC on or after 16 March 2016. Following legislation introduced in the Finance Act 2020, HMRC published further guidance to help customers understand their obligations and options and the support available from HMRC to help them settle their tax liabilities. Cases of disguised remuneration before 9 December 2010 will no longer be covered by the Loan Charge but HMRC will continue to pursue open enquiries and assessments under appeal for earlier years, resolving them by agreement where possible and by litigation if necessary. Use of disguised remuneration on or after 5 April 2019 is covered by Part 7a of the Income Taxes (Earnings and Pensions) Act (ITEPA) 2003.

15 *Independent Loan Charge Review: report on the policy and its implementation*, December 2019.
16 HM Treasury, *Independent Loan Charge Review: Government response to the Review*, December 2019. The loan charge review was led by Sir Amyas Morse, the previous Comptroller and Auditor General.
17 HM Revenue & Customs, *Disguised remuneration: guidance following the outcome of the independent loan charge review*, updated August 2020. Available at: www.gov.uk/government/publications/disguised-remuneration-independent-loan-charge-review/guidance

1.31 HMRC estimates that because of the changes to the Loan Charge some 11,000 individuals will be removed from the Loan Charge, some 21,000 will see tax they owe under the Loan Charge reduced, and some 1,000 individuals and 1,000 employers are likely to benefit from refunds or reduced instalment payments. HMRC estimates the exchequer impact to be £745 million in total between 2019-20 and 2024-25.[18]

Customer service performance

1.32 This section considers how HMRC performed against its targets for customer service in 2019-20, factors affecting its operational performance and developments in the measurement of customer service performance.

Performance in 2019-20

1.33 HMRC met three out of its eight customer service targets in 2019-20 (**Figure 6**). The performance data show over the three years 2017-18 to 2019-20, that:

- HMRC's speed of answering phone calls has fallen – the proportion of customers waiting more than 10 minutes to speak to an adviser increased from 14.6% in 2017-18 to 29.9% in 2019-20, against a target of 15%;
- HMRC's performance in responding to tax correspondence received by post has declined, missing both of its targets in 2019-20 to respond to correspondence within 15 days in 80% of cases and, including where HMRC has missed the 15-day target, within 40 days in 95% of all cases;
- over the past three years HMRC has been well within its targets for handling new Tax Credits and Child Benefit claims and changes of circumstances, for customers in the UK (22 days) and overseas (92 days); and
- customer satisfaction with HMRC's digital services has increased each year and has met the target of 80% for the past two years. However, against its target to reply to i-forms and secure emails within seven days, HMRC's performance has declined in 2019-20 to 87.6%, against a target of 95%.

18 HMRC, *Implementation of recommendations from the independent review of the Loan Charge*, March 2020. Available at: www.gov.uk/government/publications/implementation-of-recommendations-from-the-independent-review-of-the-loan-charge/implementation-of-recommendations-from-the-independent-review-of-the-loan-charge

Figure 6
HM Revenue & Customs' customer service performance

HM Revenue & Customs (HMRC) reported achieving three of its eight published targets in 2019-20

Metric	Target	2017-18[1]	2018-19[1]	2019-20[1]
Telephone				
Average speed of answering calls to HMRC helplines (queue time[2])	05:00 mins	04:28	05:14	06:39
Customers waiting more than 10 minutes to speak to an adviser	15%	14.6%	19.7%	29.9%
Tax correspondence received by post[3]				
Post responded to within 15 days	80%	80.7%	76.6%	70.3%
Post responded to within 40 days	95%	97.1%	96.4%	88.0%
Tax Credits and Child Benefit claims				
Average time to handle new Tax Credits and Child Benefit claims and changes of circumstances – UK customers	22 days	14 days	12 days	13.2 days
Average time to handle new Tax Credits and Child Benefit claims and changes of circumstances – international customers	92 days	55.6 days	61.5 days	65.7 days
Digital				
Customer satisfaction for digital services[4]	80%	79.8%	80.4%	81.6%
i-forms and secure emails replied to within 7 days[5]	95%	94.6%	94.1%	87.6%

Notes
1 Green – target achieved; amber – outturn within 10% of target; red – outturn more than 10% off target.
2 Speed of answering calls covers the time customers spend in the queue waiting for an adviser. It excludes the time customers are in HMRC's automated telephony system before entering the queue.
3 HMRC's initial target is to respond to correspondence received by post within 15 days in 80% of cases and, including correspondence where the initial target is missed, to respond to 95% of all correspondence within 40 days.
4 Customer satisfaction for digital services is measured using an exit survey.
5 i-forms can be filled in and filed online.

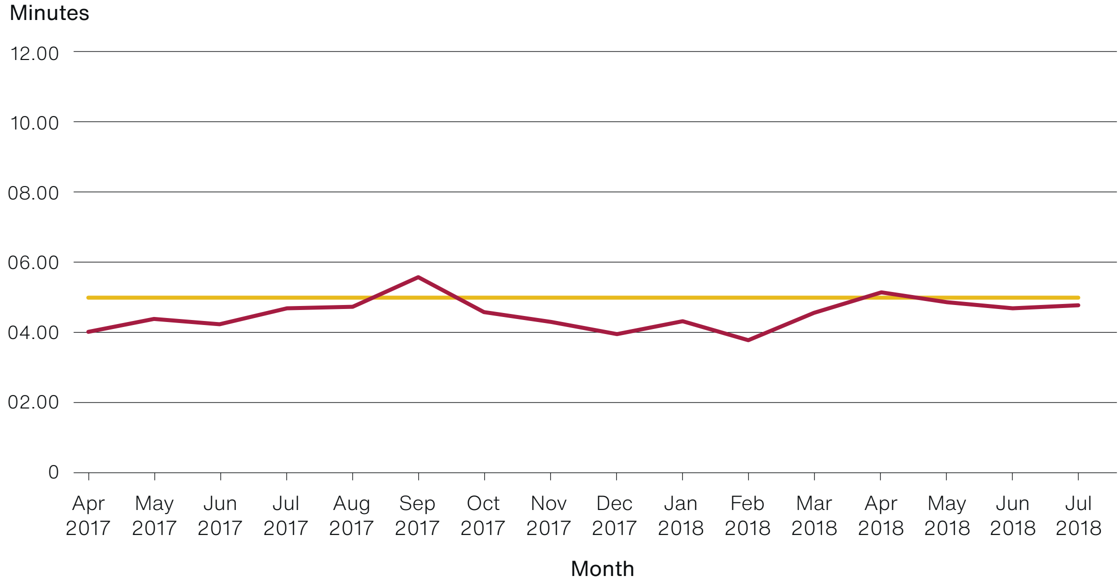
Source: National Audit Office analysis of HM Revenue & Customs data

1.34 HMRC's data show that its performance in speed of answering phone calls and tax correspondence in 2018-19 and 2019-20 dipped between the end of 2018 and mid-2019 and improved between May and December 2019 (**Figure 7** on pages R30 and R31 and **Figure 8** on pages R32 and R33). In 2019-20, HMRC's speed of answering phone calls met its target level of performance between October and December 2019. HMRC's speed of responding to correspondence received by post within 15 days met its target level of performance in October and November 2019 and in January 2020, and during 2019-20 HMRC only met its target level of performance for responding to correspondence within 40 days in March 2020.

Figure 7

Average time HM Revenue & Customs' customers spend queueing before speaking to an adviser, 2017-18 to 2019-20

Over the last three years, customers have experienced an increase in time waiting to speak to an adviser, peaking at 10.5 minutes in May 2019, against HM Revenue & Customs' (HMRC's) target time of five minutes



	Apr 2017	May 2017	Jun 2017	Jul 2017	Aug 2017	Sep 2017	Oct 2017	Nov 2017	Dec 2017	Jan 2018	Feb 2018	Mar 2018	Apr 2018	May 2018	Jun 2018	Jul 2018
Average queueing time (minutes)	04.01	04.23	04.15	04.42	04.45	05.35	04.35	04.19	03.57	04.20	03.47	04.34	05.09	04.52	04.42	04.47
Target																

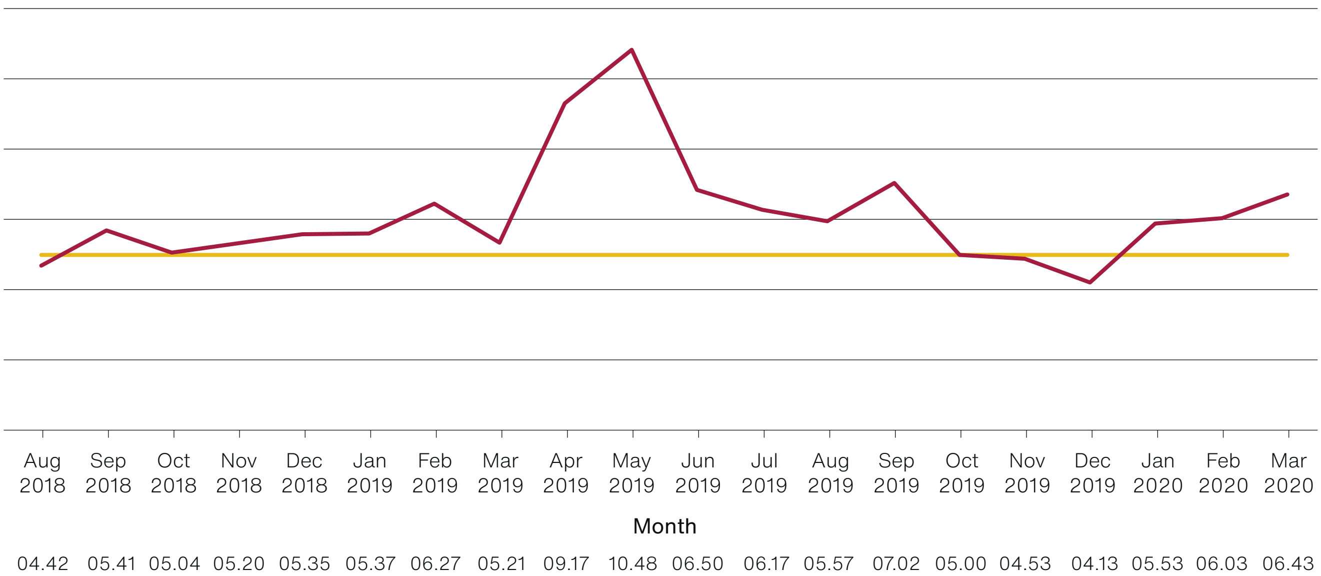
Notes

1 Data in the chart are monthly times for all helplines.

2 Departments initially prepared for the UK to leave the EU on 29 March 2019. This date was then extended to 12 April 2019, and subsequently to 31 October 2019 and to 31 January 2020 – the date the UK left the EU. HMRC told us that performance in March 2020 will also have been affected by the COVID-19 pandemic.

3 HMRC defines average speed to answer as the time that customers spend in the queue waiting to speak to an adviser. There is limited information on the time that customers spend in HMRC's automated telephony system before entering the queue. In 2016, HMRC told us that customers typically spent between two and four minutes listening and responding to automated messages.

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


Aug 2018
Sep 2018
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Mar 2019
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Jun 2019
Jul 2019
Aug 2019
Sep 2019
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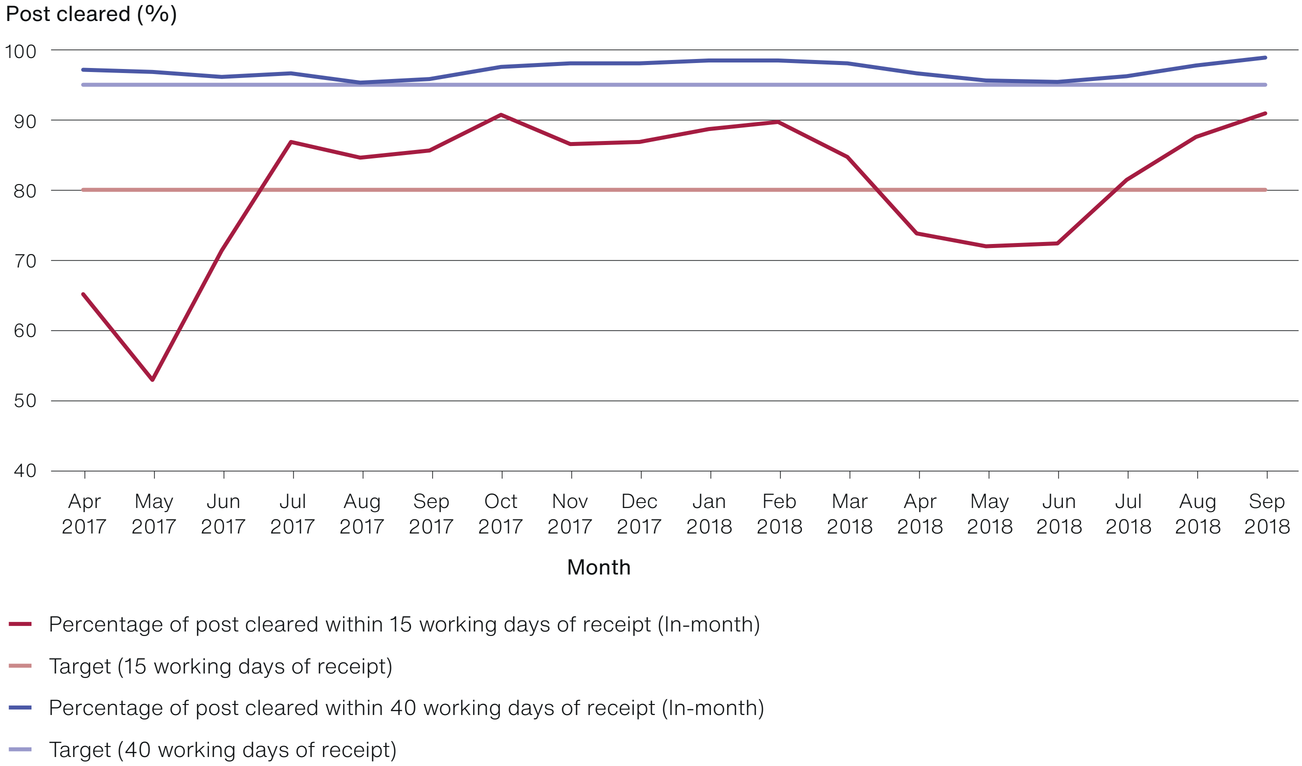
Nov 2019
Dec 2019
Jan 2020
Feb 2020
Mar 2020
Month
04.42 05.41 05.04 05.20 05.35 05.37 06.27 05.21 09.17 10.48 06.50 06.17 05.57 07.02 05.00 04.53 04.13 05.53 06.03 06.43

