HM Revenue & Customs 2008–09 Accounts

– Consolidated Resource Accounts
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(For the year ended 31 March 2009)

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HM Revenue & Customs 2008–09 Accounts

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Statement on Internal Control

1. Scope of responsibility

1.1 As Principal Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of HM Revenue & Customs (HMRC) policies, aims and objectives, whilst safeguarding the public funds and Departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in *Managing Public Money*.

1.2 As Chief Executive of HMRC I am accountable to the Chancellor and to the Financial Secretary to the Treasury, to whom the Chancellor has delegated responsibility for the day to day oversight of the Department. The Financial Secretary is kept informed of progress and significant issues facing the Department in the course of regular bilateral meetings that he has with me and the other Board members.

1.3 As Principal Accounting Officer for HMRC I am supported by a number of Additional Accounting Officers. Each of these has clearly defined responsibilities outlined in their appointment letters. Their relationship with me is also clearly set out in separate Memoranda of Understanding.

1.4 The Valuation Office Agency (VOA) is an Executive Agency of HMRC. The Chief Executive of the VOA is an Additional Accounting Officer for the resources authorised by Parliament in relation to the VOA. The relationship between the VOA and HMRC is set out in the VOA's Framework Document, and in a separate Memorandum of Understanding between the VOA's Chief Executive and myself.

2. The purpose of the system of internal control

2.1 The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to: identify and prioritise the risks to the achievement of Departmental policies, aims and objectives; to evaluate the likelihood of those risks being realised and the impact should they be realised; and to manage them efficiently, effectively and economically. The system of internal control has been in place in HMRC for the year ended 31 March 2009 and up to the date of approval of the accounts, and accords with HM Treasury guidance.

3. Governance

3.1 A detailed description of HMRC's high-level governance, including its senior committee and business structure, can be found in the Corporate Governance Report, published as a separate section to the Accounts.

4. Risk Management

Capacity to handle risk

4.1 Following the recommendations made by both the Capability Review and the Poynter Report during 2008, a revised approach to risk management, documented in the form of a Corporate Risk Management Strategy, is being implemented across the organisation.

4.2 The strategy clearly sets out the roles and responsibilities of all members of the Department in identifying, reporting and managing risk – from the Executive Committee, through risk practitioners and managers, to operational staff.

4.3 Delivery of the revised approach to risk management involves both a top down strategic view of risks facing the Department and the upward reporting/escalation of risks through the lines of business. Key reporting lines are at the Directorate, line of business and Departmental levels of the organisation.

4.4 The Executive Committee regularly reviews those risks reported at Departmental level, with a standing agenda item to focus on individual risks, their status and the effectiveness of mitigating activities. This is enhanced and supported by the Audit & Risk Committee's review process.

4.5 A Corporate Risk Management Group has been set up, bringing together key stakeholders from all business and corporate functions (including performance management) with the Corporate Risk Management Team, to improve the quality and coverage of the Departmental Risk Register and to support those working on risk management. The group will be increasingly active in providing peer challenge of risks and in identifying cross-cutting risks.

The risk and control framework

4.6 The Department's approach to risk management is documented in the revised Corporate Risk Management Strategy, as endorsed by the Executive Committee and the Audit & Risk Committee. The key components of this Strategy are being actively integrated into the governance arrangements across the organisation to improve our risk management capability and bring our approach in line with industry best practice. The framework being adopted is that of the Committee of Sponsoring Organisations (COSO) – an established methodology for assessing risk and evaluating controls used in both private and public sectors.

4.7 A professional Corporate Risk Management function is being established to develop the infrastructure and capacity to enable the implementation of the strategy; and a series of products, including a standardised risk log, supporting guidance on risk assessment and technical and communications material underpin the delivery of the strategy in a consistent manner. In future there will be guidance developed on topics such as risk appetite, key risk indicators and how to run risk workshops.

4.8 Additionally, the lines of business are supported by Business Risk Partners who engage directly with the business to embed the strategy and build a risk aware culture in their own area.

4.9 The Corporate Risk Management Team continues to support the business in assessing its current risk management maturity and in developing specific implementation and improvement plans.

4.10 The approach to risk management has been supplemented through a series of risk identification and assessment workshops, undertaken by PricewaterhouseCoopers, which focus on the end to end process environment. This follows a successful trial of the approach in the Tax Credits business in early 2008.

Information Risk

4.11 HMRC's information risks were independently and comprehensively assessed during 2008-09 by Kieran Poynter of PricewaterhouseCoopers whose report made 45 recommendations for immediate, medium and long term mitigating action. In response to the report, the Department established a dedicated Programme to drive and oversee the implementation of the immediate and medium term recommendations thereby building the platform from which the longer term, strategic solutions can be launched. HMRC has implemented, in full or in part, the majority of these recommendations and has firm plans in place to complete the implementation of all of them within the next 2 years. The report and our response so far to the recommendations provide the necessary assurance that we are properly assessing and managing information risk.

4.12 The Corporate Risk Management function has developed a methodology which is being rolled out across the Department and which underpins the information risk policy on which the 2009-10 annual assessment of information risk management will be based.

4.13 Additionally, HMRC has put in place plans to assess its conformance with the ISO27000 series of international standards that are used widely across industry to identify and manage information risk and will assess annually the maturity of its information assurance regime using the Information Assurance Maturity Model mandated by the Cabinet Office. The output from both these assessments will be used to drive continuous improvement in the way the Department safeguards the information within its charge.

5. Control

5.1 Key developments during the year included:

Departmental Vision

5.2 HMRC launched its Vision in November 2008. This is a simple statement that sets out the Department's purpose, says where it is going and describes how its people will deal with customers and with each other. It provides the foundation for everything the Department does. The Executive Committee has worked with the Board to develop Strategic Objectives, based on the Vision, and the priorities to deliver those objectives are set out in the HMRC Business Plan. The Board hold me to account for delivery of the business and functional strategies, ensuring that they are aligned to both the Strategic Objectives and the aims of the Vision.

Departmental Transformation

5.3 The Departmental Transformation Programme (DTP) is a portfolio of programmes incorporating the main change and transformation initiatives within HMRC. It was set up in 2006-07 to help transform the customer experience, to improve revenue and to reduce costs by improving how we manage our people, our processes and our assets.

5.4 Several programmes within DTP have delivered key successes in 2008-09. These include:

- A 52 per cent increase in the number of Self Assessment returns completed online. A total of 5.8 million returns were filed online by 31 January 2009.
- An estimated £1billion in reduced administrative burden to UK companies, through the businesslink.gov website.
- Rationalising our property estate to meet customer service and operational requirements. We carried out 60 closure projects in 2008-09 and aim to reduce the size of our estate by one third.
- Increased productivity by at least a third in offices where our improvement and efficiency initiative, PaceSetter, is in place.

United Kingdom Border Agency (UKBA)

5.5 4,500 HMRC staff have been operating within the management structure of the UKBA to facilitate early improvements in border controls prior to legislation being put in place to transfer accountability and legal powers from HMRC to the UKBA. This is expected to take effect in August 2009. There is a Partnership Agreement in place with the Home Office that sets out the respective responsibilities for the interim period until transfer of powers and staff. HMRC has put in place a governance structure and programme team to manage the interface with the new agency and to enable the Commissioners to exercise appropriate control over the use of their powers. Annexes to the Partnership Agreement set out specific performance expectations in key areas, including tobacco seizures. These are monitored on a monthly basis by HMRC and any performance issues are discussed in the Tobacco Strategy Delivery Group and can be escalated to the joint HMRC/UKBA Partnership Committee if necessary.

Current Economic Situation

5.6 The economic downturn makes delivery of our purpose – making sure that the money is available to fund the UK's public services and helping families and individuals with targeted financial support – more challenging. We already know that businesses face difficult trading conditions and this has implications for tax revenues. We are, for example, seeing a fall in VAT yield. We also need to remain vigilant to attacks on tax revenues. Whilst we have seen a significant improvement on Missing Trader Intra-Community (MTIC) VAT fraud (see paragraph 6.39) we must anticipate future attacks on the VAT base as well as against other taxes. We must also ensure we deal appropriately with the inevitable rises in debt levels that occur during a downturn and provide appropriate support.

5.7 The Permanent Secretary for Tax plays a leading role in ensuring that HMRC is well informed about the global economic situation and its implications for tax revenues. This includes his participation, as vice-chair, in the Organisation for Economic and Co-operative Development (OECD) Forum on Tax Administration. The OECD is undertaking detailed work on the tax implications of the economic situation and HMRC has seconded a director to lead this work. He is also the UK representative in the Leeds Castle Group of tax commissioners – from Australia, Canada, China, France, Germany, India, Japan, Korea, UK and the USA. This group of enterprise minded countries meets annually with conference calls at various intervals. The top item for discussion has been tax implications of the economic situation.

5.8 We are seeking to maintain an even-handed service to business by tackling non-compliance in a targeted way. We have set up a special service – The Business Payment Support Service – to help viable businesses with time to pay tax debts. Our debt management strategy involves moving away from prioritising by value to a campaign-based approach where our recovery actions are tailored to the characteristics of particular debtor segments to achieve the best possible response. Alongside our revised debt strategy we have taken steps to increase our debt handling capacity. Further information on our response to growing levels of debt can be found at paragraphs 6.5 to 6.8.

Other Developments

5.9 The work performed by Directors during the year on governance, risk and control is also reflected in a number of improvements in our controls including the following examples:

- The Department is reviewing its business continuity model to simplify and improve standards and guidance to work areas. The updated material will align with the new British Standard BS25999. Our business continuity approach is underpinned by prioritisation of key business processes and detailed risk assessments of the components used to deliver them. These risk assessments will form a significant input to HMRC's developing corporate risk management strategy.
- The PaceSetter programme has developed a tool, The Strategy Development Matrix, which is being trialled in Personal Taxes and Enforcement and Compliance before being rolled out to other lines of business. The tool will be deployed to develop a matrix linking change activities to the delivery of HMRC and line of business objectives.
- We have set up with our counterparts in the Department for Work and Pensions a Joint Investigation Response Team to combat serious attacks on our benefits and credit systems by organised criminal gangs.

- The Business Customer Unit (BCU) works to ensure that customer understanding is built into policy and process design throughout HMRC. In line with the new HMRC operating model BCU also now drive strategy and planning across the whole Department for Small and Medium Enterprise (SME) business customers, chairing new forums such as the SME tactical delivery group.
- We have created a new Business International Directorate, bringing together expertise from across Business Tax Directorates to focus our work on international tax issues.
- In previous years we have disclosed R N Ltd, a nominee company that exists to hold charges over assets and funding bonds on behalf of HMRC, in a note to the accounts. We have reviewed our accounting treatment of R N Ltd and have concluded that it should be consolidated in the Trust Statement. We have reviewed the governance of R N Ltd and are making improvements to the way in which it is controlled and managed.

6. Review of effectiveness

6.1 As Principal Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by executive managers within the Department who have responsibility for the development and maintenance of the internal control framework, by the work of the internal auditors and comments made by NAO in management letters and other reports.

6.2 I discuss significant control issues with my executive team as they arise at our regular Executive Committee meetings. These meetings are informed by an assessment of our current exposure to strategic risk. They are further informed by monthly reports on performance from my Directors. The focus of these is the progress being made in each Director's area to deliver value for money and the key issues and risks that could prevent the achievement of targets and objectives by the year end.

6.3 To provide me with an assurance on the effectiveness of the system of internal control, the Director of Internal Audit provides me with an annual opinion, a summary of the findings from every internal audit review, and he alerts me to significant control issues as they arise. The Chairman of the Audit and Risk Committee, who is a non-executive Board member, provides the Board with a written report after each Audit and Risk Committee meeting.

6.4 The Director Generals and other senior managers have drawn up statements that set out the governance, risk and control arrangements in their business areas. Taking these statements into account, and observations from the Director of Internal Audit, the Audit and Risk Committee and from NAO, I recognise that there are a number of material control weaknesses. Of those I have identified the most significant are detailed below. I am giving priority to the plans that we have put in place to address these weaknesses and to improve the overall control environment.

Debt Management

6.5 Deteriorating economic conditions are causing more payments to be made late, making existing debts more difficult and costly to collect and generating more individual and corporate insolvencies. We have responded to recent marked growth in debt by making a series of operational and process improvements and we are working to develop a cross Departmental response to better understand the causes of that growth, to identify risks and to respond to them.

6.6 The new Business Payments Support Service, launched in the Chancellor's Pre Budget Report, provides help to viable businesses by allowing them to spread their tax payments over short periods (normally months) in order to give them breathing space and time to recover. We have tested the legal framework within which we operate this measure and I am satisfied that we are using the limited discretion the law allows us within a sound framework which is being managed appropriately.

6.7 We assess and monitor the risks inherent in these arrangements, including the risk of deferring tax for businesses that have the ability to pay us on time and in full, as well as the risk of agreeing time to pay (TTP) for business that are not viable and will later fail. We will continue to adjust our checks and qualifying criteria and we will reinforce ongoing compliance checks in the light of the evidence of risk that emerges from our monitoring and sampling activities. I am satisfied that our processes are under proper control and are commensurate with our ongoing assessment of risk.

6.8 Economic conditions are creating difficulties for large business as well as small ones and we have seen significant growth in the number of TTP requests in excess of £1 million, including some where the ongoing viability of these businesses has been doubtful or uncertain. These, and smaller cases sometimes, have the capacity to generate significant public and media interest. We have improved our processes for involving and alerting business units, including Press Office, and where necessary seeking advice. Also, to the extent that we have legal authority to do so, we alert Ministers. Where we cannot disclose taxpayer confidential information we provide appropriately anonymised information to inform and support HM Treasury's and the Government's response to the economic downturn.

Financial Planning and Capability

6.9 There are four major areas of control we have identified that need improvement:

- We do not systematically link inputs to outputs. Our management information does not routinely show the cost of each Departmental Strategic Objective, the cost/yield opportunity or the risks around resource allocation decisions.
- HMRC has experienced difficulties with business planning for many years, with requests for resource from the different parts of the Department far exceeding resources available. As a result, we often resort to reducing bids rather than making deliberate choices about priorities.
- In-year monitoring and forecasting is not trusted. In both 2007-08 and 2008-09 there have been large swings during the year which has made the dynamic deployment of financial resources difficult.
- Guidance and support for the delegation of financial authorities, accountabilities and responsibilities and the controls that support them are not fit for purpose.