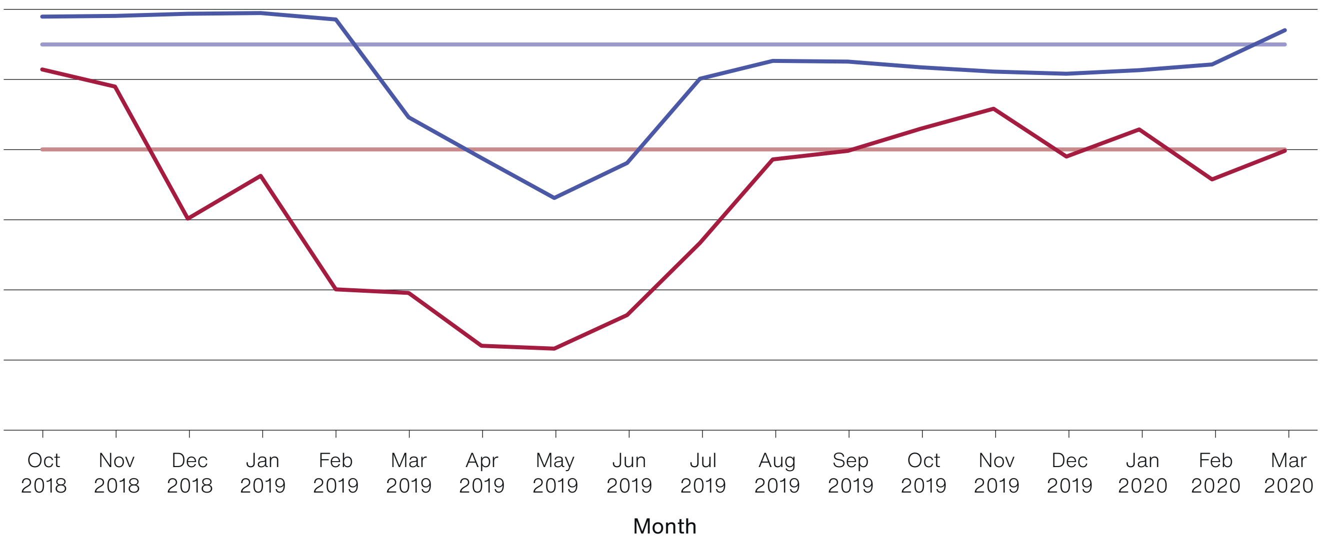
Figure 8

HM Revenue & Customs' performance in processing tax correspondence received by post, 2017-18 to 2019-20

For most of 2019-20, HM Revenue & Customs (HMRC) has not achieved its target level of performance in the speed of answering tax correspondence



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


Oct 2018
Nov 2018
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Nov 2019
Dec 2019
Jan 2020
Feb 2020
Mar 2020
Month

1.35 HMRC reported in 2018-19 that recruitment challenges and the need to divert resources towards EU Exit work were significant factors in the achievement of its customer service objectives. HMRC told us that these issues also impacted in 2019-20 through a backlog of work along with greater demand for and complexity of its contacts with customers and the need to train staff moving from EU Exit work to customer services activities.[19] During 2019-20 HMRC missed its planned level of recruitment to its customer services group, particularly in April and May 2019 by more than 40% and in September 2019 by more than 30%. Overall, HMRC recruited 268 (8.3%) fewer staff to its customer service group than planned in 2019-20. During 2019-20 HMRC continued to redeploy customer service staff to work on EU Exit – around 400, on average, per month with a peak of more than 1,000 staff redeployed in October 2019.[20] HMRC told us that performance in March 2020 will also have been affected by the COVID-19 pandemic, which is discussed in Part Two.

Developments in the measurement of customer service performance

1.36 In November 2018, the Committee of Public Accounts recommended that HMRC should, by the start of 2019-20, develop and report a scorecard of performance measures which provides a broader overview of the customer experience of both businesses and individuals, including measures of quality and a full view of call waiting time.[21] HMRC agreed with the Committee's recommendation, with the exception of the recommendation to conduct a full review of call waiting time, and committed to introducing a new scorecard of performance measures with a target implementation date of July 2019.

19 HM Revenue & Customs, 2018-19 Annual Report and Accounts, HC 2394, July 2019.

20 Data on staff deployed to work on EU Exit are the net figures for staff deployed to work on EU Exit and redeployed back to customer service group. For example, in October 2019 HMRC deployed 1,927 customer service staff to work on EU Exit and redeployed 916 staff back to customer services.

21 HC Committee of Public Accounts, *HMRC's performance in 2017-18*, Sixty-Sixth Report of Session 2017–2019, HC 1526, November 2018.

1.37 In response, during 2019-20, HMRC has developed and is using a new balanced scorecard, a framework to report internally on its customer service performance. In doing so, HMRC has retained measures such as the speed of answering phone calls and responding to correspondence but uses a range of measures to understand the effectiveness of its customer service, using both customer surveys and internal management information. HMRC's customer service performance measures are grouped in four sections of its scorecard, which examine: the customer, and how easy it is for the customer to use HMRC services; HMRC's internal business processes and if these minimise the amount of contact a customer needs to have with HMRC to address their issue; the average cost of serving each customer; and learning and growth, and the extent to which HMRC is maximising the value of its contact with customers (**Figure 9**).

Figure 9

HM Revenue & Customs' new internal customer performance measures

HM Revenue & Customs (HMRC) has developed a new framework for measuring its customer service performance

Customer

Key measure: 'Net Easy' – What HMRC's customers say about how easy it is for the customer to use HMRC's services.

Supported by information about areas such as access to services, automated telephone messaging, repeat calls, progress chasing and complaints.

Internal business process

Key measure: 'First contact resolution' – What HMRC's customers say about whether HMRC dealt with their query.

Supported by information about areas such as debt, the range and variation in telephone and post services and the quality of work that HMRC undertakes.

Learning and growth

Key measure: 'Value Demand' – The extent to which HMRC is maximising the value of its contact with customers.

Supported by information about staff skills, quality of work undertaken and system and customer adviser availability.

Financial

Key measure: 'Cost to Serve per Customer' – The average cost to HMRC of serving its customers.

Supported by information about the cost of serving customers and records of plans against actuals.

Note

1 HMRC's framework is supported by several internal performance measures which draw on a range of information, including management information and the results of surveys of customers using HMRC services.

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

1.38 HMRC has also published, drawing on the measures in its balanced scorecard, new experimental customer services performance data for the first time in 2019-20.[22] The experimental data cover the following areas:

- **Ease of using HMRC's digital services**

  Reports the results of a survey of customers using HMRC's digital services which asks, "How easy was it to deal with us today?".

- **Digital contact resolution**

  Reports the results of a survey of customers using HMRC's digital services which asks, "Were you able to do what you needed to today?".

- **Telephone contact resolution**

  Records the percentage of callers to HMRC helplines who do not call back again within seven days after speaking to an adviser, suggesting that their issues have been resolved.

- **Additional telephone contact data**

  Records the number of callers that leave during the automated telephone message and do not call back, indicating that they may have resolved their issues through another means, and the number of repeat callers.

- **Additional post data**

  Records the number of items of tax correspondence dealt with in less than 15 working days and the number of post items dealt with between 15 and 40 working days.

1.39 HMRC has not yet formulated or published new external performance measures to reflect the experimental data it has published and the data it now uses internally to manage performance using its balanced scorecard. HMRC told us that it aims to have new external performance measures available for the start of 2021-22.

22 *HMRC quarterly performance updates*, available at: www.gov.uk/government/collections/hmrc-quarterly-performance-updates. HMRC states "these customer experience metrics are newly introduced and therefore experimental until the Department understand how they fit with our customer service operations".

Part Two

Strategic issues

2.1 This part considers the approach HM Revenue & Customs (HMRC) is taking to addressing its strategic issues. This covers:

- HMRC's role in administering the government's response to the COVID-19 pandemic, including significant measures to support employment and businesses;
- the impact of the COVID-19 pandemic on revenue and HMRC's operations and performance;
- EU Exit and preparing for the end of the transition period; and
- progress with HMRC's transformation programme.

Whereas Part One considered performance in 2019-20, this part considers the current position. In doing so, we present management information and financial data reported by HMRC and relating to 2020-21, which may be revised and will be reported in HMRC's accounts for that year.

Response to and impact of COVID-19

2.2 HMRC is playing a significant role in implementing the government's response to the COVID-19 pandemic. The main areas where HMRC is responsible for providing support, including the estimated cost of those measures and HMRC's latest estimate of actual costs, are set out in **Figure 10** on pages R38 and R39. The Office for Budget Responsibility has published estimates for the costs of COVID-19 measures from which the costs of measures administered by HMRC are estimated at more than £80 billion.

Figure 10

Primary support measures for individuals and businesses administered by HM Revenue & Customs in response to COVID-19

HM Revenue & Customs (HMRC) is responsible for administering several government schemes introduced in response to COVID-19

Support provided by HMRC	Estimated cost (£m)	Outturn – key facts reported by HMRC
Main grant-paying measures		
Coronavirus Job Retention Scheme. Employers can claim a taxable grant covering 80% of the wages for furloughed employees (capped at £2,500 a month per employee). Initially applied from March to July 2020. Initially extended to 31 October 2020, with employers expected to contribute from August 2020. On 31 October, the government announced that the scheme will remain open until December 2020. The estimated additional cost of this extension is not included in this figure.	47,001	9.6 million jobs furloughed. 1.2 million employers furloughing. £39.3 billion value of claims made. (as at 20 September)
Coronavirus Job Retention Bonus. A one-off payment to employers of £1,000 for every employee who they previously claimed for under the Coronavirus Job Retention Scheme, and who remains continuously employed through to 31 January 2021.	6,100	Not started.
Self-Employment Income Support Scheme. Provides taxable grants to self-employed people, or members of a partnership, who have lost income in two tranches. **Tranche 1**: From 13 May eligible self-employed individuals could claim a grant worth 80% of their average monthly trading profits, paid out in a single instalment covering three months' worth of profits, capped at £7,500. **Tranche 2**: From 17 August until 19 October, eligible applicants will be able to claim a second grant worth 70% of their average monthly trading profits, paid in another single instalment covering three months' worth of profits, capped at £6,570.	15,188	**Tranche 1** 2.6 million claims made. £7.8 billion value of claims made. **Tranche 2** 2.2 million claims made. £5.6 billion value of claims made. (as at 20 September)
Repaying employers for statutory sick pay. Repays employers with fewer than 250 employees the current rate of statutory sick pay paid to current or former employees for periods of sickness starting on or after 13 March 2020, capped at two weeks.	200	Not available.
Eat out to help out. At participating establishments customers can get a 50% discount on food or non-alcoholic drinks to eat or drink in (up to a maximum of £10 discount per diner) every Monday, Tuesday and Wednesday between 3 and 31 August 2020.	500	84,700 premises registered. 130,000 claims made. 100 million covers claimed for. £522 million claimed (as at 31 August).
Tax Credits. Increase in the basic element of the Working Tax Credit by £1,045 to £3,040 from 6 April 2020 until 5 April 2021. Those working reduced hours due to coronavirus or those being furloughed will not have their tax credits payments affected if they are still employed or self-employed.	1,504	Not available.

Figure 10 *continued*

Primary support measures for individuals and businesses administered by HM Revenue & Customs in response to COVID-19

Support provided by HMRC	Estimated cost (£m)	Outturn – key facts reported by HMRC
Measures to defer payment of tax liabilities		
Deferring VAT payments. UK VAT-registered businesses can defer VAT payments due between 20 March and 30 June 2020 to March 2021. No interest or penalties will be charged.	1,893 (assumes a 5% non-payment rate on an estimated £38 billion deferral)	500,500 payments deferred. £28.2 billion VAT deferred (as at 7 June).
Deferring self-assessment payments. Those who cannot pay tax bills on time due to COVID-19 can delay self-assessment payments due in July 2020 until 31 January 2021. Deferred payments will not be subject to a penalty.	1,179 (assumes a 10% non-payment rate on an estimated £11.8 billion deferral in 2020-21)	Not available.
Other tax measures		
VAT cut from 20% to 5% on food, accommodation and attractions.	2,500	Not available.
Temporary Stamp Duty Land Tax cut from 8 July 2020 until 31 March 2021.	2,540	Not available.
Changes to tax reforms already announced: postponing off-payroll working reforms by 12 months; scrapping VAT on e-publications brought forward from 1 December to 1 May 2020; introduction of the domestic reverse charge for construction services will be delayed from 1 October 2020 until 1 March 2021.	1,157	Not available.
Relief on import taxes for goods to tackle COVID-19 until 31 July. Applies to specific medical goods coming from outside the EU including ventilators, coronavirus testing kits and protective clothing.	124	Not available.
VAT zero rating for personal protective equipment between 1 May and 31 October 2020.	200	Not available.
Total	**80,086**	

Notes

1 Includes all measures with an estimated cost of £100 million or more. New measures being implemented following the winter economy plan announced on 24 September 2020 are not included.

2 This is not a complete list of measures administered by HMRC. For further information about the range of support provided by the UK government in response to the COVID-19 pandemic see Comptroller and Auditor General, *Overview of the UK government's response to the COVID-19 pandemic*, May 2020 and National Audit Office COVID-19 Cost Tracker available at www.nao.org.uk/covid-19/cost-tracker/.

3 Some schemes may impact HMRC activity but are not administered by HMRC and are excluded from our analysis. For example, business interruption loan scheme (delivered by commercial lenders) and a new lending facility from the Bank of England to help support liquidity among larger firms.