6.10 We are putting a number of actions in place to deal with these, including:

Linking inputs to outputs

6.11 We have made considerable progress in mapping the overall costs to the Department of front-line activity. This includes a more comprehensive costing strategy which will allow us to look at costs from the perspective of the customer, to understand the costs of different customer segments and to enable greater transparency in the costs of the internal service providers. We have introduced dedicated service managers into the lines of business who will assist in influencing behaviours to generate better value for money around consumption of resources like IT, postage and print. The Performance Management Framework continues to mature rapidly and is already proving to be a powerful tool in defining objective measures which help us to make better decisions in focussing scarce financial resources.

Planning

6.12 We have made some progress in this area but recognise that there is more work to be done. This includes the implementation of User Agreements to enable a better understanding of the cost implications in corporate services areas of decisions made in lines of business. We also have work in train to update and enhance our long term funding model. And we are using the new Vision (see paragraph 5.2) and strategic objectives to create a better sense of direction and help shape the cost base over the next two years.

In-year management of finances

6.13 We have developed a monthly executive financial report, drawn from the existing management accounts. We have a maturing network of Finance Directors embedded into the business. We have strengthened this team through external recruitment and also recruited a senior budget controller at the centre to provide a more dedicated challenge function. We have improved the quality of financial management information dramatically which has aided an improvement in the challenge of forecasts and budgets.

Financial Delegations

6.14 We have published an updated Delegated Authorities Framework on the Finance internet site. Formal Director General budget delegation and allocation letters have been issued, outlining the total amount of budget allocated to them and setting out their responsibilities for monitoring, further delegating and accounting for this. In order to further support managers and embed good practice within the Department we have also introduced detailed guidance and training.

Tax Credits: Error and Fraud

6.15 We measure the levels of error and fraud (excluding organised fraud) in Tax Credits each year. Our most recent analysis told us the overall level of error and fraud in 2007-08 to be between £1.58 billion and £1.84 billion (7.9 to 9.2 per cent of the final value of awards). This represents a small increase in the amounts we disclosed last year. The Comptroller and Auditor General has again qualified his opinion on the regularity of the expenditure reported in the Trust Statement in respect of tax credits error and fraud.

6.16 In July 2008, we published a target to reduce losses caused by error and fraud in tax credits to no more than 5 per cent of finalised entitlement by March 2011. At the same time, we published a strategy outlining how we will achieve this. This strategy includes:

- Focusing our efforts on the groups that contribute most to error and fraud losses.
- Focusing on error and fraud at all stages in the claiming process.
- Using our knowledge of customer behaviour and the causes of error and fraud to make sure we take the right action and have the right amount of resource allocated.
- Preventing error and fraud from entering the Tax Credit system.
- Educating and helping customers to get it right first time.

6.17 Since July 2008, we have made good progress in preventing error and fraud from entering the Tax Credit system. We are also making better use of information held by the Department to make sure claims are right when they enter the system.

6.18 Our plans for 2009-10 target the groups of customers that we know contribute most to our losses. For customers who need more help we will be using clearer leaflets and marketing campaigns. For those people who deliberately bend or break the rules we will be using compliance enquiries, penalties and prosecution.

Tax Credits: Re-finalisation of Awards

6.19 Last year we outlined what we would do about tax credit awards that had been wrongly adjusted after they had been finalised. Since then our three year plan to review 301,000 affected cases is well underway with 187,000 cases having been reviewed and around 114,000 cases still to be reviewed. This includes an additional 28,000 cases relating to 2006-07 that have been identified since last year's report. It also includes approx 20,000 additional cases for 2007-08 to review during 2009-10. These further incorrect revisions to awards occurred during 2008-09 before an IT system change was implemented in April 2009.

6.20 We introduced a change to the tax credits IT system in April 2009 aimed at deterring incorrect re-finalisation by HMRC staff. Contact centre staff and the majority of tax credit staff now have an access level which does not allow any changes to be made to finalised awards. If these staff attempt to change a finalised award they are presented with an error message and the system will not allow the change. There may be occasions where re-finalisation is legal and appropriate, for example when the customer has been negligent. In these circumstances, when the tax credit staff who have access to the re-finalisation functionality attempt to make a change to a finalised award, they are presented with a warning message to deter incorrect re-finalisation. However, they can still apply the change.

6.21 Current estimates are that the total cost to the Exchequer for remissions will be around £53 million.

Tax Credits: Guidance Review

6.22 An Internal Audit report in 2007-08 highlighted that some parts of the Tax Credit Manual, the operational guidance for tax credit processing, were not fit for purpose and some processing tasks were not covered in it at all.

6.23 We set up a Guidance Assurance Project to examine areas of doubt and correct any areas found not to comply with legislation. This project is managed by Policy and Practice which brings together all operational guidance in the newly-restructured Benefits & Credits Group. A Project Board, along with the Benefits & Credits Management Board, monitors the progress of this project.

6.24 The most critical tasks are being examined and corrected first. This approach means that over 90 per cent of the most critical risks will have been examined and corrected, where necessary, by 31 December 2009.

Data Security

6.25 HMRC's Purpose, Vision and Way states that we want to be seen as a highly professional organisation that recognises that we have privileged access to information and protects it. To achieve this we are driving improvements in data security as quickly as possible.

6.26 Last year we reported on Kieran Poynter's independent review, following the loss of computer disks containing customer information. Progress made so far on the recommendations of that review has been reported in paragraph 4.11. An Enforcement Notice issued by the Information Commissioner requires HMRC to use its best endeavours to implement all the Poynter recommendations by 25 June 2011. Work is on track and strong progress has been made on the remaining recommendations.

6.27 In line with Poynter's recommendations we have made information security guidance more accessible, including providing a new on-line incident reporting process. The high level of awareness of information security among HMRC staff was demonstrated by the results of the 2009 cross-Departmental People Survey. This showed that 97 per cent of HMRC respondents were aware of HMRC's information security policies and put them into practice, by far the highest figure of any of the participating Departments.

PAYE Open Cases & other backlogs

6.28 There are currently around 35 million items of work on hand in our PAYE and Self Assessment (SA) processing areas. Around 20 million of these relate to PAYE customer reviews (open cases). These are generated by an increasing number of coding discrepancies caused by changing customer work patterns and were reported in the past two year's SICs. The balance relates to items generated by other processing and control activities that require further clerical action either to the benefit of our customers or to us.

6.29 The introduction of the new PAYE Service during 2009 will automate matching and processing of data sufficient to reduce the number of cases needing clerical intervention (exception cases) to less than 4.5 million each tax year from the current 16 million, starting with the year 2008-09. We aim to clear these cases during the same year in which they occur so backlogs should no longer accrue.

6.30 For the arrears brought forward we have three innovative pieces of work designed to considerably reduce the arrears. Firstly we have initiated an Open Case Clearance Project in PAYE/SA Processing that deploys software to identify cases where an under or overpayment is due, or where the record is accurate and can be closed. Internal Audit and our own testing have confirmed very high rates of accuracy. Secondly we are working with an independent firm on those open cases which are open because they do not appear to match to an existing record. We are expecting large numbers of clearances by confirming that a match exists by reference to a wider range of data. Finally we are planning to risk assess those cases which cannot be cleared so that we only work worthwhile cases. We plan to commence this clerical review of prioritised cases in April 2010 and will continue until backlogs have been worked.

6.31 The balance of other work items on hand includes a normal stock of work which any organisation would have on hand at the end of each working day but it also includes worklists where we cannot bring enough resource to bear to reduce them. However, we expect a number of developments including the new PAYE Service; more online filing; continuous improvement through our PaceSetter programme; rationalising our business into fewer sites; and more locally based computer tools, to reduce the arrears.

Health and Safety

6.32 Audit reports and investigations of particular events have revealed significant weaknesses in our management of health and safety (H&S) that could have serious consequences if they were not properly remedied. At the same time the Health & Safety Executive, as part of a programme of reviewing H&S in Government Departments, are in discussion with HMRC to plan a management inspection which is scheduled to take place in 2009-10.

6.33 Both the Performance and People Committees have concentrated their attention on raising the profile of H&S and assuring that the risks are brought and kept under satisfactory control. This is part of a continuing drive to raise the H&S competence and confidence of managers. Steps taken include:

- New guidance has given Directors a clear steer on their responsibilities and what they should do to meet them.
- Easier access to H&S advice and guidance for managers and staff has supported the need to improve uptake of H&S training.
- Governance has been further strengthened to establish satisfactory performance where we rely on third parties to help meet our duty of care. This work includes the development of a network of senior responsible managers as key to achieving compliance.

6.34 As well as this the Department is seeking to improve the information available to help protect staff from the threat of attack when they are dealing with some members of the public. More work is also being done to improve H&S standards at site level, and the reliability of the assurance that acceptable standards are being achieved and maintained.

Disaster Recovery

6.35 In last year's SIC we reported that additional funding had been allocated to implement improved disaster recovery arrangements for some of the key IT systems that support our most critical business processes. During 2008-09, work began on delivering this programme of work, primarily focussed on delivering improved disaster recovery for Tax Credit payment processes.

6.36 As part of a separate programme to consolidate our IT systems within modern facilities, the Tax Credits systems were migrated to a modern data centre in September 2008, helping us to mitigate our greatest risks and vulnerability. Phased migration from other data centres was scheduled to be completed in 2010-11.

6.37 In order to support the achievement of a balanced budget for 2009-10, we can only afford to progress the project to improve disaster recovery for Tax Credits payment processes. This project, once completed, will also deliver improvements to some of the components that support the disaster recovery arrangements for ten other business critical systems.

6.38 Until further improvements to the Department's disaster recovery arrangements can be implemented, the disaster recovery risk profile remains high. In order to mitigate these risks, IT spending has been reprioritised to enable us to undertake less costly mitigating activities, including the migration of some of our most business critical IT systems to our new data centres. We also continue to deploy tactical solutions at our older data centres, such as the use of standby generators and detailed scenario planning.

Missing Trader Intra-Community (MTIC) VAT fraud

6.39 The attempted MTIC fraud for 2007-08 was estimated to be between £0.5 billion and £2.0 billion, with an estimated negative impact on VAT receipts during the same year of between £0.5 billion and £2.0 billion. This is a significant improvement on the statistics reported in last year's SIC. The current MTIC strategy has continued to drive down the levels of MTIC carousel fraud activity and subsequent losses. Trade statistics also indicate that the reduction in attempted fraud was sustained in 2008.

6.40 Although a large number of extant repayment claims remain under verification by our compliance teams, to date we have made decisions to deny repayment in respect of the majority of cases generated during the peak of the fraud. A significant number of these decisions are, however, under legal challenge. To date, these have been successfully defended overall but only a small proportion has been heard. New claims are currently at very low levels but we continue to see fraudsters engaged in carousel fraud activity and VAT MTIC fraud remains a significant risk.

6.41 With the agreement of EU Member States, the reverse charge accounting measure for goods most commonly used in missing trader fraud that was introduced in the UK on 1 June 2007 for two years has been extended to April 2011. Evidence suggests that legitimate UK businesses are successfully complying with the obligations of the reverse charge system. Reverse charge prevents MTIC fraud in the specified goods concerned and is helping to keep fraud-related trading at very low levels.

Non-Matching National Insurance Contribution Items

6.42 In some instances we receive end of year information from employers that includes National Insurance contributions information that cannot be matched to the relevant contributor records. We apply well established routines to trace these non-matching items and make all reasonable effort to update contributor records. Where the items still cannot be matched they are kept permanently on non-matched suspense files. These are maintained to ensure that when an individual queries the completeness of their contribution record we can retrieve unmatched items from suspense files and credit them to the individual's contribution record.

6.43 Up to 2006-07 the suspense files contained approximately 116 million items. For the 2006-07 tax year some 2 million new items were added to the suspense files; this represents about 3.5 per cent of the year's returns. We continue to undertake detailed analysis and work closely with key inter-Departmental stakeholders to develop strategies to improve the quality of the data submitted from employers.

Lesley Strathie
Principal Accounting Officer
30 June 2009

Resource Accounts

Consolidated Resource Accounts for the year ended 31 March 2009

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The Annual Report

Introduction

1. These Resource Accounts have been prepared under a direction issued by HM Treasury in accordance with the Government Resources and Accounts Act 2000. They present the operating costs and financial position of HM Revenue & Customs (HMRC) for the year ended 31 March 2009 and include the Core Department and the Valuation Office Agency (VOA). Figures for the VOA are also published separately in their agency accounts which can be viewed at www.voa.gov.uk.

2. HMRC is responsible for collecting taxes, duties and National Insurance Contributions, making payments of tax credits, Child Benefit, Child Trust Fund and Health in Pregnancy Grant, collecting repayments of student loans, enforcing payment of the national minimum wage, providing the Government business link portal and enforcing Government requirements relating to the movement of goods across the UK national and EU common frontier. More information about the Department's aim and strategic objectives can be found in the Management Commentary (see paragraphs 7 to 11).

3. HMRC has a close relationship with the Department for Work and Pensions (DWP) and its counterpart in Northern Ireland, the Department for Social Development (DSD), as they are responsible for the payment of benefits based on National Insurance Contributions. Administrative expenditure related to the collection of National Insurance Contributions and the associated income recovered from the National Insurance Funds is included in the Operating Cost Statement.

4. Receipts and payments of direct and indirect taxes, National Insurance Contributions and payments of tax credits are accounted for in the Trust Statement which is on pages 74-103 of this publication.

5. Pension benefits are provided through the Civil Service pension arrangement (see note 1.13 and the Remuneration Report).

Departmental reporting cycle

6. The Department produces regular reports on its performance which appear as part of the Departmental and Autumn Performance Reports. The HMRC Departmental Report 2008 was published in July 2008 (Cm 7402) and the Departmental Autumn Performance Report 2008 was published in December 2008 (Cm 7509). The HMRC Departmental Report 2009 (Cm 7602) will be published in July 2009. These reports are available from The Stationery Office and the HMRC website (www.hmrc.gov.uk).

Management Commentary

Departmental aim and strategic objectives

7. The aim of HM Revenue & Customs (HMRC) is to administer the tax and customs control systems fairly and efficiently and make it as easy as possible for individuals and businesses to understand and comply with their obligations and receive their tax credit and other entitlements.

8. We have further expressed this aim in our Purpose, Vision and Way document where we describe our purpose as:

   - To make sure that the money is available to fund the UK's public services;
   - To help families and individuals with targeted financial support.

9. HMRC has the following Departmental Strategic Objectives (DSOs):

   - DSO 1. Improve the extent to which individuals and businesses pay the tax due and receive the credits and payments to which they are entitled;

- DSO 2. Improve customers' experiences of HMRC and improve the UK business environment;
- DSO 3. Reduce the risk of the illicit import and export of material which might harm the UK's physical and social well-being.

These strategic objectives can be subdivided into five Requests for Resources and these are described in the 'Consolidated Statement of Net Operating Costs by Departmental Strategic Objectives' (see page 42).

10. Details of the VOA objectives and performance can be found in its Annual Report and Accounts (HC 521), which is available from The Stationery Office and the VOA website (www.voa.gov.uk).

11. The UK Border Agency came into existence in shadow form on 3 April 2008. The new agency brings together work of the Border and Immigration Agency, UKvisas and HMRC Detection work at the border, and forms part of the Government's strategic response to the growth in international trade and migration and the escalating terrorism related security threat facing the UK. Legislation is currently before Parliament which will allow the Secretary of State for the Home Office's officials to exercise customs powers and responsibilities in an appropriate way. Once this legislation is enacted the Government intends that staff and assets will be transferred from HMRC to the new agency. Until that time, the cost of customs operations at the border is funded and accounted for by HMRC, and therefore appears in these accounts. Although part of the shadow agency, the HMRC Detection Business Unit continues to operate using the powers set out in the Commissioners for Revenue & Customs Act 2005 and under the direction of the Commissioners but within the management structures of the UK Border Agency. A Partnership Agreement between the Home Office and the Commissioners of HMRC regulates this arrangement.

The Department's efficiency challenge

12. The Department exceeded the three efficiency targets it was set in the 2004 Spending Review that covered the period 2005-06 to 2007-08. Full details of these results are reported in the Departmental Report 2008. Building on this success, the Department will deliver Value for Money savings of £754m across the next three years through its Departmental Transformation Programme. This will enable a reduction in the Department's spend by 4.9 per cent per year over the 2007 Comprehensive Spending Review (CSR07) period 2008-09 to 2010-11.

13. The performance of HMRC is assessed through its Public Service Agreement (PSA) targets, underpinning key indicators and other work targets set out by the Chancellor of the Exchequer in the Department's remit for 2008-09. Performance targets for 2008-09 are set out in the 2007 Comprehensive Spending Review for the period 2008-09 to 2010-11. Full details of performance against those targets are reported in the Departmental Report and the Departmental Autumn Performance Report.

Financial position and results for the year

Comparison Outturn against Estimate

14. Expenditure outturn for the year was £15,929.5m, £183.8m (1.1 per cent) below the Estimate. The variances which exceed 10 per cent are explained below as required by the *Government Financial Reporting Manual (FReM)*.

    - Request for resources 1B (RfR 1B), revaluation losses was underspent by £6.8m (34.0 per cent). Volatility in the property market made it difficult to forecast accurately year end property values.
    - Request for resources 3 (RfR 3), Payments in lieu of tax relief was underspent by £22.9m (15.9 per cent). Changes to personal tax thresholds reduced expenditure but Government funding processes do not permit a net reduction in the Departmental Estimate in year.

- Request for resources 5C (RfR 5C), Health in Pregnancy Grant was underspent by £4.5m (10.0 per cent). Only limited information was available to inform the value included in the Departmental Estimate because this benefit was not launched until January 2009.

Balance sheet

15. The balance sheet of HM Revenue & Customs is dominated by its tangible fixed assets (note 14), which are valued at £1,500.0m (2007-08: £1,393.7m).

16. Other significant assets and liabilities include:

    - creditors (amounts falling due within one year) of £1,339.8m (note 20).
    - debtors of £702.6m (falling due within one year) of which £515.4m relates to penalties (note 18).
    - provisions of £299.3m mainly relating to early departure costs and Child Trust Fund liabilities (note 21).

Cash flow

17. The net cash outflow for the year of £16.6m is caused by the payover in 2008-09 of Consolidated Fund Extra Receipts (CFER) related to 2007-08 (note 24(e)).

Reconciliation of resource expenditure between Estimates, Accounts and Budgets

	Estimate 2008-09 £m	Outturn 2007-08 £m
Net Resource Outturn (Estimates)	**16,113.3**	**15,208.7**
Adjustments to remove:		
Provision voted for earlier years	–	–
Adjustments to additionally include:		
Non-voted expenditure in the OCS	–	1.9
Consolidated Fund Extra Receipts in the OCS	–	(10.8)
Other adjustments	–	–
Net Operating Cost (Accounts)	**16,113.3**	**15,199.8**
Adjustments to remove:		
Gains/losses from sale of capital assets	–	(4.7)
Capital grants	(185.7)	(167.7)
European Union income and related adjustments	–	–
Voted expenditure outside the budget	–	–
Adjustments to additionally include:		
Other Consolidated Fund Extra Receipts	–	–
Resource consumption of non-departmental public bodies	–	–
Unallocated resource provision	–	–
Other adjustments [1]	18,843.8	15,724.2
Resource Budget Outturn (Budget)	**34,771.4**	**30,751.6**
of which		
Departmental Expenditure Limits (DEL)	4,492.5	4,360.8
Annually Managed Expenditure (AME)	30,278.9	26,390.8

[1] The figure of £18,843.8m (2007-08: £15,312.9m) relates to the estimated Annually Managed Expenditure that is classified as non-voted by HM Treasury and which is accounted for in the Trust Statement. Tax credits make up the majority of this adjustment £18,658.1m (2007-08: £14,794.0m).

18. The Department has allocated a pay settlement worth 2.4 per cent per annum for 2008, 2009 and 2010. The Department is currently in negotiations with the trade unions in relation to the pay offer that has been made for 2009 and 2010.

19. Child Benefit and Child Trust Fund are accounted for within programme costs (see note 11) and the Operating Cost Statement.

20. Health in Pregnancy Grant (HiPG) is a new benefit that will be payable to women ordinarily resident in the UK, who have reached the twenty-fifth week of pregnancy and who are receiving medical advice. The grant becomes payable from 6 April 2009 and mothers-to-be whose expected delivery date is on or after 6 April 2009 will qualify for the grant. Expectant mothers who reach their twenty-fifth week of pregnancy on or after 22 December 2008 will qualify for this grant as their expected delivery date will be on or after 6 April 2009. A provision of £40.6m has been made in 2008-09 for those grants that will be payable in 2009-10 for the period 22 December 2008 to 31 March 2009.

21. Details of the Department's significant provisions are reported in note 21 (see page 62).

22. The Department has three significant Private Finance Initiative (PFI) contracts, which are included within these Resource Accounts:

    - Mapeley STEPS Contractor Ltd contract for private sector provision of serviced accommodation across the majority of the Departmental estate for 20 years. This is a joint contract with the former two Departments and Valuation Office Agency.
    - Exchequer Partnerships contract for provision of serviced accommodation at 100 Parliament Street for 33 years.
    - Newcastle Estates Partnership contract for provision of serviced accommodation at a number of sites in the Newcastle upon Tyne area, including the redevelopment of the Benton Park View site. This contract has two elements, one which will run for 25 years and the other for 28 years.

23. In addition, the Department has a significant IT contract (non PFI), which is included within these Resource Accounts. The Capgemini contract is to deliver high standards of IT infrastructure. Under the contract, Capgemini provides user services for desktop, business applications management, enhancements and development, projects, new projects integration services (including the testing of applications and infrastructure), as well as other IT services to HMRC and VOA.

24. The Department negotiated the settlement of a compensation claim against Electronic Data Systems Limited (EDS) in 2005-06. Part was settled immediately, leaving an amount outstanding of £26.5m. Further payments were made by EDS during the period 2006 to 2008 with a final payment of £25.6m paid to HMRC in January 2009 in full settlement.

International Financial Reporting Standards (IFRS)

25. In accordance with HM Treasury direction, all government departments will be reporting under International Financial Reporting Standards (IFRS) from 2009-10.

    A significant amount of work has been performed to prepare for the transition to International Financial Reporting Standards in 2009-10. Detailed analyses have been performed to identify those areas where changes to existing accounting practice will be required and plans developed to make amendments to processes to address the revised requirements. The International Financial Reporting Standard IAS 17 and the related interpretation publication IFRIC12, concerning the accounting treatment for Public Private Partnership and Private Finance Initiative contracts will have the most significant impact. This will increase the number of assets that are not owned, being reported in the Department's balance sheet.

Personal data related incidents

26. The Cabinet Office's Interim Progress Report on Data Handling Procedures made a commitment that Departments will provide information on risk management of data handling within their Annual Report.

Incidents, the disclosure of which would in itself create an unacceptable risk of harm, may be excluded in accordance with the exemptions contained in the Freedom of Information Act 2000 or may be subject to the limitations of other UK information legislation.

TABLE 1: SUMMARY OF PROTECTED PERSONAL DATA RELATED INCIDENTS FORMALLY REPORTED TO THE INFORMATION COMMISSIONER'S OFFICE IN 2008-09

Statement on information risk

HMRC's information risks were independently and comprehensively assessed during 2008-09 by Kieran Poynter of PricewaterhouseCoopers whose report made 45 recommendations for immediate, medium and long term mitigating action. In response to the report, the Department established a dedicated Programme to drive and oversee the implementation of the immediate and medium term recommendations thereby building the platform from which the longer term, strategic solutions can be launched. HMRC has implemented, in full or in part, the majority of these recommendations and has firm plans in place to complete the implementation of all of them within the next 2 years. The report and our response so far to the recommendations provide the necessary assurance that we are properly assessing and managing information risk.

Date of incident (month)	Nature of incident	Nature of data involved	Number of people potentially affected	Notification steps
April	Unauthorised disclosure.	Name, address, National Insurance number, tax reference number.	140,000	Not notified, risk of harm to individuals very low.
July	Unauthorised disclosure.	Name, address.	168	Letters to individuals.
August	Loss of inadequately protected forensic material and paper documents from outside secured Government premises.	Name, date of birth, ethnic appearance and offence type.	12	Letters to individuals.
September	Loss of paper documents from outside secured Government premises.	Tax reference numbers (in some cases), court documents relating to debt recovery, bank account details in respect of one individual.	15	Letters to individuals.
February	Unauthorised disclosure.	Name, address, National Insurance number, employer name, tax reference number.	1108	Letters to individuals.

Further action on information risk

The Department will continue to monitor and assess its information risks, in light of the events noted above, in order to identify and address any weaknesses and ensure continuous improvement of its systems.

The Corporate Risk Management function has developed a methodology which is being rolled out across the Department and which underpins the information risk policy on which the 2009-10 annual assessment of information risk management will be based.

Additionally, HMRC has put in place plans to assess its conformance with the ISO27000 series of international standards that are used widely across industry to identify and manage information risk and will assess annually the maturity of its information assurance regime using the Information Assurance Maturity Model mandated by the Cabinet Office. The output from both these assessments will be used to drive continuous improvement in the way the Department safeguards the information within its charge.

TABLE 2: SUMMARY OF OTHER PROTECTED PERSONAL DATA RELATED INCIDENTS IN 2008-09

Incidents deemed by the Data Controller not to fall within the criteria for report to the Information Commissioner's Office but recorded centrally within the Department are set out in the table below. Small, localised incidents are not recorded centrally and are not cited in these figures.

Category	**Nature of incident**	**Total**
I	Loss of inadequately protected electronic equipment, devices or paper documents from secured Government premises.	42
II	Loss of inadequately protected electronic equipment, devices or paper documents from outside secured Government premises.	122
III	Insecure disposal of inadequately protected electronic equipment, devices or paper documents.	1
IV	Unauthorised disclosure.	6
V	Other.	-

Management

Ministers and senior managers

27. The Corporate Governance Report (page 20) identifies those senior managers who are members of the Board.

Register of interests

28. Senior managers within HMRC, including the non-executives, are required to complete a declaration of any interests. No significant company directorships or other interests were held by Board members which may have conflicted with their management responsibilities. Note 34 to the accounts confirms that no member of the Board, including non-executives, have any related party interests.

Diversity and equality

29. Our goal is to become a flagship organisation for diversity. Our priorities are to provide the necessary services and support for our diverse staff and customer groups and to gain a complete picture of the diversity of our staff.

30. The promotion of key messages in our Gender, Race and Disability Equality Schemes are helping us to progress our diversity strategy and to create a culture of inclusion. Specific responsibilities have been assigned to Board members and Directors for both internal and external activities.

31. We continue to look at ways to improve the accessibility of our services for disabled customers as part of our disability service delivery strategy. We make reasonable adjustments in the workplace for our employees with disabilities to enable them to carry out a broad range of duties.

Payment of suppliers

32. The Department is committed to the prompt payment of invoices. Until 31 December 2008 payment was regarded as late if made outside the agreed terms, or, where no terms were agreed, beyond 30 days after receipt of goods and valid invoice. The Department paid 96 per cent (2007-08: 96 per cent) of supplier invoices to time.

    The Prime Minister made a commitment in October 2008 that central Government departments would move to paying invoices within 10 days of receipt of goods and valid invoice. From 1 January 2009, in line with guidance from the Department of Business, Enterprise and Regulatory Reform, the Department has made payment accordingly. For the period 1 January 2009 to 31 March 2009, the Department paid 86 per cent of supplier invoices within 10 days. The legal requirement remains at 30 days.

Communications

33. The Department has a policy of actively informing and consulting its staff and their representatives through a number of well defined and established channels. A variety of channels are employed, including Hot Seat - an opportunity to send questions and feedback to the senior managers, staff telephone conferences with top managers, email alerts, intranet news pages, team briefings, newsletters, staff surveys, staff magazines, "Town Hall" events, where the Chairman and other ExCom members meet and talk with staff around the country, "Back to the Floor" days for directors, and regular meetings and discussions with trade union representatives.

Sustainable development

34. HMRC is fully committed to ensuring that sustainable development objectives set out in the UK Sustainable Development Strategy 'Securing the Future' published in March 2005, should underpin the way we meet our operational responsibilities and manage our estate.

35. As the Department responsible for administering environmental taxes – Climate Change Levy, Aggregates Levy and Landfill Tax, HMRC has a direct role to play in combating climate change and protecting the environment. Our border control responsibilities also mean that we play a key role: prohibiting the importation of environmentally damaging material; protecting endangered species, and preventing crime through the prohibition of drugs, obscene material and other goods that flood the black market. These border control responsibilities continue to operate using the powers set out in the Commissioners for Revenue & Customs Act 2005 and under the direction of the Commissioners but within the management structures of the UK Border Agency (see paragraph 11). Administering the tax systems fairly and making it as easy as possible for individuals and businesses to comply and receive their tax credit and other entitlements, also has important positive social and economic impacts.