Source: National Audit Office analysis of government documents and websites and data published by the Office for Budget Responsibility

2.3 In addition to the main measures, HMRC told us that it implemented more than 60 changes, or 'easements' to the administration of taxes and welfare benefits, primarily so that the system can operate within COVID-19 guidance on working from home, travel and social distancing. In May 2020 we outlined the support being provided by government in an *Overview of the UK government's response to the COVID-19 pandemic,* including the range of schemes administered at that point by HMRC.[23] In September 2020 we also published a *COVID-19 Cost Tracker* to provide estimates of the cost of measures announced in response to the coronavirus pandemic and how much the government has spent on these measures so far.[24]

2.4 Most costs in respect of the measures being implemented by HMRC will be accounted for in the 2020-21 HMRC Resource Accounts and will be subject to our audit of the accounts for that year. We reported on the value for money of the two main employment support measures, the Coronavirus Job Retention Scheme and the Self-Employment Income Support Scheme, in *Implementing employment support schemes in response to the COVID-19 pandemic* in October 2020.[25]

2.5 The measures HMRC is administering have resulted in a significant growth in the expenditure HMRC administers and has required new primary legislation, the Coronavirus Act 2020 and the Finance Act 2020. The Chancellor of the Exchequer issued directions to HMRC under the Coronavirus Act 2020 to implement and later to amend the Coronavirus Job Retention Scheme and the Self-Employment Income Support Scheme. The HMRC accounting officer also requested and received directions from the Chancellor of the Exchequer: for the Coronavirus Job Retention Bonus because he was unable to reach a view that this represents value for money to the standards expected by *Managing Public Money*;[26] for the Eat Out to Help Out scheme because there was insufficient time to gather further evidence and wider external opinions that might enable him to reach a conclusion on value for money; and in both cases due to the risk of nugatory spend in advance of legal directions under Section 76 of the Coronavirus Act 2020.

23 Comptroller and Auditor General, *Overview of the UK government's response to the COVID-19 pandemic*, Session 2019–2021, HC 366, May 2020.
24 National Audit Office, *COVID-19 Cost Tracker*, September 2020 available at: www.nao.org.uk/covid-19/cost-tracker/
25 Comptroller and Auditor General, *Implementing employment support schemes in response to the COVID-19 pandemic*, Session 2019–2021, HC 862, National Audit Office, October 2020.
26 HM Treasury, *Managing Public Money*, July 2013 (revised as at October 2019).

2.6 HMRC told us that its main objective through the schemes it is administering has been to implement the policy and "get money to eligible people who need it as quickly and safely as we can". HMRC has, therefore, planned and implemented the most significant measures in a short space of time (**Figure 11** on pages R42 and R43). For example, from the government announcement on 20 March 2020 the Coronavirus Job Retention Scheme went live within four weeks and the Self-Employment Income Support Scheme online service was available in seven weeks from announcement on the 26 March. HMRC will also have further schemes to implement following the government announcement of its winter economy plan on 24 September 2020, including a new Job Support Scheme, an extension of the Self-Employment Income Support Scheme and further measures to reduce, or defer payment of, tax liabilities.[27] On 31 October, the government extended the Coronavirus Job Retention Scheme until December 2020 and postponed the new Job Support Scheme until the Coronavirus Job Retention Scheme ends.

HMRC approach to governance and risk

Governance

2.7 Following the emergence of the COVID-19 pandemic, HMRC appointed a director general to focus on HMRC's response and created two new units:

- A COVID-19 response unit to provide coordination of HMRC's response and to provide a central point for reporting progress.
- A command structure, with a command centre, to act as first point of escalation for all urgent matters and to put into place HMRC plans as risks materialise.

Following the departure of Melissa Tatton from her role as Director General for the COVID-19 response, HMRC has appointed Jo Rowland to the Director General role on a temporary basis for six months, moving from her role as Director of HMRC's COVID-19 Response Unit.

2.8 HMRC established a new Executive Committee at a senior level, which first met on 3 April, and steering groups focusing on specific areas, such as policy, delivery, operations and communications (**Figure 12** on page R44). The Committee has reviewed and taken decisions on many issues, such as the controls to be applied to new schemes, HMRC staff returning to offices and detailed questions about eligibility for the schemes they are administering. Project boards are in place for each of the major schemes, reporting to the delivery steering group, supported by project management structures, reporting and management information.

27 HM Treasury, *Winter Economy Plan*, CP 297, September 2020.

Figure 11

Timeline of key events in HM Revenue & Customs' (HMRC's) response to COVID-19

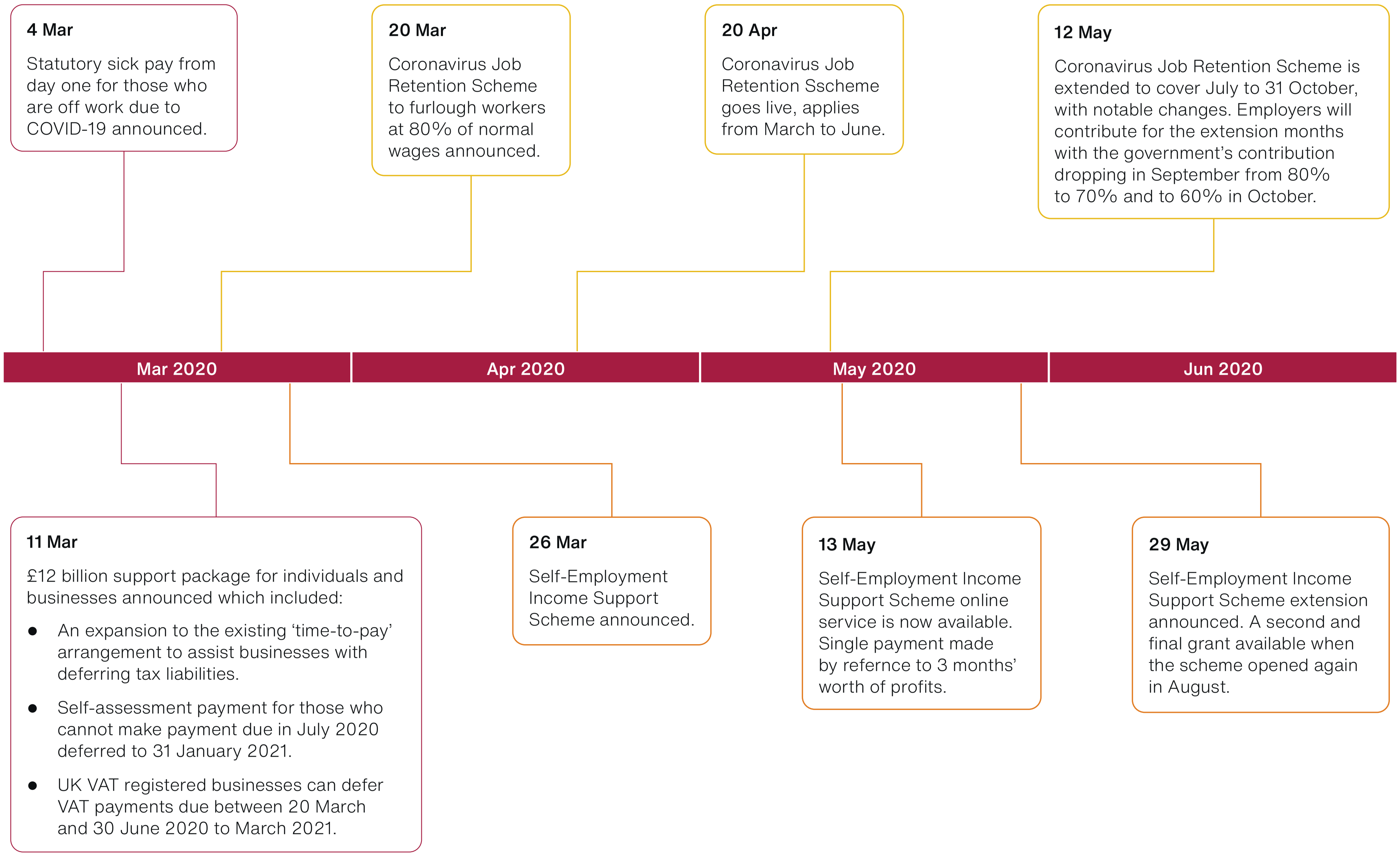


Figure 11 *continued*

Timeline of key events in HM Revenue & Customs' (HMRC's) response to COVID-19

1 Jul
Employers can make their first claims under the extended Coronavirus Job Retention Scheme with 30 November being the final date for submitting claims.

8 Jul
A Plan for Jobs 2020 announced, outlining how government will boost job creation in the UK with £160 billion.

31 Jul
End date for submitting claims under the initial Coronavirus Job Retention Scheme.

17 Aug
Self-Employment Income Support Scheme second grant is now available. Single payment made by reference to 3 months' worth of profits.

19 Oct
Self-Employment Income Support Scheme second grant online service claim deadline date.

Jul 2020 | Aug 2020 | Sep 2020 | Oct 2020

8 Jul
Coronavirus Job Retention Bonus Scheme is announced. A one-off payment of £1,000 will be made in February 2021.

8 Jul
Eat out to help out scheme announced, a 50% discount (maximum £10 per person) on food while eating out.

13 Jul
Self-Employment Income Support Scheme first grant online service claim deadline date.

3 Aug
Eat out to help out scheme goes live, available Monday to Wednesday only until 31 August.

24 Sep
Winter economy plan announced, outlining government plans to protect jobs and support businesses.

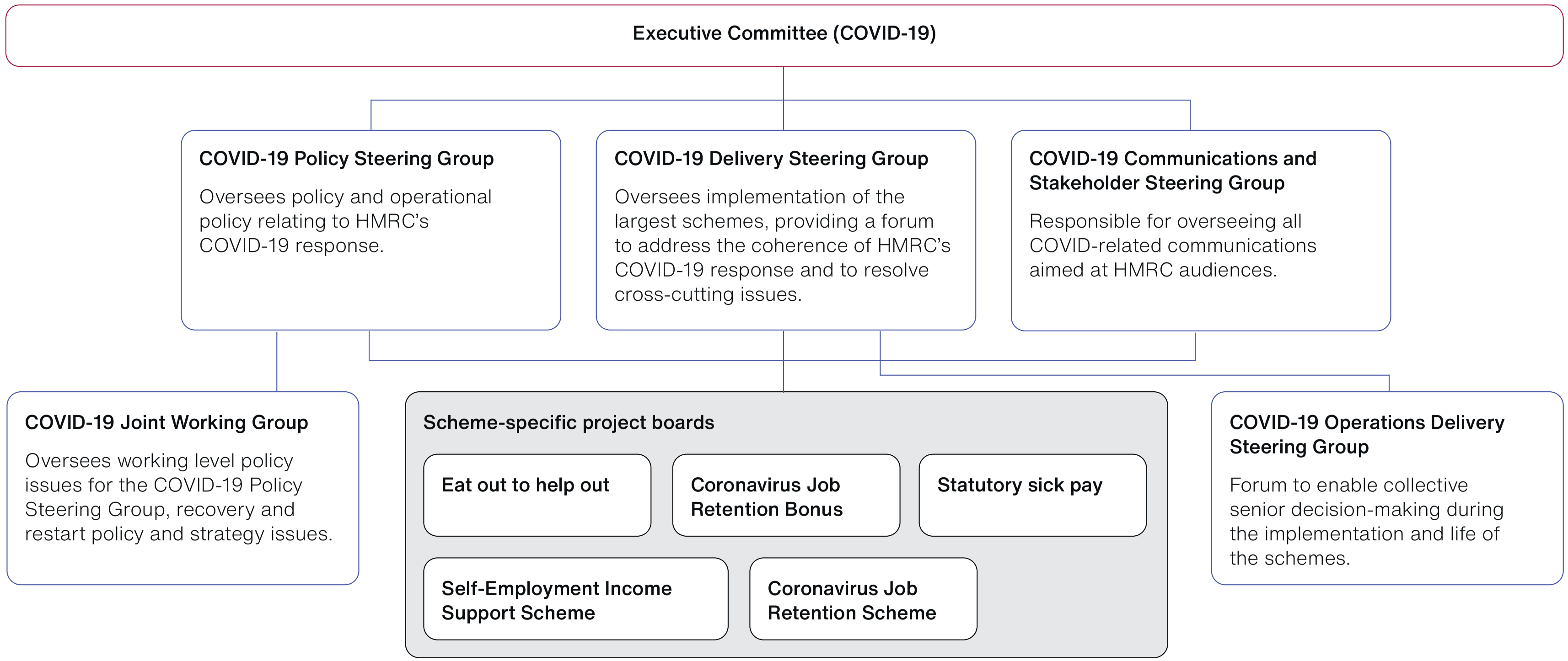
- Major announcements
- Coronavirus Job Retention Scheme & Coronavirus Job Retention Bonus Scheme
- Self-Employment Income Support Scheme
- Eat out to help out scheme

Source: National Audit Office analysis of government announcements

Figure 12

HM Revenue & Customs' COVID-19 governance structure

HM Revenue & Customs (HMRC) has established a governance structure for its COVID-19 activities



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

Risk management

2.9 HMRC has three key priorities at this time:

- to keep colleagues safe and make sure they have a safe working environment;
- implement the support schemes that the government has announced, striking the right balance between getting help to as many eligible people as possible, as fast as possible, and protecting the taxpayer from the risk of fraud; and
- to keep its regular services going.[28]

2.10 HMRC manages a number of risks in the normal course of its business, which has become more challenging as a result of the COVID-19 pandemic. For example, risks to HMRC's plans to move to regional centres, risks in terms of the capacity and skills needed to achieve the benefits of its portfolio of change programmes and risks from the management of HMRC's IT infrastructure. HMRC is also managing risks from EU transition and risks to its ability to improve customer services.

2.11 Alongside its normal business, HMRC is implementing several measures as part of the government response to COVID-19. These include substantial new schemes supported by new IT programmes designed and implemented at pace to meet the government objective for money to reach individuals and businesses as quickly as possible. HMRC has had to make judgements about the extent to which it can implement measures to support businesses and individuals quickly while also ensuring an appropriate level of management and control over resources. This has presented HMRC with several significant risks to manage, which it has considered and assessed in the design and operation of the schemes. **Figure 13** overleaf summarises the primary risks which HMRC is managing along with examples of how HMRC is managing risk.