36. Our ability to conduct our business and manage our estate sustainably is measured against the targets for Sustainable Operations on the Government Estate. We developed and published a Sustainable Development Action Plan for 2007-2012, in line with 'Securing the Future' commitments, to help us to improve performance in key areas and monitor our progress effectively.

37. Towards the end of 2007 we commissioned a diagnostic study of the carbon from our estate, IT and travel. We are now implementing a programme of actions that should put us in a position to meet the Government's 2010-11 targets. Our sustainable procurement strategy ensures that our suppliers are actively engaged in environmental thinking. Bottled water has been replaced by tap water for meetings, recycled paper is used in all our offices, and waterless urinals are being installed as part of our refurbishment programme.

38. We continue to work closely with our contractors to improve our waste arisings and water consumption. As a result, significant reductions have been achieved in both areas, putting us on track to meet the 2010-11 targets. Our pioneer business areas are engaged in energy raising awareness programmes with some having introduced 'green teams' to ensure lights and appliances are switched off when not in use and recycling facilities are improved. A major project is underway to reduce the paper needed for our forms, letters and information booklets. Many of our forms now come in two versions, a paper version and one specifically for the internet.

39. In terms of travel we have reduced the carbon emissions from our road vehicles by 18 per cent since 2005-06, thereby exceeding the government's target for a 15 per cent reduction by 2010-11. We offset the carbon emissions from our air travel and have a purchasing strategy in place for low emission vehicles. We are also promoting sustainable travel policies by asking staff to consider if the journey is necessary and if, for example, telephone conferencing or video conferencing could be used instead. Since October 2006 we have actively discouraged domestic air travel and have supported this line by publishing the CO_2 emissions for equivalent journeys by rail and air.

40. The Department's performance for 2007-08 is set out in the latest Sustainable Development in Government Report, which can be found at www.sd-commission.org.uk/sdig2008/. We are currently gathering information on our performance in 2008-09.

Auditors

41. The Comptroller and Auditor General audits these Resource Accounts in accordance with the Government Resources and Accounts Act 2000. The notional charge for these audit services as disclosed in these accounts is £0.8m (2007-08: £0.7m). In addition the Comptroller and Auditor General audits the Trust Statement and it has been agreed that it is also appropriate to reflect the cost of this audit in these Resource Accounts. For 2008-09 the cost of the audit of the Trust Statement amounted to £1.2m (2007-08: £1.2m). As a result the total audit fee reported in these Resource Accounts is £2.0m (2007-08: £1.9m). There was no non-audit work.

42. So far as I am aware, there is no relevant audit information of which the auditors are unaware. I have taken all the steps that I ought to have taken to make myself aware of any relevant audit information and to establish that the auditors are aware of that information.

Lesley Strathie
Principal Accounting Officer
30 June 2009

Corporate Governance Report

Period of Report

1. This report covers the period from 1 April 2008 to 31 March 2009.

Code of Good Practice on Corporate Governance in Central Government Departments

2. The governance arrangements set out in this report are compliant with the provisions of HM Treasury's Code of Good Practice on Corporate Governance in Central Government Departments. The interim arrangements (see paragraphs 21 to 23) were drawn up in consultation with HM Treasury and Cabinet Office.

Ministerial arrangements

3. HMRC is a non-ministerial department established by the Commissioners for Revenue and Customs Act (CRCA) 2005. HMRC's status as a non-ministerial department aims to ensure that the administration of the tax system is fair and impartial. The Department is accountable to the Chancellor of the Exchequer for the discharge of all its functions.

4. The Chancellor has delegated responsibility for oversight of the Department to the Financial Secretary to the Treasury as Departmental Minister for HMRC.

How we run HMRC

5. In 2008, HMRC implemented a new governance structure appointing a non-executive Chairman to lead the Board and a new Chief Executive to run the Department. The top team was further strengthened by the appointment of a Permanent Secretary for Tax.

Chairman

6. Mike Clasper is the non-executive Chairman of the HMRC Board and took up the post on 1 August 2008. The Board's main role is to develop and approve HMRC's overall strategy linked to business areas and their functions, approve final business plans, including the annual financial plan, and advise the Chief Executive on key appointments. It also performs an assurance role and advises on best practice.

Chief Executive

7. Lesley Strathie is the Chief Executive and Permanent Secretary of HMRC and took up post on 10 November 2008. As Principal Accounting Officer, Lesley is accountable to Parliament for the running and expenditure of the Department. She ensures that appropriate performance standards are set and that delivery plans are in place to ensure these are met. She is accountable to the Board for delivering the departmental strategy and for the organisation's performance.

Permanent Secretary for Tax

8. Dave Hartnett is the Permanent Secretary for Tax and took up post on 10 November 2008. He is the senior tax professional in HMRC. Dave is accountable for the highest quality of tax policy and advice. He has a general oversight of all tax issues but does not have line management responsibility within lines of business. He also deputises as necessary for the Chief Executive.

The Commissioners

9. The Commissioners are responsible under the CRCA for the collection and management of revenue, the enforcement of prohibitions and restrictions, as well as other financial functions e.g. payment of tax credits. They exercise these functions in the name of the Crown.

10. The Commissioners are directly accountable to HM Treasury Ministers and Parliament and are required by the CRCA to comply with any directions of a general nature given to them by HM Treasury. In 2008-09 these were principally the Public Service Agreement targets and Annual Remit.

11. A list of the HMRC Commissioners during the reporting period is shown below:

	(Period – if not full year)
Dave Hartnett CB	
Mike Eland CB	
Mike Hanson MBE	to 12 September 2008
Bernadette Kenny	from 3 July 2008
Steve Lamey	

12. Lesley Strathie, the Chief Executive, has sought the approval of the Prime Minister and the Queen for herself and Melanie Dawes to be appointed as Commissioners. This was pending at 31 March 2009.

The Department's Senior Governance Structure

The Board

13. The Board was formally reconvened on 6 January 2009 when the interim arrangements that had previously been in place (see paragraphs 21 to 23) were brought to an end. It is made up of members of the Executive Committee (see paragraphs 17 to 20) and all of the non-executive Board members (see paragraphs 24 and 25). It comprised the following membership during the period 6 January to 31 March 2009.

		(Period – if not full year)
Mike Clasper CBE	Non-executive Chairman	
Lesley Strathie	Chief Executive and Permanent Secretary	
Simon Bowles	Chief Finance Officer	from 17 March 2009
Colin Cobain	Non-executive	
Melanie Dawes	Director General Business Tax	
Mike Eland CB	Director General Enforcement and Compliance	
Dave Hartnett CB	Permanent Secretary for Tax	
Mark Haysom CBE	Non-executive	
Philippa Hird	Non-executive	
Phil Hodkinson	Non-executive	
Bernadette Kenny	Director General Personal Tax	
Steve Lamey	Director General Benefits and Credits	
John Spence OBE	Non-executive	
Dame Sue Street DCB	Non-executive	

14. The responsibilities of the Board include:

- Development and final approval of the overall strategy of HMRC and approval of final sub-strategies of Lines of Business and Functions;
- Development and final approval of the HMRC Communications Strategy and the sign off of significant HMRC communications identified within the Communications Strategy;
- Approval of final business plans (including the annual financial plan);

- Advice on the appointment of senior executives;
- Participation in the appointment of and advice on the ongoing competence of Board and Executive Committee members and other key appointments.

15. The Chairman leads an annual evaluation of the performance of the Board. Every two years, the Board considers its remit, constitution and operating procedures.

16. The Board met three times during the reporting period. Its terms of reference and summary minutes of meetings are published on the HMRC Internet site.

Executive Committee

17. The following people comprised the Executive Committee during this period:

		(Period – if not full year)
Lesley Strathie	Chief Executive and Permanent Secretary	from 10 November 2008
Dave Hartnett CB	Commissioner	
	Acting Chairman	to 31 July 2008
	Acting Chief Executive	from 1 August to 9 November 2008
	Permanent Secretary for Tax	from 10 November 2008
Simon Bowles	Chief Finance Officer	from 17 March 2009
Melanie Dawes	Acting Director General Business Tax	to 23 March 2009
	Director General Business Tax	from 24 March 2009
Mike Eland CB	Commissioner	
	Director General Enforcement and Compliance	
Mike Hanson MBE	Commissioner	
	Director General Benefits and Credits	to 22 September 2008
David Hogg CB	Director General Governance and Security	to 31 May 2008
Anthony Inglese CB	General Counsel and Solicitor	
Bernadette Kenny	Commissioner	
	Director General Personal Tax	
Steve Lamey	Commissioner	
	Director General and Chief Operating Officer	to 22 September 2008
	Director General Benefits and Credits	from 23 September 2008
Philip Moore	Chief Finance Officer	to 20 July 2008
Robin Roberts	Chief People Officer	to 31 July 2008
Deepak Singh	Acting Chief Information Officer	
Cathy Wilcher	Chief People Officer	from 10 November 2008

18. The Executive Committee oversees the breadth of HMRC's work and is responsible for taking forward performance improvement and change agendas. Its members have portfolios of responsibility that span each line of HMRC business and corporate service function.

19. The Executive Committee meets regularly, usually twice a month, and summary minutes are published on the HMRC Internet site.

20. The Committee reviews its own effectiveness on a regular basis as part of the arrangements for each meeting and periodically by other means, for instance coaching, workshops, external scrutiny and formal review.

Interim Arrangements: Executive and Advisors Committee

21. From 1 April to 31 December 2008 HMRC continued the interim governance arrangements it introduced during 2007-08. These were introduced in response to the recommendations of the

Capability Review and were reported in full in the 2007-08 Corporate Governance Report. The arrangements included the strengthening of the Department's external challenge and advice by the appointment of four external advisors. Together with the executive and the non-executive Board members, they met as the Executive and Advisors Committee (EAC). A list of the non-executive Board members and external advisors is shown at paragraphs 25 and 26.

22. The objectives of the EAC included the provision of advice:

- To ensure that the Capability Review action plan was stretching but achievable and focussed on the key recommendations of the Review;
- To ensure that plans to address the recommendations of the reviews of data security in HMRC focussed on and delivered robust systems for handling customer data;
- In relation to the Department's strategic planning, its financial affairs, its people strategy; its risk management and the work of the Chief Operating Officer in managing change.

23. The EAC met eleven times in 2008-09. Summary minutes of these meetings are published on the HMRC Internet site. It met for the final time on 8 December 2008 before being replaced by the HMRC Board.

Non-Executive Board Members

24. The Department strengthened its non-executive Board member arrangements during the year. A recruitment exercise was undertaken in the autumn, in accordance with Cabinet Office guidance, and resulted in four appointments effective from 2 January 2009. On appointment the new non-executives undertook a structured induction process to provide an overview of Government and Whitehall as well as the organisation and responsibilities of HMRC. This included in-depth information around the Lines of Business and Functions to ensure the non-executives were fully briefed in relation to strategic priority objectives and investment options. Additional induction will be arranged as required by individuals.

25. The non-executive Board members during 2008-09 were as follows:

	(Period – if not full year)
Colin Cobain	from 2 January 2009
Mark Haysom CBE	
Philippa Hird	from 2 January 2009
Phil Hodkinson	from 2 January 2009
Kate Owen	to 31 December 2008
John Spence OBE	
Dame Sue Street DCB	from 2 January 2009

26. The external advisors on the EAC during 2008-09 were as follows:

	(Period – if not full year)
Kate Barker CBE	to 31 December 2008
Phil Hodkinson	to 31 December 2008
Naguib Kheraj	to 5 August 2008
Rudy Markham	to 31 December 2008

27. All of the non-executive Board members and external advisors are considered to be independent of HMRC, being neither Commissioners nor officers of HMRC. Arrangements are in place to safeguard taxpayer confidentiality by ensuring that the non-executive Board members and external advisors do not participate in decisions involving specific tax matters.

28. The non-executive Board members and advisors provided constructive challenge to decisions and processes, drawing on their knowledge and expertise. They did this primarily through their attendance at Board and sub-committee meetings but also through visits and meetings with staff.

29. The external advisors also provided specific advice to the Executive Committee on their response to the recommendations of the Capability Review, reviews of data handling and strategic plans to transform the Department.

30. The Chairman held meetings periodically with the independent non-executive Board members and advisors, as a group and individually, without the executives present.

Audit and Risk Committee

31. The Audit Committee was renamed the Audit and Risk Committee on 1 November 2008. It remains a sub-committee of the Board providing the Chairman, Principal Accounting Officer and the Board with independent advice on the effectiveness of the Department's governance, risk and control arrangements.

32. In fulfilling this role, the Audit and Risk Committee reviews significant issues identified by the Board, Executive Committee, Internal Audit and the National Audit Office (NAO), acting on behalf of the Comptroller and Auditor General as the appointed independent external auditor, and invites executive managers to attend and provide an account of action being taken to address these issues.

33. Specific areas that come within the remit of the Audit and Risk Committee include the provision of assurance to the Board and Principal Accounting Officer as to the veracity of the financial statements, the efficacy of risk management and the strength and appropriateness of control processes across HMRC.

34. During the reporting period membership of the Audit and Risk Committee was:

	(Period – if not full year)
John Spence OBE	
Mark Haysom CBE	from 2 January 2009
Phil Hodkinson	to 20 January 2009
Kate Owen	to 31 December 2008
Dame Sue Street DCB	from 2 January 2009

35. During the year a number of standing invitees also attended Audit and Risk Committee meetings. These included the Chief Executive, Chief Finance Officer and other Executive Committee members, the Head of Corporate Governance, Director Governance and Security, Director Internal Audit and representatives from NAO.

36. The Audit and Risk Committee Chairman evaluates the performance of the committee in regular meetings with Audit and Risk Committee members and reports on performance to the HMRC Chairman.

37. The Audit Committee met six times and the Audit and Risk Committee met three times during the reporting period and the Chair provided a written report to the EAC or the Board after each meeting. Its terms of reference and summary minutes of meetings are published on the HMRC Internet site.

Other Key Departmental Committees

38. As well as the Audit and Risk Committee two further sub-committees of the Board were established: the People Committee, which had its inaugural meeting on 29 October 2008 and the Ethics and Responsibility Committee, which met for the first time on 23 March 2009.

People Committee

39. The People Committee provides assurance to the Board on the effectiveness of people management; that HMRC are meeting their legislative responsibilities in relation to its people including Health & Safety, the Disability Discrimination Act, equal opportunities; and that the People Function priorities support the Department's strategic direction.

40. The scope of this responsibility encompasses all aspects of the business within HMRC and issues relating to the Valuation Office Agency as escalated.

41. During the reporting period membership of the People Committee was Mike Clasper, Kate Owen (to 28 January 2009) and Colin Cobain. A co-opted member, Gary Kildare, was appointed in March 2009. Standing invitees were the Chief People Officer, Director Governance and Security and General Counsel and Solicitor.

42. The People Committee met four times during the period and the Chair provided a report to the Board after each meeting.

Ethics and Responsibility Committee

43. The Ethics and Responsibility Committee (E&RC) provides the Chairman, the Chief Executive (as Principal Accounting Officer) and the Board with independent advice and assurance that HMRC is acting responsibly and ethically on a range of stakeholder issues.

44. The scope of this responsibility encompasses all aspects of the business within HMRC and issues relating to the Valuation Office Agency as escalated.

45. During the reporting period membership of the E&RC was Phil Hodkinson and Philippa Hird. Standing invitees were the Director General Benefits and Credits, Director Governance and Security and Director Corporate Responsibility & Diversity.

46. The E&RC met once during the reporting period.

Structure of the Department

47. The organisational structure of HMRC during the year was based around four operational groups, each led by a Director General. These are:

    - **Personal Tax.** Responsible for helping some 60 million individual customers across the UK to fulfil their tax obligations;
    - **Benefits and Credits.** Responsible for ensuring families receive the payments they are entitled to, that customers get it right first time and that losses from claimant error and fraud are reduced;
    - **Business Tax.** Responsible for ensuring businesses pay the right amount of tax while improving our customers' experience and the overall UK business environment;
    - **Enforcement and Compliance.** Responsible for ensuring that HMRC successfully collects the full and correct amount of money due from UK taxpayers. It is also responsible for investigating offences against the tax and duty system.

48. These are supported by:

    - **The Chairman's Group.** Comprising 19 business units most of which provide internal services such as HR and Learning, Finance, Estates and Support Services, Legal, Communications and Marketing and Information Management to HMRC;
    - **Performance & Improvement.** Responsible for improving HMRC's operational performance. This group includes the Capability Improvement and PaceSetter Teams.

Relationships with Arms Length Bodies

49. HMRC has identified one arm's length body, the Environmental Trust Scheme Regulatory Body Limited (ENTRUST). ENTRUST is a not-for-profit private sector company who act as regulator of the Landfill Communities Fund. They are approved by the Commissioners, via a Terms of Approval document, to carry out the function. The Commissioners' power to approve another body to perform the function of regulator on its behalf is through legislation set out in the Finance Act 1996. Governance arrangements are in place to ensure appropriate oversight by HMRC.

Remuneration Report

Remuneration Policy

The remuneration of senior civil servants is set by the Prime Minister following independent advice from the Review Body on Senior Salaries.

In reaching its recommendations, the Review Body has regard to the following considerations:

- 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 staff;
- Government policies for improving the public services including the requirement on departments to meet the output targets for the delivery of the departmental services;
- the funds available to departments as set out in the Government's departmental expenditure limits;
- the Government's inflation target.

The Review Body takes account of the evidence it receives about wider economic considerations and the affordability of its recommendations.

Further information about the work of the Review Body can be found at www.ome.uk.com.

Service Contracts

Civil Service appointments are made in accordance with the Civil Service Commissioners' Recruitment Code, which requires appointment to be on merit on the basis of fair and open competition but also includes the circumstances when appointments may otherwise be made. The Senior Leadership Development Board meets each month to consider appointments, succession planning and development issues relating to the Senior Civil Service.

Unless otherwise stated, the officials covered by this report hold appointments which are open-ended. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme. Further information about the Civil Service Compensation Scheme can be found at www.civilservice.gov.uk.

Non-executive Board members are appointed for a fixed term of usually three years.

Further information about the work of the Civil Service Commissioners can be found at www.civilservicecommissioners.gov.uk.

The following sections provide details of the remuneration and pension interests of the senior officials of the Department.

Remuneration:

	2008-09		2007-08	
	Salary £000	**Benefits in kind (to the nearest £100)**	**Salary £000**	**Benefits in kind (to the nearest £100)**
Mike Clasper CBE[1] (from 1 August 2008)	95-100 (145-150 full year equivalent)	100	-	-
Lesley Strathie[2] (from 10 November 2008)	55-60 (165-170 full year equivalent)	100	-	-
Dave Hartnett CB	160-165	-	160-165	-
Mike Eland CB	155-160	600	155-160	-
Mike Hanson MBE (to 22 September 2008)	75-80 (145-150 full year equivalent)	-	140-145	-
Bernadette Kenny	145-150	100	140-145	-
Steve Lamey[3]	235-240	-	245-250	-
Simon Bowles[4] (from 17 March 2009)	5-10 (180-185 full year equivalent)	-	-	-
Melanie Dawes	125-130	100	45-50 (115-120 full year equivalent)	-
David Hogg CB (Retired 31 May 2008)	45-50 (160-165 full year equivalent)	-	150-155	-
Anthony Inglese CB	140-145	100	-	-
Philip Moore[5] (to 20 July 2008)	70-75 (205-210 full year equivalent)	-	35-40 (195-200 full year equivalent)	-
Robin Roberts[6] (to 31 July 2008)	-	-	-	-
Deepak Singh[7]	160-165	300	85-90 (165-170 full year equivalent)	-
Cathy Wilcher[8] (from 10 November 2008)	70-75 (185-190 full year equivalent)	-	-	-

[1] Mike Clasper was appointed on a three-year contract commencing on 1 August 2008. He is contracted to work a three-day week and his salary is disclosed accordingly.

[2] Lesley Strathie joined the Department on 10 November 2008 and was paid by her former employer, the Department for Work and Pensions, until 30 November 2008.

[3] Steve Lamey was appointed on a four-year contract commencing on 18 October 2004. His appointment was made permanent on 11 September 2008.

[4] Simon Bowles was appointed on a three-year contract commencing on 17 March 2009.

[5] Philip Moore was appointed on a six-month contract commencing on 21 January 2008.

[6] Robin Roberts joined on secondment from Egon Zehnder International on 2 January 2008. Egon Zehnder International were paid for his services as below.

[7] Deepak Singh was appointed on a three-year contract commencing on 19 June 2006.

[8] Cathy Wilcher was appointed on a three-year contract commencing on 10 November 2008.

Salary

Salary and allowances covers both pensionable and non-pensionable amounts and includes gross salary; performance pay or bonuses; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances and any other allowance to the extent that it is subject to UK taxation. Bonus payments made in 2008-09 are in respect of performance in 2007-08. This presentation is based on payments made by the Department and thus recorded in these accounts.

Benefits in kind

The monetary value of benefits in kind covers any benefits provided by the employer and treated by HM Revenue & Customs as a taxable emolument. Members of the Board had a benefit in kind relating to attendance at a Board dinner. Mike Eland and Deepak Singh also had benefits in kind relating to hotel accommodation.

Third party payments for services of a senior manager

In 2008-09 £98,406 was payable to Egon Zehnder International for the services of Robin Roberts who held the position of the Department's Chief People Officer until the 31 July 2008.

For the period 1 August 2008 to 9 November 2008, £33,337 was payable to JM HR Solutions Ltd for the services of Jim Morrison who held the position of the Department's Acting Chief People Officer.

Non-Executive Board Members

The Department's Board comprises both senior operational management and external appointees. The remuneration of senior management is included above. External Board appointees' remuneration excluding pension contributions was in the following ranges:

	2008-09 Fees £000	2007-08 Fees £000
Colin Cobain (from 2 January 2009)	5-10 (25-30 full year equivalent)	-
Mark Haysom CBE	25-30	15-20
Philippa Hird (from 2 January 2009)	5-10 (25-30 full year equivalent)	-
Phil Hodkinson (from 2 January 2009)	5-10 (30-35 full year equivalent)	-
Kate Owen (to 31 December 2008)	20-25 (25-30 full year equivalent)	20-25
John Spence OBE	30-35	20-25
Dame Sue Street DCB (from 2 January 2009)	5-10 (25-30 full year equivalent)	-

Pension Benefits

	Total accrued pension at age 60 at 31 March 2009 and related lump sum £000	Real increase in pension and related lump sum at age 60 £000	CETV at 31 March 2009 (to the nearest £000)	CETV at 31 March 2008 (to the nearest £000)	Real increase in CETV (to the nearest £000)	Employer contribution to partnership pension account (to the nearest £100)
Mike Clasper CBE[1] (from 1 August 2008)	-	-	-	-	-	-
Lesley Strathie[2] (from 10 November 2008)	70-75 (Plus 215-220 lump sum)	2.5-5.0 (Plus 7.5-10.0 lump sum)	1,376	1,283[9]	57	-
Dave Hartnett CB[3]	65-70 (Plus 150-155 lump sum)	2.5-5.0 (Plus 2.5-5.0 lump sum)	1,476	1,301*	82	-
Mike Eland CB[2]	60-65 (Plus 180-185 lump sum)	-[6] -[6]	1,310	1,219*	-[6]	-
Mike Hanson MBE[2] (to 22 September 2008)	55-60 (Plus 165-170 lump sum)	0-2.5 (Plus 0-2.5 lump sum)	1,285[7]	1,252*	-	-
Bernadette Kenny[2]	45-50 (Plus 135-140 lump sum)	0-2.5 (Plus 2.5-5.0 lump sum)	862	781*	21	-
Steve Lamey[4]	10-15	0-2.5	170	130*	27	-
Simon Bowles[5] (from 17 March 2009)	0-5	0-2.5	2	-[10]	2	-
Melanie Dawes[2]	25-30 (Plus 80-85 lump sum)	2.5-5.0 (Plus 7.5-10.0 lump sum)	385	323*	37	-
David Hogg CB[2] (Retired 31 May 2008)	70-75 (Plus 210-215 lump sum)	0-2.5 (Plus 0-2.5 lump sum)	1,638[8]	1,624*	2	-
Anthony Inglese CB[2]	55-60 (Plus 165-170 lump sum)	0-2.5 (Plus 0-2.5 lump sum)	1,232	1,153	-	-
Philip Moore[1] (to 20 July 2008)	-	-	-	-	-	-
Deepak Singh[4]	5-10	0-2.5	67	41*	20	-
Cathy Wilcher[5] (from 10 November 2008)	0-5	0-2.5	12	-[9]	10	-

[1] Officer is not contributing towards the Civil Service pension scheme.
[2] Member of the Classic Scheme.
[3] Member of the Classic Plus Scheme.
[4] Member of the Premium Scheme, lump sum not applicable.
[5] Member of the NUVOS Scheme, lump sum not applicable.
[6] Real increase is negative due to the rise in pensionable pay being less than inflation.
[7] CETV at 22 September 2008.
[8] CETV at 31 May 2008.
[9] CETV at 9 November 2008.
[10] CETV at 16 March 2009.
* The figure may be different from the closing figure in last year's accounts. This is due to the CETV factors being updated to comply with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008.

Civil Service Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes; either a 'final salary' scheme (**classic**, **premium** or **classic plus**); or a 'whole career' scheme (**nuvos**). These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under **classic**, **premium**, **classic plus** and **nuvos** are increased annually in line with changes in the Retail Prices Index (RPI). Members who joined from October 2002 could opt for either the appropriate defined benefit arrangement or a good quality 'money purchase' stakeholder pension with a significant employer contribution (**partnership** pension account).

Employee contributions are set at the rate of 1.5 per cent of pensionable earnings for **classic** and 3.5 per cent for **premium**, **classic plus** and **nuvos**. Benefits in **classic** accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For **premium**, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike **classic**, there is no automatic lump sum. **Classic plus** is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per **classic** and benefits for service from October 2002 worked out as in **premium**. In **nuvos** a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3 per cent of their pensionable earnings in that scheme year and, immediately after the scheme year end, the accrued pension is uprated in line with the RPI. In all cases members may opt to give up (commute) pension for lump sum up to the limits set by the Finance Act 2004.

The **partnership** pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3 per cent and 12.5 per cent (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of three providers. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3 per cent of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8 per cent of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted, 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. Pension age is 60 for members of **classic**, **premium** and **classic plus** and 65 for members of **nuvos**.

Further details about the Civil Service pension arrangements can be found at the website www.civilservice-pensions.gov.uk

Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A 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 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 to which disclosure applies. The figures include the value of any pension benefit in another scheme or arrangement which the individual 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 calculated in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 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.

Elements of the Remuneration Report have been audited, as required by the *Government Financial Reporting Manual*. The following information is subject to audit :- Salary and allowances; Pension Benefits; and Third party payments for services of a senior manager.

Lesley Strathie
Principal Accounting Officer
30 June 2009

Statement of Accounting Officer's Responsibilities

Under the Government Resources and Accounts Act 2000, HM Treasury has directed HM Revenue & Customs to prepare, for each financial year, Resource Accounts detailing the resources acquired, held or disposed of during the year and the use of resources by the Department during the year. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Department and of its net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the financial year.

In preparing the accounts, the Principal Accounting Officer is required to comply with the requirements of the *Government Financial Reporting Manual* and in particular to:

- observe the Accounts Direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- 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; and
- prepare the accounts on a going concern basis.

HM Treasury has appointed the Permanent Head of the Department as Principal Accounting Officer of the Department. In addition, HM Treasury has appointed Additional Accounting Officers to be accountable for those parts of the Department's accounts relating to specified requests for resources and the associated assets, liabilities and cash flows. These appointments do not detract from the Head of Department's overall responsibility as Accounting Officer for the Department's accounts.

For the period 1 April 2008 to 9 November 2008, the Principal Accounting Officer was Dave Hartnett.

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

- Mike Eland, in respect of

Request for resources 1:
Administering the tax and customs control systems fairly and efficiently and making it as easy as possible for individuals and businesses to understand and comply with their obligations and receive their tax credit and other entitlements.

Request for resources 5:
Payments of Child Benefit, Child Trust Fund endowments, Health in Pregnancy Grant and the associated non-cash items.

- Dave Hartnett, in respect of

Request for resources 3:
Providing payments in lieu of tax relief to certain bodies i.e. transitional payments to charities, supplements on payroll giving, donations to charities and on personal and stakeholder pension schemes, life assurance premium relief, stamp duty relief and residual payments for mortgage interest relief, vocational training relief and private medical insurance; and associated non-cash items.