28 House of Commons Treasury Committee, *Oral evidence: Economic impact of coronavirus*, HC 271, April 2020.

Figure 13
Primary risks being managed by HM Revenue & Customs

HM Revenue & Customs (HMRC) is managing a number of risks in the schemes it is administering in response to COVID-19

Risk	Description	Examples of mitigation
Legal challenge	Risk of legal challenge, for example to the existence of the scheme, eligibility criteria and the ability of HMRC to collect taxes and undertake compliance and enforcement activities.	Primary legislation, for example, through the Coronavirus Act 2020 and the Finance Act 2020. Scheme designs, including application processes and eligibility criteria, linked to the powers in legislation.
Non-compliance, fraud and error	Risk that individuals and businesses make errors in claims or do not comply with the rules for the schemes. Risk that HMRC pays out in response to fraudulent claims made by individuals and businesses. Risk posed by attempts by organised crime to exploit the schemes.	Declarations from claimants, and potential for later audit and legal action by HMRC, to deter non-compliance or misuse. Verification through existing information held by HMRC about individuals and businesses which can be checked electronically. Record-keeping requirement for employers for later checks. For the Self-Employment Income Support Scheme HMRC identifies who is eligible from its records.
Increased debt levels	Risk that, with deferral of VAT and income tax, high levels of debt could be generated, which may not be repaid in the future.	Tax payments can continue to be made with subsequent returns along with ad hoc payments to assist with the repayment of the deferral. Any unpaid deferred tax will become overdue debt subject to HMRC's usual debt recovery processes.
Internal fraud	Risk that HMRC staff or suppliers could circumvent controls.	Claims over specified financial limits and instances of manual overrides require appropriate authorisation along with segregation of duties.
Resources	Risk that HMRC does not meet the government's targets for the COVID-19 response initiatives. Risk of there not being enough staff available to undertake compliance activity for the schemes and for existing taxes. Risk that customer service staff are unable to meet increased demand. Risk that both HMRC staff working from home and levels of demand for new schemes cannot be met by HMRC's IT systems.	Reprioritisation including stopping some activity temporarily. Redeployment of staff to activity which has a higher priority and to meet increased demand. Providing equipment and training so that staff can work from home. Upgrade IT capability and capacity to allow staff to work remotely. Develop new IT to support COVID-19 schemes.

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

Control and compliance

2.12 Through its control framework, HMRC requires programme risk owners to consider governance, objectives, risks, process, control, assurance and data in respect of the programmes they are responsible for. HMRC is applying these general principles to the schemes established in response to COVID-19. HMRC has records of how it is managing and overseeing each of the COVID-19 projects through the governance structures described above and using documents such as risk and decisions logs, control sheets, papers to HMRC's Audit & Risk Committee and accounting officer advice. We have inspected a sample of this documentation but have not evaluated the effectiveness of the controls in place. We will return to this as part of our audit of the 2020-21 financial statements.

2.13 For each scheme, HMRC intends that the controls should address the risks of organised crime, fraud and error. HMRC has four levels of protection:

- **Scheme design**
  HMRC has sought to design compliance into the schemes and the systems to support them, in particular, to determine eligibility. For example, the Coronavirus Job Retention Scheme required any employees being claimed for to be on the company in question's payroll on 19 March 2020.
- **Online authentication**
  Online applications require authentication credentials to use the service and make a claim. Information can then be checked quickly and electronically with information already held by HMRC.
- **Reporting abuse**
  HMRC has a mechanism to enable people to contact them with any evidence of abuse.
- **Compliance**
  HMRC will be able to investigate payments after they have been made with the power to recover overpayments and to take legal action where necessary.

Even with the protection HMRC has put in place through the design of the schemes and the checks made before payment, for planning purposes, HMRC has assumed a level of fraud and error. HMRC's estimate ranges from 1% to 2% for the Self-Employment Income Support Scheme (equating to between £134 million and £268 million of claims made as of 20 September 2020) and from 5% to 10% for the Coronavirus Job Retention Scheme (equating to between £2.0 billion and £3.9 billion of claims made as of 20 September 2020). HMRC's estimate of the level of fraud and error for these schemes is stated before the impact it aims to achieve through its post-payment compliance checks.

2.14 In our October report *Implementing employment support schemes in response to the COVID-19 pandemic* we found that HMRC will not know the scale of fraud it needs to tackle for some time because it has not yet started random enquiries and it does not expect to be able to estimate fraud and error until the end of 2021 at the earliest.[29] We also found that survey data indicate that the level of fraud and error in the Coronavirus Job Retention Scheme could be greater than HMRC's estimate of between 5% and 10%.

Impact on revenue

2.15 COVID-19 is having a significant impact on the economy and, therefore, on receipts from taxes and National Insurance Contributions. The Office for Budget Responsibility describes the COVID-19 pandemic and the measures taken to contain it as resulting in "one of the largest ever shocks to the UK economy and public finances".[30]

2.16 HMRC told us that it will take time for the full effects of the COVID-19 pandemic, and government policies in response to it, to impact tax receipts data. There are time lags between the economic activity resulting in tax liabilities, and when those tax liabilities are required to be paid to HMRC. In some cases, this time lag has been extended by payment deferral schemes to support businesses during the pandemic.[31] The Office for Budget Responsibility's central scenario is that public sector receipts would total £740 billion in 2020-21, some £130 billion (17.6%) less than its forecast in March 2020.[32]

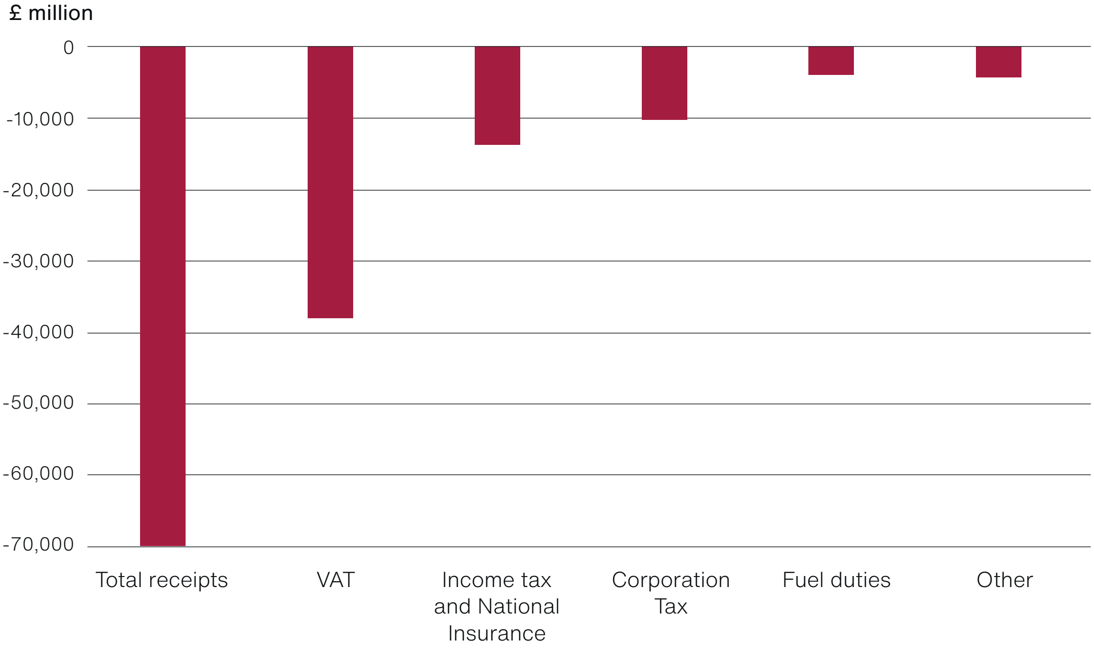
2.17 Tax receipts for the period April to August 2020 were some £70 billion (26%) lower in cash terms than for the period April to August 2019 (**Figure 14**). The largest reduction is in VAT receipts – £38 billion (65%) – as a result of the government's policy to allow deferral of VAT payments since 20 March 2020. Tax receipts in total and from income tax and National Insurance Contributions are following a similar trend in 2020-21 compared with 2019-20 but at a lower level (**Figure 15** on page R50). VAT receipts increased significantly to more than £10 billion in both July and August 2020 and receipts from income tax and National Insurance Contributions increased in June and July, and in August 2020 slightly exceeded receipts in August 2019.

29 See footnote 25.
30 Office for Budget Responsibility, *Fiscal sustainability report*, July 2020.
31 HM Revenue & Customs, *HMRC tax & NIC receipts*, July 2020.
32 See footnote 30.

Figure 14

Difference in tax and national insurance receipts between April to August 2019 and April to August 2020

Total tax receipts in April to August 2020 were £70 billion (26%) lower in cash terms than for the same period in 2019. The largest reduction was in VAT receipts



	Total receipts	VAT	Income tax and National Insurance	Corporation Tax	Fuel duties	Other
■ Difference (£m)	-69,916	-38,053	-13,630	-10,163	-3,905	-4,166
Difference (%)	-26	-65	-10	-43	-33	-14

Notes

1 Taken from HM Revenue & Customs tax receipts and National Insurance Contributions for the UK, available at: www.gov.uk/government/statistics/hmrc-tax-and-nics-receipts-for-the-uk.

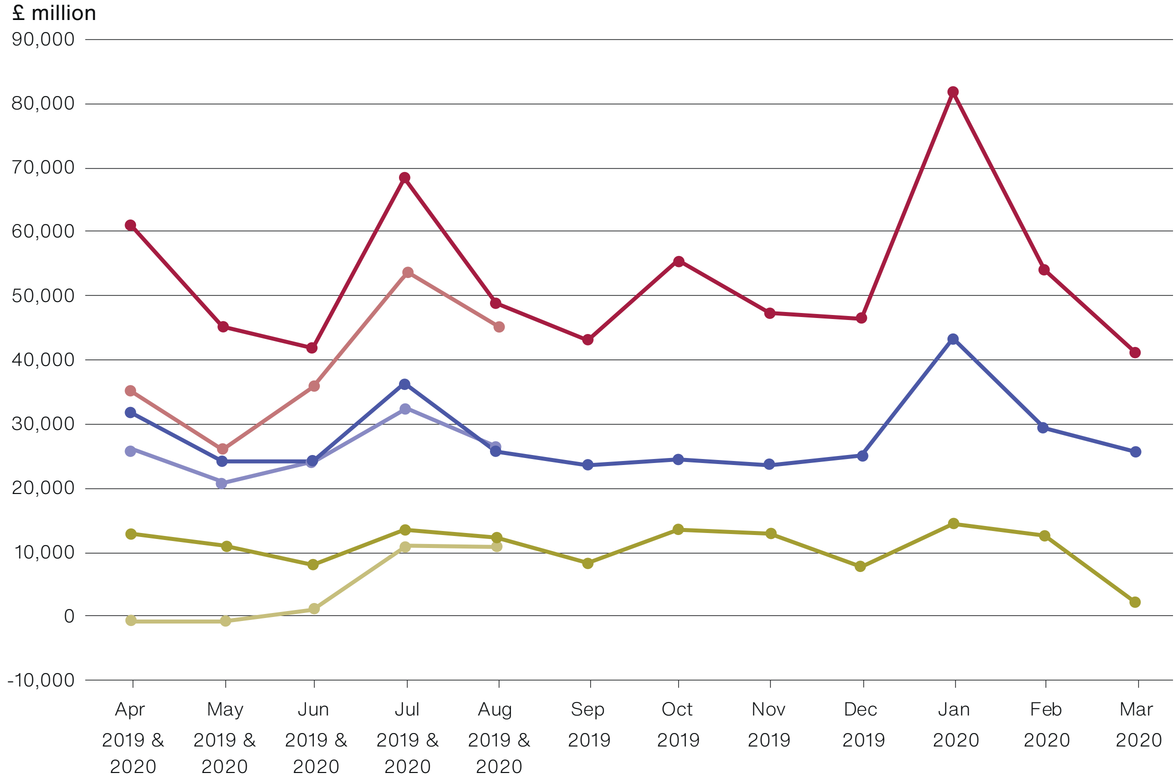
2 Other includes alcohol duties, bank levy, bank surcharge, capital gains tax, customs duties, hydrocarbon oils tax, inheritance tax, petroleum revenue tax and stamp duty.

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

Figure 15

HM Revenue & Customs tax and national insurance receipts by month, April 2019 to March 2020 and April 2020 to August 2020

Tax receipts each month, from April to August 2020, have followed a similar trend but have been lower in cash terms than for the same period in 2019



	Apr 2019 & 2020	May 2019 & 2020	Jun 2019 & 2020	Jul 2019 & 2020	Aug 2019 & 2020	Sep 2019	Oct 2019	Nov 2019	Dec 2019	Jan 2020	Feb 2020	Mar 2020
Total receipts 2019-20 (£m)	**60,950**	**45,365**	**41,730**	**68,300**	**48,829**	**43,010**	**55,590**	**47,225**	**46,487**	**81,823**	**53,962**	**41,381**
Total receipts 2020-21 (£m)	35,147	25,988	35,819	52,897	45,405	–	–	–	–	–	–	–
Income tax and NICs 2019-20 (£m)	31,871	24,070	24,076	36,478	25,612	23,678	24,493	23,462	25,155	43,243	29,465	25,721
Income tax and NICs 2020-21 (£m)	25,700	20,521	23,945	31,989	26,322	–	–	–	–	–	–	–
VAT 2019-20 (£m)	13,041	10,994	8,118	13,640	12,446	8,254	13,569	13,031	7,622	14,476	12,586	2,362
VAT 2020-21 (£m)	-897	-635	1,078	10,572	10,069	–	–	–	–	–	–	–

Note

1 Taken from HM Revenue & Customs tax receipts and National Insurance Contributions (NICs) for the UK, available at: www.gov.uk/government/statistics/hmrc-tax-and-nics-receipts-for-the-uk.

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

The impact of COVID-19 on HMRC's operations

2.18 This section considers the impact of the COVID-19 pandemic, and the government's response, on HMRC's operations.

Impact on HMRC's operating costs

2.19 HMRC estimates as of 11 September 2020 it will spend some £244 million on COVID-19-related work in 2020-21 and, after savings due to restrictions in its activities, for example through reductions in the cost of travel, that the additional cost to HMRC's operations for 2020-21 is £66.5 million. HMRC expects these costs to rise as not all of the costs of the schemes which have been announced and which HMRC is administering are included in these data.