- Andrew Hudson, in respect of

Request for resources 2:
Growing a contribution to the good management of property where the public interest is involved i.e. administration and the associated non-cash items incurred in the provision of valuation and other services for government departments and other public bodies by the Valuation Office Agency, including preparatory work for the transfer of function from The Rent Service in 2009.

Request for resources 4:
Making payments of rates to Local Authorities on behalf of certain bodies i.e. rates paid by Her Majesty's Revenue and Customs in respect of non-domestic property occupied by accredited representatives of Commonwealth and foreign countries and certain international organisations; and associated non-cash items.

With effect from 10 November 2008 Lesley Strathie was appointed Principal Accounting Officer following her appointment as Chief Executive for HM Revenue & Customs.

She was supported by the following Additional Accounting Officers :

- Mike Eland continues to have responsibility for

Request for resources 1:
Administering the tax and customs control systems fairly and efficiently and making it as easy as possible for individuals and businesses to understand and comply with their obligations and receive their tax credit and other entitlements.

Request for resources 5:
Payments of Child Benefit, Health in Pregnancy Grant, Child Trust Fund endowments and the associated non-cash items.

- Dave Hartnett continues to have responsibility for

Request for resources 3:
Providing payments in lieu of tax relief to certain bodies i.e. transitional payments to charities, personal pensions, life assurance premium relief and residual payments for mortgage interest relief; and associated non-cash items.

- Andrew Hudson continued to have responsibility for

Request for resources 2:
Growing a contribution to the good management of property where the public interest is involved i.e. administration and the associated non-cash items incurred in the provision of valuation and other services for government departments and other public bodies by the Valuation Office Agency, including preparatory work for the transfer of function from The Rent Service in 2009.

Request for resources 4:
Making payments of rates to Local Authorities on behalf of certain bodies i.e. rates paid by Her Majesty's Revenue and Customs in respect of non-domestic property occupied by accredited representatives of Commonwealth and foreign countries and certain international organisations; and associated non-cash items.

In succession to Andrew Hudson, David Park was appointed as the Interim Additional Accounting Officer for Request for resources 2 and Request for resources 4 from 23 March 2009.

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the Department's assets, are set out in chapter 3 of *Managing Public Money* published by HM Treasury.

Statement on Internal Control

The Department's Statement on Internal Control, covering both the Resource Accounts and the Trust Statement, is shown on pages 1 to 10.

The Certificate and Report of the Comptroller and Auditor General to the House of Commons

I certify that I have audited the financial statements of HM Revenue & Customs for the year ended 31 March 2009 under the Government Resources and Accounts Act 2000. These comprise the Statement of Parliamentary Supply, the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the Statement of Net Operating Costs by Departmental Strategic Objectives and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Accounting Officer and auditor

The Accounting Officer is responsible for preparing the Annual Report, which includes the Remuneration Report, and the financial statements in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

My responsibility is to audit the financial statements and the part of the Remuneration Report to be audited in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000. I report to you whether, in my opinion, the information which comprises the Introduction, the Management Commentary (other than the Reconciliation of resource expenditure between Estimates, Accounts and Budgets) and the Corporate Governance Report, included in the Annual Report, is consistent with the financial statements. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In addition, I report to you if the Department has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects the Department's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or to form an opinion on the effectiveness of the Department's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinions

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Department's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the Department's affairs as at 31 March 2009, and the net cash requirement, net resource outturn, net operating cost, net operating costs applied to departmental strategic objectives, recognised gains and losses and cash flows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000; and
- information which comprises the Introduction, the Management Commentary (other than the Reconciliation of resource expenditure between Estimates, Accounts and Budgets) and the Corporate Governance Report, included within the Annual Report, is consistent with the financial statements.

Opinion on Regularity

In my opinion, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General
16 July 2009

National Audit Office
151 Buckingham Palace Road
Victoria
London SW1W 9SS

Statement of Parliamentary Supply

Summary of Resource Outturn 2008-09

								2008-09 £m	2007-08 £m Outturn
			Estimate			**Outturn**			
Request for Resources	Note	Gross Expenditure	A in A	Net Total	Gross Expenditure	A in A	Net Total	Net Total outturn compared with Estimate: saving/ (excess)	Net Total
RfR 1: Administration	2	4,929.3	(574.5)	4,354.8	4,871.5	(564.7)	4,306.8	48.0	4,218.7
RfR 2: Valuation Office Agency	2	213.4	(210.8)	2.6	208.1	(208.1)	–	2.6	–
RfR 3: Payments in lieu of tax relief	2	144.0	–	144.0	121.1	–	121.1	22.9	83.7
RfR 4: Payments of Local Authority Rates	2	34.0	(2.1)	31.9	31.2	(2.1)	29.1	2.8	29.7
RfR 5: Child Benefit, Child Trust Fund and Health in Pregnancy Grant	2	11,580.0	–	11,580.0	11,472.5	–	11,472.5	107.5	10,876.6
Total resources	3	**16,900.7**	**(787.4)**	**16,113.3**	**16,704.4**	**(774.9)**	**15,929.5**	**183.8**	**15,208.7**
Non-operating cost A in A				**4.0**			**0.4**	**3.6**	**0.7**

Net cash requirement 2008-09

				2008-09 £m	2007-08 £m
	Note	Estimate	Outturn	Net Total outturn compared with Estimate: saving/ (excess)	Outturn
Net cash requirement	4	**16,292.8**	**15,955.0**	**337.8**	**15,231.1**

Summary of income payable to the Consolidated Fund

In addition to Appropriations in Aid, the following income relates to the Department and is payable to the Consolidated Fund (*cash receipts being shown in italics*).

		Forecast 2008-09 £m		Outturn 2008-09 £m	
	Note	Income	Receipts	Income	Receipts
Total	5	**(419.0)**	***(319.0)***	**(472.2)**	***(321.4)***

Explanations of variances between Estimate and outturn are given in note 2 and in the Management Commentary.

The notes on pages 43 to 72 form part of these accounts.

Operating Cost Statement

for the year ended 31 March 2009

		2008-09 £m						2007-08 £m	
		Core Department			Consolidated			Core Department	Consolidated
	Note	Staff Costs	Other Costs	Income	Staff Costs	Other Costs	Income		
Administration Costs:									
Request for resources 1 & 2 –									
Staff costs	9	2,605.6			2,740.7			2,652.2	2,787.6
Other administration costs	10		1,890.0			1,943.1		1,785.8	1,835.1
Operating income	12			(548.8)			(742.1)	(468.5)	(661.6)
Programme Costs:									
Request for resources 1 & 2 -									
Staff costs	9	–			–			–	–
Programme costs	11		375.8			378.8		287.6	287.6
Income	12			(29.8)			(29.8)	(40.8)	(40.8)
Request for resources 3 –									
Payments in lieu of tax relief:									
Staff costs	9	–			–			–	–
Programme costs	11		121.1			121.1		83.7	83.7
Income	12			–			–	–	–
Request for resources 4 –									
Payments of Local Authority Rates:									
Staff costs	9	–			–			–	–
Programme costs	11		–			31.2		–	31.6
Income	12			–			(2.2)	–	(1.9)
Request for resources 5 –									
Child Benefit, Child Trust Fund and Health in Pregnancy Grant:									
Staff costs	9	–			–			–	–
Programme costs	11		11,474.4			11,474.4		10,878.5	10,878.5
Income	12			–			–	–	–
Totals		**2,605.6**	**13,861.3**	**(578.6)**	**2,740.7**	**13,948.6**	**(774.1)**		
Net Operating Cost	3, 13			**15,888.3**			**15,915.2**	**15,178.5**	**15,199.8**

Statement of Recognised Gains and Losses

for the year ended 31 March 2009

	2008-09 £m		2007-08 £m	
	Core Department	Consolidated	Core Department	Consolidated
Net gain/(loss) on revaluation of tangible fixed assets	41.3	43.5	36.0	37.5
Recognised gains and losses for the financial year	41.3	43.5	36.0	37.5

The notes on pages 43 to 72 form part of these accounts.

Balance Sheet

as at 31 March 2009

					2009 £m				2008 £m
	Note	Core Department			Consolidated	Core Department			Consolidated
Fixed assets:									
Tangible assets	14		1,461.2		1,500.0		1,355.7		1,393.7
Intangible assets	15		14.2		14.2		6.2		6.2
Debtors falling due after more than one year	18		151.5		153.1		165.2		167.0
Current assets:									
Stocks and work in progress	17	3.3		7.5		5.0		8.7	
Debtors	18	692.9		702.6		482.3		488.6	
Cash at bank and in hand	19	48.6		51.3		57.2		68.0	
		744.8		761.4		544.5		565.3	
Creditors (amounts falling due within one year)	20	(1,323.4)		(1,339.8)		(1,109.5)		(1,128.6)	
Net current liabilities			(578.6)		(578.4)		(565.0)		(563.3)
Total assets less current liabilities			1,048.3		1,088.9		962.1		1,003.6
Creditors (amounts falling due after more than one year)	20		(196.9)		(196.9)		(192.8)		(192.8)
Provisions for liabilities and charges	21		(284.1)		(299.3)		(278.8)		(297.0)
			567.3		**592.7**		**490.5**		**513.8**
Taxpayers' equity:									
General fund	22		476.3		496.9		430.9		450.2
Revaluation reserve	23		91.0		95.8		59.6		63.6
			567.3		**592.7**		**490.5**		**513.8**

Lesley Strathie
Principal Accounting Officer
30 June 2009

The notes on pages 43 to 72 form part of these accounts.

Consolidated Cash Flow Statement

for the year ended 31 March 2009

	Note	2008-09 £m	2007-08 £m
Net cash outflow from operating activities	24(a)	(15,646.7)	(14,971.3)
Capital expenditure and financial investment	24(b), 24(c)	(297.9)	(255.8)
Receipts due to the Consolidated Fund which are outside the scope of the Department's activities		305.2	323.9
Payments of amounts due to the Consolidated Fund		(334.7)	(373.6)
Financing from the Consolidated Fund	24(d)	15,955.6	15,259.2
Financing from the National Insurance Fund	24(d)	1.9	1.9
Increase/(decrease) in cash in the period	24(e)	**(16.6)**	**(15.7)**

The notes on pages 43 to 72 form part of these accounts.

Consolidated Statement of Net Operating Costs by Departmental Strategic Objectives

for the year ended 31 March 2009

			2008-09			2007-08
			£m			£m
	Gross	**Income**	**Net**	**Gross**	**Income**	**Net**
Aim: To administer the tax and customs control systems fairly and efficiently and make it as easy as possible for individuals and businesses to understand and comply with their obligations and receive their tax credit and other entitlements. **Strategic Objective 1:** Improve the extent to which individuals and businesses pay the tax due and receive the credits and payments to which they are entitled. **Strategic Objective 2:** Improve customers' experiences of HMRC and improve the UK business environment. **Strategic Objective 3:** Reduce the risk of the illicit import and export of material which might harm the UK's physical and social well-being. We have subdivided these objectives into the following:						
RfR 1: Administering the tax and customs control systems fairly and efficiently and making it as easy as possible for individuals and businesses to understand and comply with their obligations and receive their tax credit and other entitlements.						
Strategic Objective 1	2,639.8	(494.3)	2,145.5	3,657.6	(433.4)	3,224.2
Strategic Objective 2	1,891.6	(72.9)	1,818.7	787.0	(68.7)	718.3
Strategic Objective 3	340.1	(11.5)	328.6	281.0	(7.2)	273.8
RfR 2: Growing a contribution to the good management of property where the public interest is involved.	208.1	(210.2)	(2.1)	201.3	(209.7)	(8.4)
RfR 3: Providing payments in lieu of tax relief to certain bodies.	121.1	–	121.1	83.7	–	83.7
RfR 4: Making payments of rates to Local Authorities on behalf of certain bodies.	31.2	(2.2)	29.0	31.6	(1.9)	29.7
RfR 5: Payments of Child Benefit, Child Trust Fund endowments and Health in Pregnancy Grant.	11,474.4	–	11,474.4	10,878.5	–	10,878.5
Intra departmental consolidation adjustment.	(17.0)	17.0	–	(16.6)	16.6	–
Net Operating Costs	**16,689.3**	**(774.1)**	**15,915.2**	**15,904.1**	**(704.3)**	**15,199.8**

This analysis is an apportionment, because in practice many activities undertaken by the Department support more than one of the three strategic objectives within RfR 1. This is the first financial year HMRC has reported against the 2007 Comprehensive Spending Review (CSR07) and the new HMRC Departmental Strategic Objectives (DSOs). The supporting activities for the new DSOs have changed for 2008-09 compared to 2007-08. This has led to a significant movement of expenditure between DSO 1 and 2.

The intra departmental consolidation adjustment is in respect of transactions between the Core Department and the Valuation Office Agency.

See note 25.

The notes on pages 43 to 72 form part of these accounts.

Notes to the Departmental Resource Accounts

1. Statement of Accounting Policies

These financial statements have been prepared in accordance with the 2008-09 *Government Financial Reporting Manual (FReM)* issued by HM Treasury. The accounting policies contained in the *FReM* follow UK Generally Accepted Accounting Practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector.

The Government intends that, from 2009-10, departments' financial statements should be prepared using International Financial Reporting Standards (IFRS), adapted as relevant for the public sector.

In addition to the primary statements prepared under UK GAAP, the *FReM* also requires the Department to prepare two additional primary statements. The *Statement of Parliamentary Supply* and supporting notes show outturn against Estimate in terms of the net resource requirement and the net cash requirement. The *Consolidated Statement of Net Operating Cost by Departmental Strategic Objectives* and supporting notes analyse the Department's income and expenditure by the objectives agreed with Ministers.

Where the *FReM* permits a choice of accounting policy, the accounting policy which has been judged to be most appropriate to the particular circumstances of the Department for the purpose of giving a true and fair view has been selected. The Department's accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

1.1 Accounting convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of fixed assets and stocks.

1.2 Basis of consolidation

These accounts comprise a consolidation of the non-agency parts of the Department (the Core Department) and those entities which fall within the Departmental boundary as defined in the *FReM* (chapter 1.5). Transactions between entities included in the consolidation are eliminated.

A list of all those entities within the Departmental boundary is given at note 36.

1.3 Financial Instruments

A financial instrument is a contractual obligation which gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The Department has no equity instruments.

In accordance with FRS 25 and FRS 26, the Department's financial assets are categorised as loans and receivables. These are initially measured at fair value at the inception of the contract and are subsequently carried at amortised cost.

Financial assets comprise cash, trade debtors, deposits and advances and other debtors excluding Child Benefit, Child Trust Fund (CTF) and Health in Pregnancy Grant (HiPG).

Financial liabilities are initially measured at fair value at the inception of the contract and are subsequently carried at amortised cost. They comprise trade creditors, other creditors and the accrual for Flexible Early Severance (FES).

Statutory charges and payments (for example, amounts due from penalty and law cost debtors) are not recognised as financial instruments as these do not arise from contractual agreements and are outside the scope of the accounting treatment for financial instruments, in accordance with FRS 25, Appendix – Application Guidance, AG12.

The carrying values of financial assets and financial liabilities are disclosed in the Balance Sheet and supporting notes.

1.4 Tangible fixed assets

1.4.1 General

With the exceptions stated below concerning furniture utilised by the Core Department, tangible fixed assets are stated at the lower of replacement cost and recoverable amount. A £5,000 capitalisation threshold applies to all tangible fixed assets except for furniture, vehicles and IT hardware, which are capitalised regardless. On initial recognition assets are measured at cost including any costs such as installation directly attributable to bringing them into working condition. Appropriate indices are applied to developed computer software, which have not been formally valued during the year. Assets under construction are recorded at historical cost. All other tangible assets (excluding property and furniture) are of low value with short lives where the historical cost is considered to be comparable to the modified historical cost had indices been applied.

1.4.2 Property assets

The majority of the property assets occupied by HMRC were acquired from the predecessor Departments by Mapeley STEPS Contractor Ltd in March 2001 under a twenty-year Private Finance Initiative (PFI) contract (see note 28.1).

Freehold Land and Buildings at note 14 reports the property asset at 100 Parliament Street. This asset has been stated at existing use value using professional valuation every five years, with interim professional review three years after each full valuation. Valuations in intermediate years are undertaken where a material change is likely.

Accommodation refurbishments at note 14 reports expenditure in respect of major capital refurbishments and improvements of properties occupied but not owned. HMRC policy from April 2005 is to capitalise refurbishments when the project costs exceed £150,000.

1.4.3 Furniture

For the Core Department, additions accurately reflect the cost of furniture purchases each year. The value and depreciation of furniture and fittings is estimated on the basis of the average number of staff accommodated, the average current furniture costs for each employee and the useful economic life ascribed to furniture assets. Individually these assets have a low value, but collectively are material to these accounts. This methodology provides a reliable estimation of the actual value and the depreciation that would have been charged had the Department maintained detailed records for individual items of furniture. The use of this method avoids the Department having to incur significant costs in maintaining and validating detailed records.

1.4.4 Developed computer software

Computer software, including tax credit software, that has been developed by the Department and its computer service partner, and for which the Department has ownership rights e.g. the corporate tax collecting software, has been capitalised. This capitalisation includes the staff costs for developing, integrating and testing IT software in the development of the programs.

1.4.5 Assets under construction

Assets under construction are separately reported in note 14. Costs are accumulated until the asset is completed and brought into service when the asset is transferred to the relevant asset class and depreciation commences.

1.5 Depreciation

Tangible fixed assets are depreciated at rates calculated to write them down to estimated residual values on a straight-line basis over their estimated useful lives. Asset lives are normally in the following ranges:

Asset category	Estimated useful life
Freehold land	Not depreciated
Freehold buildings	50 years
Accommodation refurbishments	Period of the lease
Office equipment	5 to 10 years
Computer equipment	3 to 7 years
Vehicles	3 to 7 years
Furniture and fittings	15 years
Developed computer software	10 years unless known to be otherwise, remaining economic life is reviewed annually.
Vessels	10 to 20 years
Scientific aids	3 to 12 years

1.6 Intangible fixed assets

Computer software licences with a useful economic life greater than one year are capitalised as intangible fixed assets where expenditure of £5,000 or more is incurred. Software licences are amortised over the shorter of the term of the licence and the useful economic life. Renewable software licence fees payable at regular intervals are treated as expenditure and charged to the Operating Cost Statement.

1.7 Stocks and work in progress

Valuation of stocks and work in progress are accounting estimates determined by applying the lower of cost and net realisable value.

1.8 Operating income

Operating income is income which relates directly to the operating activities of the Department. It principally comprises fees and charges to other government departments, agencies, other non-departmental public bodies and external customers for services provided on a full-cost basis. It includes not only income appropriated in aid of the Estimate but also any operating income which, in accordance with the *FReM*, is required to be paid to the Consolidated Fund. Operating income is stated net of VAT.

1.9 Administration and programme expenditure

The Operating Cost Statement is analysed between administration and programme income and expenditure. The classification of expenditure and income as administration or as programme follows the definition of administration costs set out in the *FReM* by HM Treasury.

Administration costs reflect the costs of running the Department. These include both administrative costs and associated operating income. Income is analysed between that which, under the administration budget, is allowed to be offset against gross administrative costs in determining the outturn against the administration budget, and that operating income which is not.

Programme costs reflect non-administration costs, including Child Benefit and Child Trust Fund payments and other disbursements by the Department.

1.10 Cash at bank and in hand

These are balances in respect of administering the Department and programme expenditure including that relating to both Child Benefit and Child Trust Fund, but exclude all tax and duty revenues collected. The latter are included in the Department's Trust Statement.

1.11 Capital charge

A charge, reflecting the cost of capital utilised by the Department, is included in operating costs. The charge is calculated at the real rate set by HM Treasury (currently 3.5 per cent) on the average carrying amount of all assets less liabilities, except for cash balances with the Office of the Paymaster General, where the charge is nil.

1.12 Foreign exchange

Balances held in a foreign currency, including Euro bank balances, are translated into Sterling using the Bank of England rate on the last working day of the month. Other transactions denominated in a foreign currency are translated into Sterling at the rate of exchange ruling on the date of each transaction. Any exchange differences are posted to an expenditure account and are therefore dealt with in the Operating Cost Statement.

1.13 Pensions

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS). The defined benefit schemes are unfunded and are non-contributory except in respect of dependants' benefits. The Department recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution schemes, the Department recognises the contributions payable for the year.

1.14 Leases

Where substantially all risks and rewards of ownership of a leased asset are borne by the Department, the asset is recorded as a tangible fixed asset and a debt is recorded to the lessor of the minimum lease payments discounted by the interest rate implicit in the lease. The interest element of the finance lease payment is charged to the Operating Cost Statement over the period of the lease at a constant rate in relation to the balance outstanding. Other leases are regarded as operating leases and the rentals are charged to the Operating Cost Statement on a straight-line basis over the term of the lease.

1.15 Private Finance Initiative (PFI) contracts

PFI transactions have been accounted for in accordance with FRS 5, Application Note F, supplemented by Technical Note No.1 (revised), entitled *How to account for PFI transactions* as required by the *FReM*. Where the balance of risks and rewards of ownership of the PFI property are borne by the PFI operator, the PFI payments are recorded as an operating cost. Where the Department has contributed assets, a prepayment for their fair value is recognised and amortised over the life of the PFI contract.

Where the balance of risks and rewards of ownership of the PFI property is borne by the Department, the property is recognised as a fixed asset and the liability to pay for it is accounted for as an imputed finance lease. Contract payments are apportioned between an imputed finance lease charge and a service charge.

1.16 Provisions

The Department provides for legal or constructive obligations which are of uncertain timing or amount at the balance sheet date on the basis of the best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is significant, the estimated risk-adjusted cash flows are discounted using the real rate set by HM Treasury (currently 2.2 per cent).

1.17 Early departure costs

The Department is required to meet the additional cost of benefits beyond the normal PCSPS benefits in respect of employees who retire early. The Department makes provision in full for this cost when the early retirement is binding on the Department.

1.18 Provision for doubtful debt

A provision for doubtful debt has been made in respect of legal costs that have been awarded to the Department. These costs arise as a result of legal proceedings against taxpayers for the recovery of outstanding tax liabilities. A further provision is made in respect of penalty debtors (note 1.20) to allow for the remission of uncollectable penalties and in respect of Child Benefit debtors (note 1.21) to allow for potentially irrecoverable amounts. All these provisions have been estimated having regard to the level of debts not recovered during 2008-09 and earlier years.

1.19 Value Added Tax

Most of the activities of the Department are outside the scope of VAT. In general, output tax does not apply and input tax on purchases is not recoverable. Some input VAT on a restricted number of services is recovered under Section 41(3) of the VAT Act 1994 and in accordance with the HM Treasury 'Contracting-out Direction'. Section 41(3) 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. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of fixed assets. Income and expenditure is otherwise shown net of VAT.

1.20 Tax penalty income

Income arising from the levying of tax penalties is generally treated as Consolidated Fund Extra Receipts (CFER). However, HM Treasury has given authority for certain penalties relating to Income Tax, Corporation Tax and Capital Gains Tax, to be appropriated in aid by the Department, i.e. kept by the Department to fund the costs of collection.

Penalties relating to National Insurance Contributions do not appear in these Resource Accounts. They are accounted for as income in the Trust Statement and paid over to the National Insurance Fund.

1.21 Child Benefit

Child Benefit is accounted for within the programme costs in the Operating Cost Statement and includes both Child Benefit and Child Benefit (Lone Parent) Premium, although the latter ceased to be paid with effect from the week commencing 9 April 2007. Payments to claimants are recorded as a creditor when the payment falls due. Appropriate accruals and prepayment adjustments are made to ensure that the expenditure arising from the entitlement period of each payment is recorded to the correct month. These adjustments are based on the number of days of the entitlement period falling within each calendar month.

Where an overpayment of benefit is established, a debt is created and programme expenditure in the Operating Cost Statement is reduced accordingly. Where possible, overpayment of debt is recovered from future benefit entitlement. Debt which is deemed irrecoverable is written-off in accordance with the Department's normal remission policy, and recorded as expenditure within the Operating Cost Statement.

1.22 Child Trust Fund

Child Trust Fund (CTF) provides endowments, in respect of eligible children, to assist with the funding of long term individual savings and investment accounts provided by approved financial institutions. Eligibility for an endowment arises when a claim for Child Benefit is approved. All eligible children born on or after 1 September 2002 are entitled to an initial endowment. This is normally satisfied by the issue of a voucher which is then used to open a CTF account with an approved financial institution. In addition to the initial endowment, children in families where the family income is below the income threshold for Child Tax Credit purposes in the tax year of birth will also qualify for a supplementary endowment.

From 1 September 2009, a further endowment is to be paid in respect of all qualifying children on reaching their seventh birthday. Again, a supplementary endowment will also be awarded (normally in the following tax year) where the family income is below the income threshold for Child Tax Credit purposes in the tax year in which the child becomes seven years old. These endowments, when they are awarded, will be advised by HMRC to the financial institution holding the CTF account so that the financial institution can claim the endowments. No liability to pay these two further endowment elements arises until 1 September 2009 when the first qualifying children will reach the age of seven.

Payments due, where they remain unpaid, are recognised as either creditors (amounts falling due within one year) or as a provision.

1.23 Health in Pregnancy Grant

Health in Pregnancy Grant (HiPG) is intended to provide financial assistance to women to help meet the additional costs encountered during pregnancy. Eligibility for the grant arises when a woman is certified by a health professional as having reached at least her 25th week of pregnancy, with an expected date of arrival on or after 6 April 2009. Claims, payable from 6 April 2009, are to be received within one month of the certification by the health professional. Payments due, where they remain unpaid, are recognised as either creditors (amounts falling due within one year) or as a provision.

1.24 Third-party assets

On behalf of the Department, the Bank of England holds Euro deposits in relation to the European Commission (EC) twinning projects and Sterling deposits in relation to VAT on E-services. These assets are not held as part of the Department's activities and as such do not form part of these accounts.

The Department manages interest-bearing accounts containing seized money, and also holds non-monetary assets as physical evidence in connection with ongoing legal proceedings. These assets are held as part of the Department's law enforcement activities and as such do not form part of these accounts.

Details of these assets are reported in note 35.

1.25 Contingent liabilities

In addition to contingent liabilities disclosed in accordance with FRS 12, the Department discloses for parliamentary reporting and accountability purposes certain statutory and non-statutory contingent liabilities where the likelihood of a transfer of economic benefit is remote, but which have been reported to Parliament in accordance with the requirements of *Managing Public Money*.

Where the time value of money is material, contingent liabilities which are required to be disclosed under FRS 12 are stated at discounted amounts and the amount reported to Parliament separately noted. Contingent liabilities that are not required to be disclosed by FRS 12 are stated at the amounts reported to Parliament.

2. Analysis of net resource outturn by section

								2008-09 £m	2007-08 £m
						Outturn	**Estimate**		
	Admin	Other current	Grants	Gross resource expenditure	A in A	Net Total	Net Total	Net Total outturn compared with Estimate	Prior-year outturn
Request for resources 1:									
A. Administration	4,495.6	180.4	0.5	4,676.5	(564.4)	4,112.1	4,144.8	32.7	4,075.9
B. e-filing incentive payments and revaluation losses									
e-filing incentive payments	–	–	181.5	181.5	–	181.5	190.0	8.5	126.1
revaluation losses	–	13.2	–	13.2	–	13.2	20.0	6.8	16.7
C. Operational local clearance procedures	–	0.3	–	0.3	(0.3)	–	–	–	–
Total	4,495.6	193.9	182.0	4,871.5	(564.7)	4,306.8	4,354.8	48.0	4,218.7
Request for resources 2:									
A. VOA Administration	205.2	–	–	205.2	(208.1)	(2.9)	–	2.9	–
B. VOA Fixed Asset revaluation	–	2.9	–	2.9	–	2.9	2.6	(0.3)	–
Total	205.2	2.9	–	208.1	(208.1)	–	2.6	2.6	–
Request for resources 3:									
A. Payments in lieu of tax relief	–	–	121.1	121.1	–	121.1	144.0	22.9	83.7
Request for resources 4:									
A. Payments of Local Authority Rates	–	31.2	–	31.2	(2.1)	29.1	31.9	2.8	29.7
Request for resources 5:									
A. Children's benefits	–	(17.6)	11,204.4	11,186.8	–	11,186.8	11,265.0	78.2	10,636.6
B. Child Trust Fund endowments	–	(9.0)	254.2	245.2	–	245.2	270.0	24.8	240.0
C. Health in Pregnancy Grant	–	(0.1)	40.6	40.5	–	40.5	45.0	4.5	–
Total	–	(26.7)	11,499.2	11,472.5	–	11,472.5	11,580.0	107.5	10,876.6
Resource Outturn	**4,700.8**	**201.3**	**11,802.3**	**16,704.4**	**(774.9)**	**15,929.5**	**16,113.3**	**183.8**	**15,208.7**

Explanation of the variances between Estimate and outturn for Request for Resources

- Request for resources 1B (RfR 1B), revaluation losses was underspent by £6.8m (34.0 per cent). Volatility in the property market made it difficult to forecast accurately year end property values.
- Request for resources 3 (RfR 3), Payments in lieu of tax relief was underspent by £22.9m (15.9 per cent). Changes to personal tax thresholds reduced expenditure but Government funding processes do not permit a net reduction in the Departmental Estimate in year.