2.20 Of the additional costs incurred by HMRC the largest element is the cost of IT at £53.2 million (80%). HMRC has developed and implemented new IT solutions for the Coronavirus Job Retention Scheme and for the Self-Employment Income Support Scheme. As indicated in Figure 11 HMRC has achieved this in a short period of time from government announcements in mid to late March 2020, with the Coronavirus Job Retention Scheme system going live on 20 April. To achieve this, HMRC has used its existing contract for supply of IT with Cap Gemini working closely alongside HMRC's own IT staff. HMRC also described to us that it was able to achieve this through having clear and simple objectives, an appropriate level of governance with engagement of senior staff throughout and close joint working between key officials and external contractors from the outset. HMRC told us that it is undertaking a lessons-learned exercise to identify areas of good practice arising from its COVID-19 response that would be beneficial to adopt going forward.

Impact on staff

2.21 HMRC reports that more than 50,000 staff, around 80% of its workforce, have been working at home on any one day since the government's announcement on 16 March 2020 that UK citizens should avoid non-essential contact and social gatherings and work from home. Some 5,000 HMRC staff have been working in the office, the majority providing services to customers, for example through telephone helplines that can only be operated in the office and to handle post – some 50% of post physically arrives at an office.[33]

2.22 HMRC has also reallocated a significant number of its staff to work in COVID-19-related roles (**Figure 16** overleaf). At the peak, in May 2020, of 58,592 full-time equivalent staff, 9,097 (16%) were reallocated to COVID-19-related roles. Of the two largest groups of staff, 25.2% of staff in the customer services group were allocated to COVID-19-related work in April 2020 and 17.3% of staff from customer compliance group were allocated to COVID-19 in May 2020. HMRC plans that the number of staff allocated to COVID-19-related work will continue to reduce through the rest of 2020.

33 See footnote 28.

Figure 16

Number of HM Revenue & Customs staff reallocated to COVID-19 roles, April to July 2020

Up to 16% of HM Revenue & Customs (HMRC) staff have been working in COVID-19 roles, predominantly from Customer Services and Compliance Groups

	April 2020	May 2020	June 2020	July 2020
Total for HMRC				
Total number of staff	**58,585**	**58,592**	**58,390**	**58,097**
Number (and percentage) of staff allocated to COVID-19-related roles	8,418 (14%)	9,097 (16%)	5,884 (10%)	4,621 (8%)
Customer Services Group				
Total number of staff	**21,718**	**21,699**	**21,598**	**21,323**
Number (and percentage) of staff allocated to COVID-19-related roles	5,483 (25%)	2,723 (13%)	2,012 (9%)	1,796 (8%)
Customer Compliance Group				
Total number of staff	**24,119**	**24,141**	**24,092**	**23,999**
Number (and percentage) of staff allocated to COVID-19-related roles	1,680 (7%)	4,456 (18%)	2,278 (9%)	1,273 (5%)
Other				
Total number of staff	**12,748**	**12,752**	**12,699**	**12,774**
Number (and percentage) of staff allocated to COVID-19-related roles	1,256 (10%)	1,918 (15%)	1,594 (13%)	1,552 (12%)

Note

1 Shows number of full-time equivalent staff. Figures may not sum due to rounding.

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

Impact on compliance activity

2.23 With many of its staff working from home, restrictions on travel and social distancing affecting HMRC's ability to visit customers, with many businesses not operating and staff reallocated to support the COVID-19 measures, HMRC reduced the number of new compliance cases it started. In April and May 2020 HMRC opened around one-third of the number of compliance cases that it opened at the same time in 2019. HMRC has since increased the number of new cases it has started – in June and July HMRC opened more than half of the number of cases opened at the same time in 2020.[34] HMRC told us that it has continued with current enquiries where work could be undertaken from home. There has also been a significant reduction in the number of criminal investigations HMRC has been able to undertake.

2.24 HMRC told us that at the same time, it reduced its debt collection activity. HMRC has continued to provide debt services, agreeing time to pay arrangements and managing debt cases. It did not undertake proactive campaigns with businesses and taxpayers to collect their tax debts. As lockdown measures have relaxed, HMRC told us that it has restarted debt collection activities with customers. HMRC is initially focusing on collecting debts from customers who are least affected by COVID-19 and most able pay their tax debts.

2.25 HMRC estimates that the yield from its tax compliance activities is likely to reduce in 2020-21. For comparison purposes, HMRC achieved a compliance yield of some £7.5 billion in the period April to June 2020, 51% less than the yield of £15.4 billion achieved in the same period in 2019-20.[35] HMRC expects to achieve a compliance yield of some £3.8 billion in the period July to September 2020, 32% less than the yield of £5.6 billion achieved in the same period in 2019-20. HMRC has been developing its plans for returning to more normal levels of compliance activity:

- focusing on areas with greatest compliance risk;
- adopting a proportionate response, including to COVID-19 schemes, given the changed circumstances for many customers; and
- responding flexibly to events and adapting approaches to compliance, for example where HMRC has found that compliance activity can be undertaken from home rather than during visits.

34 Data reflect individual and small business compliance cases and wealthy and mid-sized business compliance cases.
35 HM Revenue & Customs, *Quarterly performance report: April to June 2020*, August 2020. Available at: www.gov.uk/government/publications/hmrc-quarterly-performance-report-april-to-june-2020

Impact on customer service

2.26 HMRC told us that it changed the hours of operation for its telephone enquiry lines – previously these were open from 8am to 8pm for personal tax matters and 8am to 6pm for business tax matters; they are now open 8am to 4pm. Web chat facilities are available from 8am to 8pm.

2.27 Before the COVID-19 pandemic most telephone calls were handled in the office and could not be handled from home due to the availability of equipment and the need for security and privacy. HMRC has been conducting a limited trial of handling telephone calls from home, which it has been able to expand. HMRC told us that it has now trained some 7,000 individuals with access at home to handle telephone calls. HMRC has also trained a number of staff to work on more than one area so that staff could be used more flexibly and has 6,400 staff trained to use webchat. The number of contacts online through web chat increased significantly from some 20,000 per week at the start of March 2020 to a peak of more than 98,000 at the end of March.

2.28 COVID-19 has had an impact on customer service as measured through the speed of answering telephone calls (**Figure 17**). From March 2020 there was an increase in the time HMRC took to answer telephone calls, peaking at 14:59 minutes in May and improving to 9:15 minutes in June 2020. The impact on the speed of responding to correspondence received by post has been less significant:

- HMRC responded to more than 80% of correspondence within 15 days in May, June and August 2020; and
- HMRC responded to between 92% and 97% of correspondence within 40 days each month from March to July 2020.

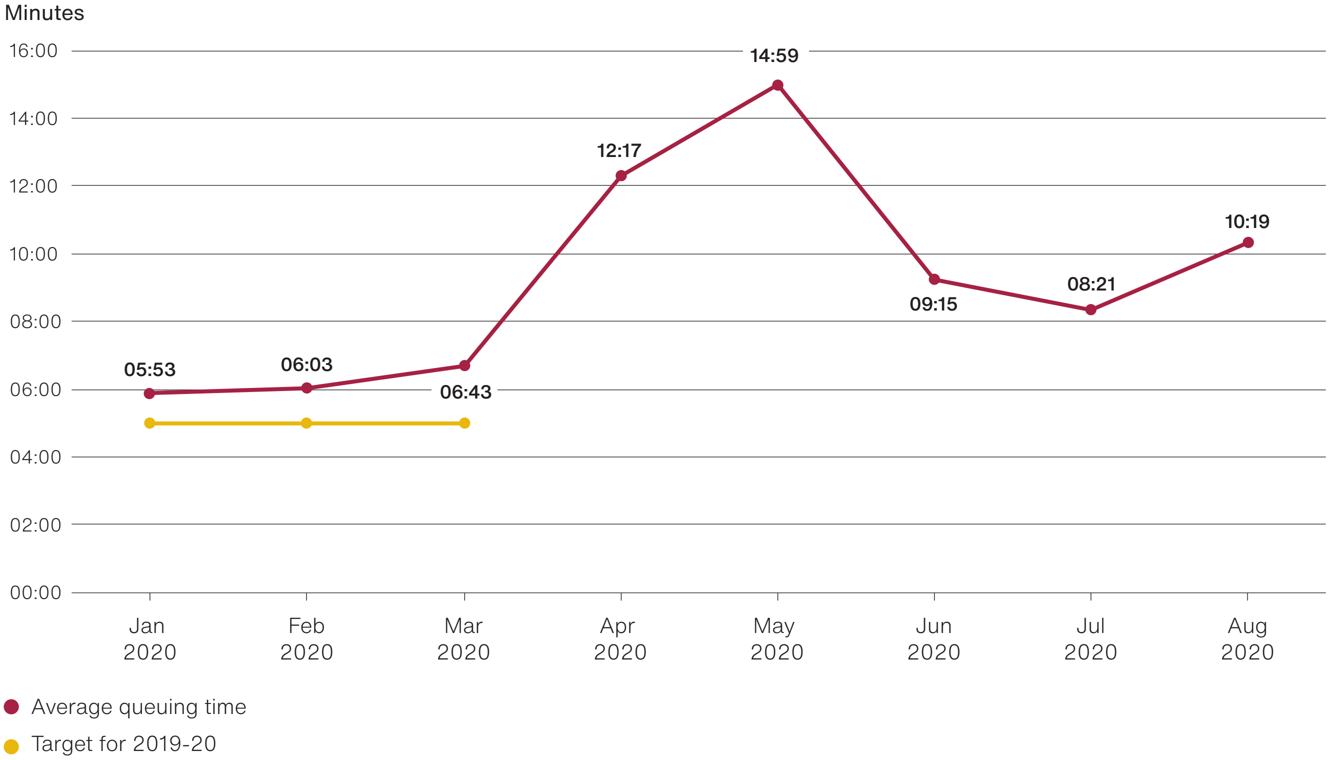
EU Exit and preparing for the end of the transition period

2.29 Departments initially prepared for a potential no-deal exit from the EU on 29 March 2019. This date was then extended to 12 April 2019, and subsequently to 31 October 2019 and to 31 January 2020. Along with other departments, HMRC had to adjust its plans to respond to these changing deadlines. Following the extension from 12 April 2019 to 31 October 2019, departments' preparations paused or slowed down, building up again in August 2019, following the appointment of a new Prime Minister. The UK left the EU on 31 January 2020 and entered a transition period, which will end on 31 December 2020. From 1 January 2021 new rules on trade, travel and business will apply.

Figure 17

Average time customers spend queueing before speaking to an adviser, January to August 2020

Customers have experienced an increase in time waiting to speak to an adviser, peaking at 14:59 minutes in May 2020



Notes

1 Data in chart are monthly times for all helplines.

2 HM Revenue & Customs (HMRC) defines average speed to answer as the time that customers spend in the queue waiting to speak to an adviser. There is limited information on the time that customers spend in HMRC's automated telephony system before entering the queue. In 2016, HMRC told us that customers typically spent between two and four minutes listening and responding to automated messages.

3 HMRC has not set a new target for 2020-21. HMRC told us that development of new external performance targets for 2020-21 is subject to the ongoing COVID-19 pandemic.

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

2.30 HMRC continues to have a significant role in government's preparations for the end of the transition period and beyond. It is responsible for key customs and border-related programmes, including the Customs Declaration Service and the Border Systems Transition Programme. During 2019-20 HMRC hosted the cross-government Border Delivery Group, which was responsible for scoping, planning, coordinating and ensuring delivery of the necessary change plans to ensure the border works effectively after EU Exit. This is now entitled the Border and Protocol Delivery Group and moved to the Cabinet Office in June 2020.

2.31 We have reported previously on preparations HMRC, and other government departments with activities at the UK border, have been making for EU Exit. Our most recent report, published in October 2019, concluded that government had made progress putting in place the systems, infrastructure and resources required to manage the border if the UK had left the EU without a deal on 31 October 2019, but that work was still needed to finalise border arrangements and bring them together.[36] Specifically for HMRC we highlighted work underway developing HMRC's customs systems CDS and CHIEF and integrating these with other departments' systems, and in obtaining sites to support moving goods under transit arrangements. We found that the most significant strategic risks to the operation of the border were unchanged from our previous reports, namely business readiness, EU member states imposing controls, and arrangements for the Northern Ireland and Ireland land border. We are currently reviewing government's preparedness at the border for the end of the transition period and plan to publish a report in autumn 2020.

2.32 In June 2019 we published a report following an investigation which examined *Departments' use of consultants to support preparations for EU Exit*.[37] In March 2020 we also produced a cross-government report on *The cost of EU Exit preparations*.[38] Our March 2020 report noted that HMRC was the third-highest spending Department for work relating to EU Exit and that between June 2016 and January 2020, HMRC had spent £748 million on preparations.[39] The number of people working on EU Exit has increased since 2018-19. HMRC's annual report shows that 6,100 staff worked on EU Exit activities in 2019-20, compared with 5,400 the previous year. During 2019-20 HMRC budgeted £557.6 million for work relating to EU Exit and spent £516.9 million.

36 Comptroller and Auditor General, *The UK border: preparedness for EU Exit October 2019*, Session 2019-20, HC 98, National Audit Office, October 2019.

37 Comptroller and Auditor General, *Departments' use of consultants to support preparations for EU Exit*, June 2019.

38 Comptroller and Auditor General, *The cost of EU Exit preparations*, Session 2019–2021, HC 102, National Audit Office, March 2020.

39 See footnote 38.

HMRC's transformation programme

2.33 In 2015 HMRC set the ambition of transforming itself to become one of the most digitally advanced tax administrations in the world. HMRC aims to move to a fully digital tax system where all individuals and businesses can see their tax affairs in one place and carry out transactions digitally. To support this, HMRC plans to simplify and automate its processes, make better use of data on taxpayers and modernise its working environment.

2.34 As part of the 2015 Spending Review (SR15), HMRC committed to spending £1.8 billion on transformation between 2016-17 and 2019-20.[40] This spending was intended to, over the four years, achieve cumulative efficiency savings of £1.9 billion (reaching annual savings of £717 million a year in 2019-20), bring in £920 million of additional tax revenue and reduce business customers' costs by £400 million. HMRC planned to achieve this through its transformation portfolio comprising 15 programmes, with each programme consisting of a number of individual projects; and wider change led by HMRC's business groups (**Figure 18** overleaf). In September 2017, with the agreement of HM Treasury, HMRC withdrew its commitment to reduce business customers' costs by £400 million over the four years to 2019-20. HMRC determined that it would not achieve this commitment due to a combination of factors, including EU Exit.

2.35 In autumn 2017, HMRC recognised that it was not realistic to continue with its existing plans and began several structured prioritisation exercises to release capacity, reduce risks to delivery and reduce the costs of transformation. This included closing the Compliance for the Future programme and pausing or deferring some aspects of other programmes including Making Tax Digital. We reported in 2018 that the delivery of HMRC's original plans was not realistic. Its assumptions about reducing customer contact had not been borne out, and it had set an unachievable timetable in which to undertake a large amount of change simultaneously.[41] The unforeseen additional demands arising from the decision for the UK to leave the EU added further pressure on HMRC's capacity to deliver its transformation plans and timetable. In our 2018 report on HMRC's transformation plans, we concluded that, after its first prioritisation exercise, HMRC's transformation plans remained ambitious, but that the delivery timetable was more realistic.

40 The £1.8 billion for HMRC's transformation comprised £1.3 billion new investment and the balance from existing budgets.

41 Comptroller and Auditor General, *HM Revenue & Customs 2017-18 Accounts*, Report by the Comptroller and Auditor General, National Audit Office, July 2018.

Figure 18

HM Revenue & Customs' transformation portfolio

HM Revenue & Customs' (HMRC's) transformation portfolio comprises 15 major programmes

Programme	Programme description
Making Tax Digital for Individuals	Modernising tax administration for individuals through digital solutions. Making more data available to customers through Personal Tax Accounts.
Making Tax Digital for Business	Modernising tax administration for business through digital solutions. Allowing businesses to keep their records digitally and update HMRC quarterly.
Compliance for the Future	Building internal compliance capability at HMRC.
Customs Transformation	Preparing for the UK's exit from the EU by implementing the changes to systems necessary for the end of the transition period and beyond.
Building Our Future Locations	Creating 13 regional centres, redeploying staff and disposing of buildings.
Corporate Services	Removing bureaucracy, and introducing a self-service culture, lower service costs, shared services and improved experience for staff.
Benefits Transformation	Tax-Free Childcare and Universal Credit – accounts to support parents' childcare costs, and to replace Tax Credits with Universal Credit.
	Help to Save – access to government-backed savings accounts to help working people on low incomes build up their savings.
	Future of Child Benefit – a new HMRC Child Benefit IT system to replace the existing system.
Policy Driven Change	Implementing policy initiatives not funded from Spending Review 2015.
Data Platform	Delivering data standards and improving data quality.
Enterprise Data Hub	Delivering a digital repository for storing and sharing data.
Digital Platform	Delivering several enabling platforms including Government Gateway and the digital tax platform.
Finance Platform	Enabling digital payments by customers, better internal reporting and a more efficient accounting system.
Process Platform	Developing processes to support future ways of working.
Securing Our Technical Future (formerly known as Columbus Cloud)	Moving to secure cloud-based computing and rationalising existing IT infrastructure.
People Capabilities	Developing people capabilities (culture, ways of working and career pathways) to support the future organisation.

Note

1 The composition of HMRC's portfolio has changed since the start of the SR15 Spending Review period. The Columbus programme, which replaced HMRC's Aspire IT contract, has been completed. The Customs Declaration Service is now one of the three main components of the Customs Transformation programme, along with the Borders Systems Transition and the CHIEF Transition programmes. The Enterprise Data Hub programme used to be part of the Data Platform.

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

2.36 HMRC reports that it spent £1.45 billion on the projects in its transformation portfolio over the period 2016-17 to 2019-20 (**Figure 19** overleaf). The highest costs included £208 million on the Making Tax Digital for Business programme, £184 million on the Columbus programme, £152 million on the programme to create future office locations and £148 million on moving to a secure cloud-based computing system. In addition, HMRC told us that it transferred £444 million (24%) of its initial SR15 budgets of £1.874 billion to its business groups to be used for transformation activity.

2.37 HMRC reports that it made sustainable cumulative efficiency savings of £1,862 million over the Spending Review period, close to its target of £1,866 million (**Figure 20** overleaf). HMRC reported efficiency savings of £696 million in 2019-20. The most significant programme contributions over the Spending Review period are the Columbus programme (£415 million) and Making Tax Digital for Individuals (£101 million). More than half of the efficiency savings come from outside of the programmes that made up its transformation portfolio – for example, legacy projects that pre-date the transformation programmes (£135 million); wider change led by HMRC's business groups (£916 million); and departmental pay restraint (£126 million).

2.38 HMRC originally expected to generate a total of £920 million by 2020-21 in additional tax revenue through the Making Tax Digital for Business programme, digital record-keeping and quarterly digital reporting. The government's July 2017 decision to change the pace and scope of the roll-out to focus on VAT only meant that HMRC reduced its estimate of the additional tax revenue raised to £480 million by 2020-21. HMRC's current estimate of the additional tax revenue raised is £519 million by the end of 2020-21, comprising £365 million through Making Tax Digital for Business and £154 million through Making Tax Digital for Individuals. Given the impact of COVID-19 on economic activity and, therefore, on tax receipts (see paragraphs 2.15 to 2.17), there is likely to be a reduction in this additional tax revenue. HMRC expect to provide an updated estimate at the next Budget.

2.39 Since the end of the Spending Review 2015 period HMRC has carried out a reprioritisation and realignment exercise to determine proposed deliverables for the next five-year period, which will feed into any future Spending Review settlement discussion. HMRC intends to bring together all its transformation programmes which meet criteria on cost and importance for the achievement of its objectives into a single change portfolio. This will include some of the Spending Review 2015 programmes that were not completed by 2019-20. The government has also published its vision for the future of tax administration, a 10-year strategy intended to improve its resilience, effectiveness and support for taxpayers.[42]

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

Figure 19

HM Revenue & Customs' transformation budgets and actual spending, 2016-17 to 2019-20

HM Revenue & Customs (HMRC) reports that it spent £1.45 billion on the projects in its transformation portfolio over the period 2016-17 to 2019-20

	2016-17	2017-18	2018-19	2019-20	Total
HMRC's initial SR15 transformation budgets (£m)[1]	556	467	426	426	1,874
– of which HMRC transferred to business groups to be used for transformation activity (£m)	108	122	93	122	444
HMRC spending on specific programmes within its transformation portfolio (£m)	489	388	341	235	1,454

Notes

1 HMRC's transformation budget includes £115 million for continuous improvement. In previous years' reports we have reported HMRC's SR15 transformation budgets as £1,761 million in total, which excluded the continuous improvement budget.

2 Numbers may not sum due to rounding.

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

Figure 20

HM Revenue & Customs' sustainable efficiency savings

HM Revenue & Customs (HMRC) is close to achieving the savings that it committed to in Spending Review 2015

	2016-17	2017-18	2018-19	2019-20	Total
SR15 efficiency savings target (£m)	203	380	566	717	1,866
Actual efficiency savings (£m)	181	410	576	696	1,862

Notes

1 Efficiencies are cumulative over the Spending Review period.

2 Numbers may not sum due to rounding.

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

2.40 As HMRC moves towards a fully digital tax system, the capability of its IT systems, including in terms of cyber security, will become increasingly vital to HMRC's ability to perform its functions. In our October report *Implementing employment support schemes in response to the COVID-19 pandemic* we also recommended HMRC should consider how it should ideally organise its systems and capabilities to provide targeted support in the future. This may require different choices in digitising the tax system, more frequent filing of tax return data and better linking of customer records.[43] HMRC has recognised that, due to the need in the past to forgo operational maintenance and upgrades to its systems to secure cost savings, its IT systems now constitute a significant risk to the Department. This will require significant investment and will need to be at the heart of any future Spending Review settlement.

43 See footnote 25.

Part Three

Personal Tax Credits

3.1 HM Revenue & Customs (HMRC) is responsible for: administering Personal Tax Credits (tax credits) to support families with children and to help ensure that work pays more than welfare; and making payments to claimants on time, and in full, in accordance with legislation and the related regulations.

3.2 In 2019-20 HMRC spent £18.3 billion on tax credits, representing 40% of total expenditure of £45.8 billion recorded in HMRC's 2019-20 Resource Accounts. Tax credits supported around 2.3 million families and around 4.4 million children.

3.3 This part of our report covers:

- the reasons and context for the Comptroller and Auditor General's (C&AG's) qualified audit opinion in relation to error and fraud in tax credits expenditure, including an overview of HMRC's estimates;
- the causes of fraud and error; and
- future challenges, including the transfer of tax credits to Universal Credit; and the impact of COVID-19.

3.4 The C&AG's other qualifications of his audit opinion on the 2019-20 HMRC accounts are covered in his Report on Accounts.

Qualification of the C&AG's audit opinion on the regularity of tax credits expenditure

3.5 The C&AG has qualified his opinion on the regularity of HMRC's 2019-20 financial statements due to: a breach of HMRC's Net Cash Requirement Parliamentary control total; the material level of error and fraud in research and development Corporation Tax reliefs; and the material level of error and fraud in tax credits expenditure.

3.6 Under the Government Resources and Accounts Act 2000, the C&AG must obtain enough evidence to give reasonable assurance that: the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament; and that the financial transactions recorded in the financial statements conform to the authorities that govern them (the C&AG's regularity opinion).

3.7 The Tax Credits Act 2002 specifies the eligibility criteria for tax credits and the way HMRC calculates the amounts to be paid. Where error and fraud results in overpayment or underpayment of tax credits to an individual who is either not entitled to tax credits or is paid at a different rate from that specified in the legislation, the transaction does not conform with Parliament's intention and is irregular.

3.8 In the C&AG's opinion, the overall value of overpayments and underpayments due to error and fraud in tax credits remains material by reference to related expenditure, and the qualification of his audit opinion reflects that.

3.9 The C&AG has not considered expenditure on Child Benefit in his qualified regularity opinion. The estimated rate of error and fraud in Child Benefit has increased to 0.9% (£105 million) of related expenditure of £11.5 billion for 2019-20, from 0.6% (£75 million) in 2018-19 (note 4.2 to the Resource Accounts). For 2019-20, the C&AG considers that this level remains immaterial by reference to related expenditure. HMRC continues to seek to improve controls and its understanding of error and fraud in Child Benefit payments so that payments that do not comply with Child Benefit legislation are minimised.

Tax credits

3.10 Tax credits were introduced in 2003 and are designed to: support families with children; tackle child poverty; and help to make sure that work pays more than welfare. Tax credits awards are based on initial estimates and finalised following the end of the tax year. The process for finalising awards relies on claimants providing complete and accurate data and HMRC calculating awards accurately. Error and fraud in tax credits has been a significant challenge for HMRC, which has led to a qualified opinion every year since they were introduced. Tax credits are gradually being replaced by Universal Credit, administered by the Department for Work & Pensions (DWP).

3.11 Fraud and error have a real cost. Overpayments arising from fraud and error increase costs for taxpayers and reduce the public resources available for other purposes. When HMRC recovers overpayments, this can lead to problems for claimants in terms of reduced income. Underpayments mean that claimants do not get the support they are entitled to. Even where payment errors are later corrected, this can lead to additional administrative work, uncertainty and other challenges for claimants.

Estimated level of error and fraud in tax credits

3.12 HMRC's latest estimate of the level of error and fraud in tax credits relates to 2018-19. This is because, in accordance with the normal tax credits annual cycle, awards for 2018-19 were finalised between April and July 2019 following the end of the tax year, or in January 2020 for claimants required to submit a Self-Assessment for income tax. It is only after all claims are finalised that testing can be completed to estimate error and fraud.

3.13 HMRC estimates that in 2018-19 error and fraud resulted in overpayments of tax credits of 4.9% of expenditure, compared with 5.5% in 2017-18 (**Figure 21** and note 4.1.3 to the HMRC Resource Accounts).[44,45] Errors in tax credits resulting in underpayments amounted to 0.7% of expenditure, unchanged from the rate in 2017-18. These rates equate to overpayments of £1.11 billion from an estimated 680,000 claims, a reduction of £300 million compared with 2017-18 and underpayments of £170 million from an estimated 450,000 claims, a reduction of £10 million compared with 2017-18.

3.14 The estimated overpayment rate in 2018-19 of 4.9% was considerably lower than HMRC's forecast of 6.2%. HMRC's quality assurance processes have not identified any weaknesses in the estimate modelling which would explain this. Work is under way to understand the reasons for the reduction in error and fraud in 2018-19. HMRC's initial analysis indicates that the lower than expected rate is because its claimant base is becoming more stable. Claimants with more frequent changes in circumstances are more likely to need adjustments to their tax credits award and therefore represent a higher risk of error and fraud. However, these claimants are also more likely to experience a change that triggers the permanent end of their tax credits award and a move to Universal Credit – removing these claimants from the tax credits claimant base. HMRC also considers that the lower rate is due to greater than expected success in its compliance activity.

3.15 While this work continues, HMRC cannot yet produce a revised forecast for the error and fraud rate in 2019-20, that incorporates the outturn and experience from 2018-19. In addition to understanding why it over-forecast the 2018-19 rate it will also need to consider the potential impacts of migration to Universal Credit and COVID-19 on forecasts beyond 2019-20 (see paragraphs 3.21 to 3.29).

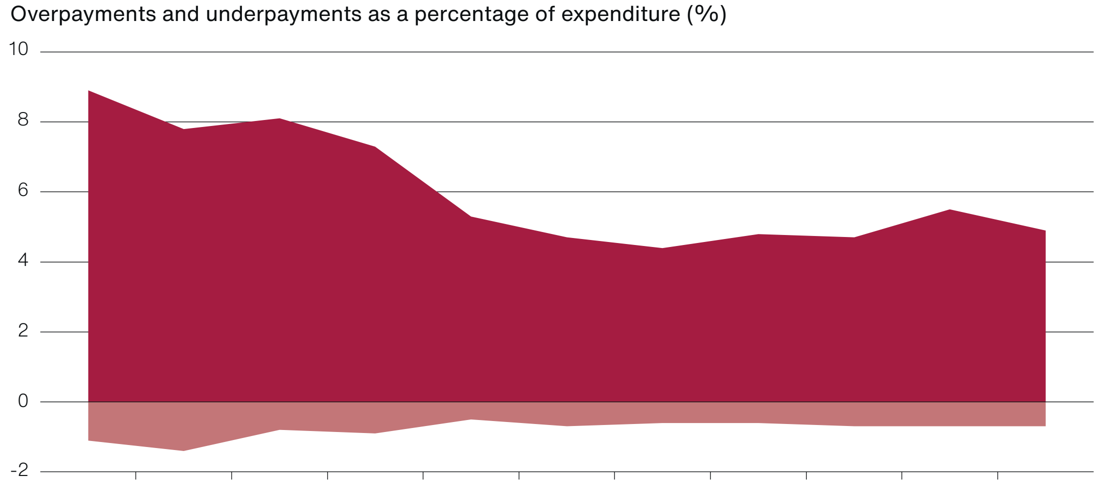
44 HMRC's published statistics refer to error and fraud resulting in overpayments – where claimants have received more than their entitlement and this has not been corrected before finalisation – as 'error and fraud favouring the claimant', and error resulting in underpayments – where claimants have received less than their entitlement – as 'error and fraud favouring HMRC'. We use the terms overpayments and underpayments in Part Three of this report. This is not the same as overpayments reported by HMRC during the year or that arise when tax credits awards are finalised. These overpayments arise because tax credits are calculated annually, and so relate to the natural cycle of tax credits and are not included in the error and fraud statistics discussed here.

45 Error and fraud figures quoted within the main body of this Part are central estimates within a 95% confidence interval. This range reflects the uncertainty within the estimates. Detail on the estimate ranges is provided in the table in Appendix Three.

Figure 21

Overpayments and underpayments as a percentage of total tax credits expenditure

The overpayment rate decreased by 0.6 percentage points in 2018-19, the largest decrease since 2012-13



	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Overpayments (%)	8.9	7.8	8.1	7.3	5.3	4.7	4.4	4.8	4.7	5.5	4.9
Underpayments (%)	-1.1	-1.4	-0.8	-0.9	-0.5	-0.7	-0.6	-0.6	-0.7	-0.7	-0.7

Notes

1 Figures for 2017-18 have been revised since we last reported in July 2019. HM Revenue & Customs' final estimate can be seen at *Child and Working Tax Credits error and fraud statistics 2017-18, final estimate*, April 2020. The original estimates were 5.7% for overpayments and 0.6% for underpayments.

2 Estimates for 2018-19 are provisional. Final estimates will be published in spring 2021.

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

3.16 The actual level of error and fraud in 2019-20 tax credits will not be measured until June 2021. In forming his opinion on the regularity of tax credits expenditure, the C&AG has considered whether the error and fraud rates for 2018-19 provide sufficient and appropriate evidence that error and fraud remains a material issue in 2019-20. Although HMRC's work to understand the causes of the lower than expected rate of overpayments in 2018-19 is continuing, HMRC's initial analysis indicates that when it is measured for 2019-20, error and fraud will remain at a material rate. The C&AG has therefore qualified his opinion based on HMRC's 2018-19 estimate and expectations for 2019-20.

Causes of error and fraud

3.17 Alongside administering tax credits, HMRC also remains responsible for tackling error and fraud. It undertakes such activities in line with the wider HMRC compliance strategy (see paragraph 1.19). For tax credits:

- **Promote** seeks to establish voluntary compliance through simplified processes and enabling customers to get it right first time.
- **Prevent** more specifically targets individual customers around the timing of their transactions and ensuring accurate declarations.
- **Respond** uses more traditional compliance measures to check that tax credits awards are correct post-payment.

3.18 In recent years, HMRC has looked to balance its 'Respond' activities that occur after payment with an increasing focus towards 'Promote' and 'Prevent' activities. New 'Prevent' initiatives included the widespread roll out of a nudge campaign designed to increase reporting of changes in circumstances relating to new or previously undeclared partners. It wrote to 300,000 claimants about this in 2018-19 and a further 90,000 claimants in 2019-20, selected using predictive analytics and traditional risk analysis. In part, this change in approach is due to resourcing pressures that have seen total tax credits error and fraud full-time-equivalent staff numbers fall from 1,200 in 2018-19 to just over 1,000 in 2019-20, as resources have been redeployed onto other HMRC priorities, including responding to surges in customer demand across HMRC activities and to backfill roles on EU Exit work pending recruitment.

3.19 The reduction in error and fraud in 2018-19 suggests that HMRC has had some recent successes in its compliance efforts. The rate is in line with its target to have error and fraud overpayments below 5%. However, this does not represent an improvement over time, as the current rate of overpayments error and fraud is broadly consistent with the majority of estimated rates since 2013-14, when the rate was 4.7%. Its analysis also suggests that the tax credits population was more stable in 2018-19 than in 2017-18, and that this has continued in 2019-20. Greater stability in terms of jobs and hours in work, and household composition, reduces the scope for claimants to make mistakes or omissions in reporting changes and reduces the opportunities for potential error and fraud to enter the system.

3.20 HMRC categorises error and fraud by several different types to assess the main causes (**Figure 22** overleaf). That analysis shows that in 2018-19 the biggest contributor to the overall fall in overpayments was in the work and hours category, which fell by £170 million. Failure to declare a partner also saw a fall in overpayments by £55 million. HMRC attributes this fall in undeclared partner overpayments to its nudge campaign and the reduced changes in circumstances among its current claimants. HMRC's analysis of the 2018-19 estimate has not yet identified why overpayments for the work and hours category have fallen. It is undertaking further analysis to understand and build on its successes, and to ensure that these are sustainable decreases and not just a one-off reduction in error and fraud in these categories. It also faces a challenge in reducing income-related error and fraud, which is the main cause of overpayments, at some £310 million.

Future challenges

Transfer of tax credits to Universal Credit

3.21 Under current plans, Universal Credit will fully replace tax credits by the end of September 2024 (**Figure 23** on page R69). The impact of COVID-19, however, adds risk to that timetable. HMRC remains responsible for administering tax credits until all claimants, and any debt associated with their claims, have either moved to Universal Credit or left the tax credits regime.

3.22 Claimants move over to Universal Credit in one of two ways:

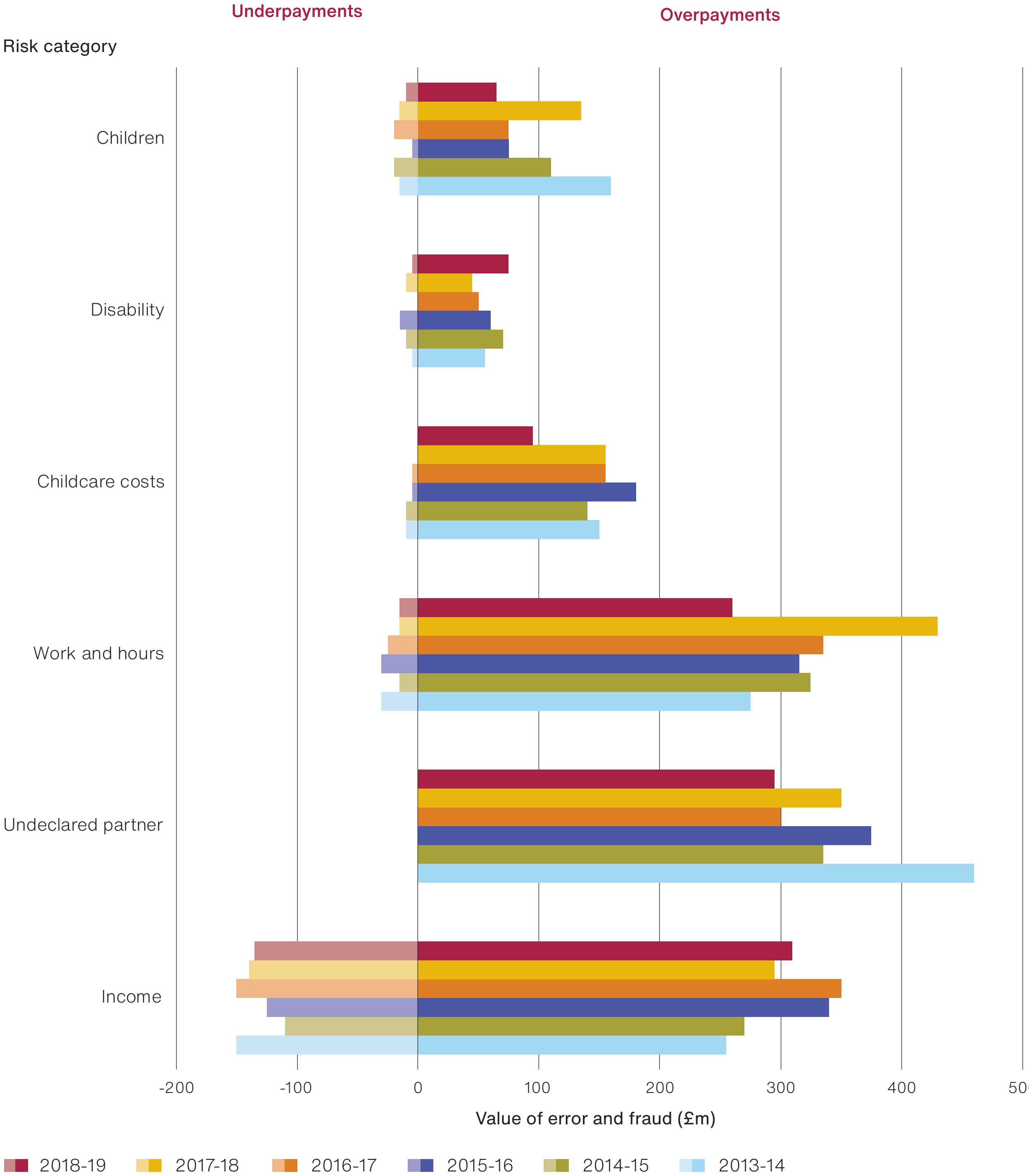
- **Natural migration** occurs when a tax credits claimant has a change in circumstances that impacts their claim. Their tax credits award comes to an end and they move across to Universal Credit.
- **Move to Universal Credit** is a process managed by DWP to move claimants across where no change in circumstance has occurred that would lead to natural migration.[46]

46 Move to Universal Credit was previously known as managed migration. DWP rebranded it as Move to Universal Credit in the summer of 2019.

Figure 22

HM Revenue & Customs' tax credits overpayments and underpayments by category for 2013-14 to 2018-19

The largest decrease in 2018-19, from 2017-18, was in the work and hours category, while the income category is now the largest cause of error and fraud

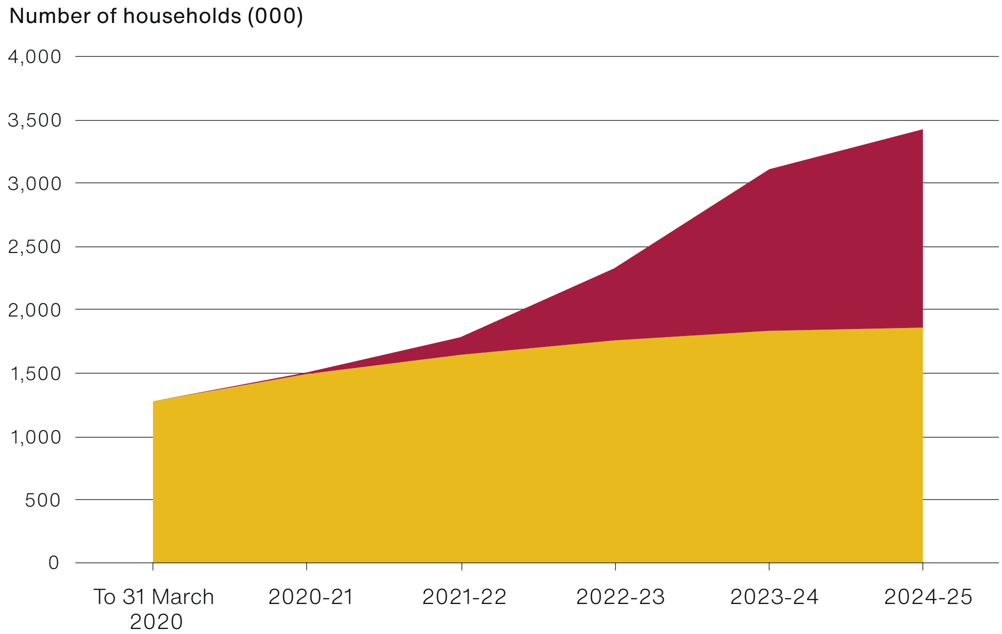


Source: National Audit Office analysis of HM Revenue & Customs data

Figure 23

Planned transfer of tax credits claimants to Universal Credit

Transfer of current tax credits claimants will accelerate from 2020-21, but the rate of transfer may be affected by the impact of COVID-19 based on latest plans



	To 31 March 2020	2020-21	2021-22	2022-23	2023-24	2024-25
Move to Universal Credit (cumulative, 000)	0	5	135	572	1,276	1,560
Natural transitions (cumulative, 000)	1,281	1,495	1,651	1,754	1,840	1,864

Notes

1. Numbers are for Great Britain only. Northern Ireland is not included.
2. Households moving from tax credits to Universal Credit may be single or joint claims.
3. Data to the end of March 2020 are actual transfers. Data from March 2020 are forecast values. Data are forecast from a period before the impact of COVID-19.
4. Values exclude 'nil awards' which will not be transferred and will be removed from HM Revenue & Customs' caseload.
5. Natural transition to Universal Credit can occur when someone has a change of circumstances that means they would have to make a new claim for a benefit or credit (for example, working hours fall below 16 hours a week). However, as people can, in general, no longer make a new claim for tax credits or other legacy benefits, they must make a claim for Universal Credit. 'Move to Universal Credit' is the transfer of existing claimants of tax credits (and other legacy benefits) to Universal Credit.

Source: National Audit Office analysis of HM Revenue & Customs, Department for Work & Pensions and Northern Ireland Department for Communities information

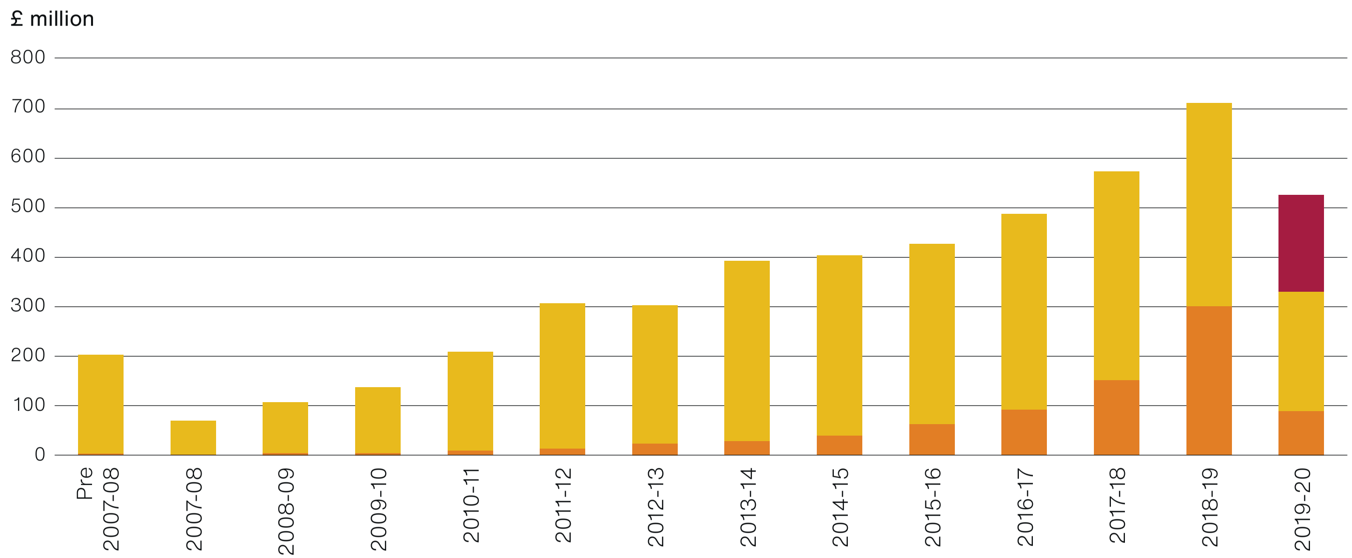
3.23 By the end of March 2020, only 10 tax credits claimants had transferred to Universal Credit via a 'Move to Universal Credit' pilot that DWP began in July 2019. This is significantly less than the 2,000 claimants that were expected to transfer via this pilot, of the 1.6 million tax credits claimants eventually forecast to transfer. HMRC has had an important role to play in this pilot, communicating the process to existing tax credits claimants and making sure they understand how any tax credits debt will be passed over to DWP. Due to the COVID-19 pandemic, DWP has now paused the Move to Universal Credit pilot and there are currently no firm plans as to when it will recommence. COVID-19 led to a small increase in natural migration, with 10.3% of new Universal Credit claimants between March and September being tax credits customers, compared with 9.2% in the period 1 January to 17 March 2020. Although the Move to Universal Credit pilot will now progress to a slower timetable, this may be offset by an increased speed of natural migration due to changes to claimants' circumstances post COVID-19. HMRC will need to balance planning for the future with administering remaining tax credits claims and managing associated error and fraud.

3.24 HMRC held around £4.8 billion of tax credits debt at the end of March 2020 (**Figure 24**). Until a claimant transfers across to Universal Credit, any associated debt remains with HMRC and HMRC is responsible for recovering it. Although, wherever possible, HMRC recovers debt through deductions from continuing tax credits awards, most of this debt is now being pursued directly with claimants, reflecting the reducing number of tax credits awards in payment. For Universal Credit, with its newer claimant base, most recovery is currently made by deduction from a claimant's award.

3.25 Around one-third of the tax credits debt expected to eventually transfer to DWP had done so by 31 March 2020. The two departments are working together to reconcile the amounts transferred, with controls operating effectively to date. With an estimated further £3.8 billion to be transferred across over the next four years it is important that the departments continue to work together to manage these transitions and ensure adequate records of this debt are maintained to effect recovery once tax credits systems are shut down.

Figure 24
Tax credits debt held by HM Revenue & Customs as at 31 March 2020, analysed by originating award year

HM Revenue & Customs (HMRC) currently holds more than £4.8 billion of tax credits debt, spanning the life of tax credits. Most debt relates to individuals who no longer have an active tax credits claim



	Pre 2007-08	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	Total
Expected debt from finalisation of 2019-20 claims (£m)	0	0	0	0	0	0	0	0	0	0	0	0	0	195	**£195m**
Debt owed by individuals with no active tax credit claim (£m)	200	68	102	133	200	291	278	363	364	363	395	421	409	240	**£3,827m**
Debt owed by individuals with an active tax credit claim (£m)	2	1	4	4	9	14	23	28	39	63	91	151	300	89	**£818m**
Overall total															**£4.84bn**

Notes
1 All debt is reported gross, before impairment.
2 Individual bars show outstanding debt analysed by the award year to which the debt relates.
3 £4.8 billion total debt at March 2020 includes £195 million of estimated debt relating to 2019-20 which will be finalised in 2020-21.
4 HMRC has so far transferred £2.2 billion of gross debt to the Department for Work & Pensions as part of the move to Universal Credit. This total is not included here.
5 Totals may not sum or reconcile to the Statement of Financial Position due to rounding.

Source: National Audit Office analysis of HM Revenue & Customs, Department for Work & Pensions and Northern Ireland Department for Communities information

COVID-19 impacts on error and fraud in tax credits

3.26 As part of the wider package of measures to support people's incomes during the COVID-19 pandemic (see Part Two), the basic element of Working Tax Credit was increased by £1,045 for the tax year 2020-21. This was to ensure alignment with an equivalent increase to the standard allowance in Universal Credit. Without this measure, the basic element was set to increase by £35 per year, in line with inflation in September 2019. The additional award increase is estimated to have increased the number of claimants receiving a positive tax credits award in 2020-21 by 120,000 (**Figure 25**).[47]

3.27 The government also put in place measures in tax credits to recognise the impact the pandemic had on claimants' lives. For example, eligibility for Working Tax Credit has been conditional on working at least 16–30 hours a week depending on individual circumstances. Acknowledging that this was no longer possible for the millions of people furloughed, legislation was enacted to suspend that requirement.[48] Additionally, operational changes were made as HMRC sought to rebalance its workforce to deliver new schemes such as the Coronavirus Job Retention Scheme and the Self-Employment Income Support Scheme.

3.28 The impact of COVID-19 on error and fraud in tax credits will not be known for some time. This is because most of the resulting changes, and their associated impacts, will have occurred in the 2020-21 financial year and HMRC's estimate for that year will not be available until 2022. However, HMRC expects that changes associated with COVID-19 are in aggregate likely to increase the risks of error and fraud in 2020-21 and future years (Figure 25). HMRC has done some preliminary work to assess the potential risk associated with these changes but has not yet quantified all of them. It is also working on a COVID-19 exit strategy for tax credits that will consider how it unwinds changes and minimises the potential losses from error and fraud.

3.29 In moving to auto-renewal for more claimants, HMRC announced in July 2020 that the auto-renewal letters sent out to up to 1.2 million claimants did not include all the income HMRC had used to assess their provisional awards. Claimants are obliged to notify HMRC if this information is incorrect or if a more accurate estimate is available for the self-employed. Before the end of the renewal period, HMRC sent follow-up letters to all these claimants with the correct income details included and sent SMS messages to high-risk cases. HMRC does not believe this mistake will have a material effect on error and fraud in 2019-20 because of its targeted engagement with these claimants.

47 Claimants remain entitled to tax credits even when their income fully tapers away the value of their award: these cases are referred to as 'nil awards'. The increase in the basic element of Working Tax Credit meant that for an estimated 120,000 'nil award' claimants' income no longer exceeded the level at which their awards would be tapered to zero, resulting in revised provisional positive entitlements that could include part or all of the additional £1,045 for 2020-21. Some claimants will also have moved into, or out of, 'nil award' as their personal circumstances changed. Overall, the number of claimants receiving a payment in 2020-21 increased by 155,000 when compared with 2019-20.

48 The legislation disapplies the working hours requirement until eight weeks after the end of the Coronavirus Job Retention Scheme. The eight weeks acts as a grace period to allow claimants to re-establish their normal working hours.

Figure 25

Tax credits changes resulting from COVID-19

HM Revenue & Customs' (HMRC's) provisional work suggest changes linked to COVID-19 are likely to increase error and fraud

Change	Details	HMRC's assessment of potential error and fraud impact
£1,045 increase in basic element of Working Tax Credit	In response to COVID-19, up to 1.7 million awards have benefited from an increase of up to £1,045 in the basic element of Working Tax Credit, resulting in an estimated increase of 120,000 claimants receiving a positive award in 2020-21. This is because the additional amount means some claimants who previously had all their award tapered away due to high earnings are no longer losing their entire award.	More awards in payment and a higher value of award risk an increase to the value of error and fraud, but it is unlikely to affect the overall rate.
More auto-renewals of awards	More awards were auto-renewed in 2020-21 than in previous years. Only 135,000 claims were not auto-renewed. This will have provided claimants with their new awards more quickly.	Less compulsion for claimants to inform HMRC upfront of changes in circumstances that might impact their award. HMRC estimates this will increase error and fraud in 2019-20 by £54 million.
Reduced compliance activity	Some existing compliance activity on high-risk claims was not done.	HMRC estimates this could add £165 million to error and fraud in 2019-20.
Childcare easements	Claimants could claim the childcare element of Working Tax Credit during the pandemic even if the childcare provider was closed, providing they were still incurring costs.	The measure will prevent new error and fraud occurring as a result of the circumstances of the pandemic; this change is also expected to have a small downward impact on error and fraud compared with 2018-19 because a source of existing error and fraud has been removed.
Relaxation of working hours rule	Those furloughed or working reduced hours due to the pandemic do not need to work the minimum hours necessary in order to qualify for tax credits.	Less scope for error and fraud in 2020-21 as eligibility criteria have been temporarily relaxed.

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

Appendix One

Our evidence base

1 We reached our conclusions on HM Revenue & Customs' (HMRC's) performance using evidence collected between April and September 2020.

2 As part of our financial audit, we reviewed the supporting information for HMRC's Trust Statement and Resource Accounts. We analysed and discussed with officials the supporting data prepared by a variety of business units within HMRC. Our analytical review examined the numbers published in the financial statements plus supporting information provided during the financial audit and statistics published regularly by HMRC.

3 We interviewed staff from HMRC responsible for a range of areas including compliance, customer services, finance and those responsible for implementing HMRC's response to COVID-19. We reviewed published and unpublished information from HMRC including material related to its operations during 2019-20, principally its compliance and customer service activities; the measures HMRC is responsible for implementing in response to COVID-19; governance and risk management; performance management; and finances. We analysed financial data both from HMRC's Trust Statement and Resource Accounts.

4 For Part Three, in addition to our financial audit work on Personal Tax Credits (tax credits), we reviewed HMRC's error and fraud statistical analysis. We interviewed key staff and reviewed documents including early analysis of the impacts of COVID-19 on error and fraud, and an update on HMRC's strategy for tax credits.

5 We have also used evidence from our value-for-money reports relevant to the work of HMRC.

Appendix Two

Our value-for-money and wider work

1 Since April 2019, we have published several reports relevant to the work of HM Revenue & Customs (HMRC):

- Comptroller and Auditor General, *Departments' use of consultants to support preparations for EU Exit*, Session 2017–2019, HC 2105, National Audit Office, June 2019.

  Departments have been undertaking work to prepare for the UK's exit from the European Union (EU Exit). In doing so, they have drawn on the services of consultants. This investigation examined Departments' use of consultants in their work to prepare for exiting the EU.

- Comptroller and Auditor General, *The UK border: preparedness for EU exit October 2019*, Session 2019-20, HC 98, National Audit Office, October 2019.

  Considered the work that government and departments had been undertaking to prepare for a possible no-deal EU exit at the border in advance of 31 October 2019.

- Comptroller and Auditor General, *The cost of EU Exit preparations*, Session 2019–2021, HC 102, National Audit Office, March 2020.

  Examined how much government departments spent on their activities preparing for the UK's exit from the EU on 31 January 2020 and what the money was spent on.

- Comptroller and Auditor General, *The management of tax expenditures*, Session 2019-20, HC 46, National Audit Office, February 2020.

  Examined the economy, efficiency and effectiveness of how the exchequer departments used their resources regarding the design, administration, monitoring, evaluation and management of tax expenditures.

- National Audit Office, *Departmental Overview: HM Revenue & Customs 2019*, April 2020.

  Summarises the work of HMRC, including what it does, how much it spends, recent and planned changes and other key features of its main business areas and services.

- Comptroller and Auditor General, *Tackling the tax gap*, Session 2019–2021, HC 372, National Audit Office, July 2020.

  Examines the effectiveness of HMRC's approach, in partnership with HM Treasury, in reducing the tax gap, the difference between the amount of tax theoretically owed and the amount collected.

- Comptroller and Auditor General, *Implementing employment support schemes in response to the COVID-19 pandemic*, Session 2019–2021, HC 862, National Audit Office, October 2020.

Appendix Three

Historic fraud and error rates in Personal Tax Credits

Figure 26

Historic fraud and error rates in tax credits (%)

	Error and fraud as a percentage of finalised entitlement			
	Year of error and fraud analysis programme	**Lower bound**	**Central estimate**	**Upper bound**
Overpayments	2009-10	7.0	7.8	8.6
	2010-11	7.5	8.1	8.8
	2011-12	6.6	7.3	7.9
	2012-13	4.7	5.3	6.0
	2013-14	4.2	4.7	5.2
	2014-15	4.0	4.4	4.8
	2015-16	4.3	4.8	5.2
	2016-17	4.3	4.7	5.1
	2017-18	5.0	5.5	6.1
	2018-19	4.4	4.9	5.4
Underpayments	2009-10	0.9	1.4	2.0
	2010-11	0.6	0.8	1.0
	2011-12	0.6	0.9	1.2
	2012-13	0.2	0.5	0.7
	2013-14	0.6	0.7	0.9
	2014-15	0.5	0.6	0.7
	2015-16	0.5	0.6	0.7
	2016-17	0.6	0.7	0.9
	2017-18	0.6	0.7	0.8
	2018-19	0.6	0.7	0.8

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

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