- Request for resources 5C (RfR 5C), Health in Pregnancy Grant was underspent by £4.5m (10.0 per cent). Only limited information was available to inform the value included in the Departmental Estimate because this benefit was not launched until January 2009.

3. Reconciliation of outturn to net operating cost and against Administration Budget

3(a) Reconciliation of net resource outturn to net operating cost

	Note	2008-09 £m Outturn	2008-09 £m Supply Estimate	2008-09 £m Outturn compared with Estimate	2007-08 £m Outturn
Net Resource Outturn	2	15,929.5	16,113.3	183.8	15,208.7
Non-supply income (CFERs)	5	(16.2)	–	16.2	(10.8)
Non-supply expenditure	22	1.9	–	(1.9)	1.9
Net operating cost		**15,915.2**	**16,113.3**	**198.1**	**15,199.8**

3(b) Outturn against final Administration Budget

	2008-09 £m Budget	2008-09 £m Outturn	2007-08 £m Outturn
Gross Administration Budget	4,749.3	4,700.7	4,639.4
Income allowable against the Administration Budget	(357.3)	(354.6)	(329.1)
Net outturn against final Administration Budget	**4,392.0**	**4,346.1**	**4,310.3**

4. Reconciliation of resources to cash requirement

	Note	Estimate £m	Outturn £m	Net total outturn compared with Estimate: savings/ (excess) £m
Resource Outturn	2	16,113.3	15,929.5	183.8
Capital				
Acquisition of fixed assets		305.5	298.3	7.2
Investments		–	–	–
Non-operating A in A				
Proceeds of fixed asset disposals		(4.0)	(0.4)	(3.6)
Accruals adjustments				
Non-cash items	10, 11	(491.8)	(419.7)	(72.1)
Changes in working capital other than cash		223.7	(15.8)	239.5
Changes in creditors falling due after more than 1 year	20	–	(4.1)	4.1
Use of provisions	21	146.1	167.2	(21.1)
Excess cash receipts surrenderable to the Consolidated Fund	5	–	–	–
Net cash requirement		**16,292.8**	**15,955.0**	**337.8**

Explanation of the variances between Estimate and cash requirement

- Proceeds of fixed asset disposal varied by £3.6m (90.6 per cent) from the Estimate. This is due to a significant receipt in 2006-07 for the sale of a property being rolled over into the Estimate for 2007-08 and 2008-09.

- Non-cash items varied by £72.1m (14.7 per cent) from the Estimate. The outturn for provisions was £79.2m lower than the Estimate mainly because the provisions required for Child Trust Fund (CTF) and Early Departure Costs (EDC) were lower than expected. Conversely in the Estimate no loss on disposal of assets was expected but outturn was £10.5m.
- Changes in working capital other than cash varied by £239.5m (107.1 per cent) from the Estimate. Debtors were expected to decrease by £3.4m but the outturn figure increased by £62.4m mostly driven by penalty debtors. Creditors were expected to decrease by £226.5m, but the outturn figure increased by £77.3m mostly driven by accruals.
- Changes in creditors falling due after more than one year varied by £4.1m from the Estimate. No separate estimate was made for this item and estimate provision was included in the working capital category.
- Use of provisions varied by £21.1m (14.4 per cent) from the Estimate. This is primarily due to higher than expected consumption of provisions made for Child Trust Fund (CTF) expenditure.

5. Analysis of income payable to the Consolidated Fund

In addition to Appropriations in Aid, the following income relates to the Department and is payable to the Consolidated Fund (*cash receipts being shown in italics*).

		Forecast 2008-09		Outturn 2008-09	
			£m		£m
	Note	Income	Receipts	Income	Receipts
Operating income and receipts – excess A in A		–	–	(2.3)	*(2.3)*
Other operating income and receipts not classified as A in A		–	–	(13.9)	*(13.9)*
		–	–	(16.2)	*(16.2)*
Non-operating income and receipts – excess A in A	7	–	–	–	–
Other non-operating income and receipts not classified as A in A	8	–	–	–	–
Other amounts collectable on behalf of the Consolidated Fund		(419.0)	*(319.0)*	(456.0)	*(305.2)*
Excess cash surrenderable to Consolidated Fund	4	–	–	–	–
Total income payable to the Consolidated Fund		**(419.0)**	***(319.0)***	**(472.2)**	***(321.4)***

6. Reconciliation of income recorded within the Operating Cost Statement to operating income payable to the Consolidated Fund

	Note	2008-09 £m	2007-08 £m
Operating income	12	(774.1)	(704.3)
Adjustments for transactions between RfRs		(17.0)	(16.6)
Gross income		(791.1)	(720.9)
Income authorised to be appropriated in aid		(774.9)	(710.1)
Operating income payable to the Consolidated Fund	5	**(16.2)**	**(10.8)**

7. Non-operating income – Excess A in A

The Department has no non-operating income – Excess A in A.

8. Non-operating income not classified as A in A

The Department has no non-operating income not classified as A in A.

9. Staff numbers and related costs

Staff costs comprise:

	2008-09 £m			2007-08 £m
	Total[1]	Permanently employed staff	Others	Total
Wages and salaries	2,179.1	2,154.7	24.4	2,215.0
Social security costs	156.0	154.6	1.4	161.2
Other pension costs	406.2	401.8	4.4	412.6
Sub Total	**2,741.3**	**2,711.1**	**30.2**	**2,788.8**
Less recoveries in respect of outward secondments	(3.0)	(3.0)	–	(2.0)
Total net costs[2]	**2,738.3**	**2,708.1**	**30.2**	**2,786.8**
Of which:				
Core Department	**2,603.1**	**2,576.1**	**27.0**	**2,651.3**

[1] Staff consist entirely of officials.
[2] Of the total, £0.5m has been charged to capital.

The Department does not pay the salary of the Minister who has responsibility for HM Revenue & Customs (HMRC). This is paid out of central funds and can be found in the resource accounts of HM Treasury.

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but HMRC is unable to identify its share of the underlying assets and liabilities. The scheme actuary valued the scheme as at 31 March 2007. You can find details in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2008-09, employers' contributions of £405,471,617 were payable to the PCSPS (2007-08: £412,001,850) at one of four rates in the range 17.1 per cent to 25.5 per cent of pensionable pay, based on salary bands. The scheme's Actuary reviews employer contributions usually every four years following a full scheme valuation. From 2009-10, the rates will be in the range 16.7 per cent to 24.3 per cent. The contribution rates are set to meet the cost of the benefits accruing during 2008-09 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Employees can opt to open a **partnership** pension account, a stakeholder pension with an employer contribution. Employers' contributions of £686,464 (2007-08: £603,236) were paid to one or more of the panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3 per cent to 12.5 per cent of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay. In addition, employer contributions of £50,192, 0.8 per cent of pensionable pay (2007-08: £44,317, 0.8 per cent of pensionable pay), were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill-health retirement of these employees.

Contributions due to the **partnership** pension providers at the balance sheet date were nil. Contributions prepaid at that date were nil.

186 persons (2007-08: 139 persons) retired early on ill-health grounds; the total additional accrued pension liabilities in the year amounted to £301,716 (2007-08: £196,491).

Average number of persons employed

The average number of full-time equivalent persons employed during the year was as follows. These figures within the Consolidated Departmental Resource Accounts include those working in the Core Department and the Valuation Office Agency.

	2008-09 Number			2007-08 Number
	Total	**Permanently employed staff**	**Others**	**Total**
RfR 1: Administration				
Strategic Objective 1	42,061	41,315	746	64,683
Strategic Objective 2	32,608	32,029	579	14,414
Strategic Objective 3	5,863	5,759	104	5,148
RfR 2: Valuation Office Agency	3,841	3,812	29	4,092
RfR 3: Payments in lieu of tax relief	2	2	–	2
RfR 4: Payments of Local Authority Rates	2	2	–	4
RfR 5: Child Benefit and Child Trust Fund	1,461	1,460	1	1,522
Staff engaged on capital projects	8	8	–	–
Total	**85,846**	**84,387**	**1,459**	**89,865**
Of which:				
Core Department	**82,003**	**80,573**	**1,430**	**85,769**

This analysis is an apportionment, because in practice many activities undertaken by the Department support more than one of the three Objectives within RfR 1.

10. Other Administration Costs

					2008-09 £m				2007-08 £m
	Note	Core Department			Consolidated	Core Department			Consolidated
Rentals under operating leases:									
Hire of plant and machinery		2.4		2.4		3.0		3.0	
Other operating leases		28.4		28.6		21.5		21.8	
			30.8		31.0		24.5		24.8
Interest charges:									
On-balance sheet PFI contracts		14.1		14.1		13.8		13.8	
			14.1		14.1		13.8		13.8
PFI service charges:									
Off-balance sheet contracts[3]		230.3		248.0		263.1		278.5	
Service element of on-balance sheet contracts		4.2		4.2		4.1		4.1	
Indexation of liability on PFI deals		6.0		6.1		6.9		6.9	
			240.5		258.3		274.1		289.5
Non-cash items:									
Depreciation		183.4		189.7		158.9		164.6	
Amortisation		3.0		3.1		3.6		3.6	
Barter deal prepayments		12.9		13.1		13.7		14.1	
Profit on disposal of fixed assets		(0.1)		(0.1)		(0.7)		(0.7)	
Loss on disposal of fixed assets		9.7		10.5		4.5		5.3	
Net revaluation loss		–		–		–		0.1	
Cost of capital charges		33.7		34.6		30.2		30.8	
Auditor's remuneration and expenses[1]		2.0		2.1		1.9		1.9	
Amounts provided for liabilities and charges	21	4.4		4.5		4.1		3.7	
Amounts provided for early departure costs	21	43.2		46.6		56.2		61.2	
Unwinding of discount on provisions	21	2.0		2.1		1.9		2.0	
			294.2		306.2		274.3		286.6
Other expenditure:									
Travel, subsistence and hospitality		100.9		106.3		89.0		94.4	
Accommodation expenses[3]		167.1		175.2		108.5		113.3	
Administrative staff related costs		4.9		4.9		1.7		1.7	
Printing, postage, stationery and office supplies		107.4		109.1		109.3		111.0	
Telephone expenses		46.9		47.1		48.1		49.7	
IT services and consumables		594.1		605.4		582.9		592.8	
Legal costs		–		(0.1)		–		0.2	
Consultancy[2]		64.4		64.6		56.8		57.0	
Contracted out services		33.1		33.6		21.1		20.6	
Publicity		21.1		22.8		15.2		16.5	
Post Office services		24.4		24.4		24.4		24.4	
Bank charges		19.7		19.7		18.5		18.5	
Other miscellaneous expenditure		126.4		120.5		123.6		120.3	
			1,310.4		1,333.5		1,199.1		1,220.4
Total			**1,890.0**		**1,943.1**		**1,785.8**		**1,835.1**

[1] These are notional amounts and there was no non-audit work.

[2] Consultancy costs amounting to £1.1m (2007-08: £2.1m) have been capitalised as part of the cost of developing fixed assets. The total amount of consultancy expenditure for 2008-09 was £65.7m (2007-08: £59.1m).

[3] In 2008-09 there was a change to the allocation of rental income from other government departments occupying HMRC buildings. In 2008-09 'off-balance sheet contracts' expenditure is reduced by £33m of income whereas in 2007-08 this income would have appeared in 'Accommodation expenses'.

11. Programme Costs

	Note				2008-09 £m				2007-08 £m
		Core Department		Consolidated		Core Department		Consolidated	
Child Benefit, Child Trust Fund and Health in Pregnancy Grant									
Child Benefit		11,204.4		11,204.4		10,650.3		10,650.3	
Child Benefit (Lone Parent) Premium		–		–		0.1		0.1	
Guardians Allowance (Funded from NIF)		1.9		1.9		1.9		1.9	
Child Trust Fund Endowments		188.3		188.3		168.2		168.2	
Health in Pregnancy Grant		–		–		–		–	
			11,394.6		11,394.6		10,820.5		10,820.5
Payments in lieu of tax relief									
Life Assurance Premium Relief, MIRAS		6.0		6.0		8.6		8.6	
Transitional payments to charities		65.1		65.1		0.1		0.1	
Stakeholder pensions		50.0		50.0		75.0		75.0	
			121.1		121.1		83.7		83.7
Payments of Local Authority Rates									
Payments of Local Authority Rates (POLAR)		–		31.2		–		31.2	
Less programme income		–		(2.2)		–		(1.9)	
			–		29.0		–		29.3
Other Programme Costs									
Incentive Payments		181.4		181.4		126.1		126.1	
Legal and Investigation		65.5		65.5		55.0		55.0	
Enforcement Costs		38.1		38.1		39.8		39.8	
Business Link Payments		35.8		35.8		24.1		24.1	
Bank charges via OPG		8.1		8.1		6.9		6.9	
Other programme expenditure		19.2		19.2		1.9		1.9	
Less programme income		(29.8)		(29.8)		(40.8)		(40.8)	
			318.3		318.3		213.0		213.0
Non-cash items									
Depreciation		7.7		7.7		9.0		9.0	
Net revaluation loss		13.2		16.2		16.7		16.7	
Cost of capital charges		(26.7)		(26.7)		(22.7)		(22.7)	
(Profit)/Loss on disposal of fixed assets		0.1		0.1		–		–	
Amounts provided for liabilities and charges	21								
Child Trust Fund		65.9		65.9		80.7		80.7	
Health in Pregnancy Grant		40.6		40.6		–		–	
POLAR		–		–		–		0.4	
Other programme provisions		6.7		6.7		8.1		8.1	
			107.5		110.5		91.8		92.2
Total			**11,941.5**		**11,973.5**		**11,209.0**		**11,238.7**

12. Income

Core Department	RfR 1	RfR 2	RfR 3	RfR 4	RfR 5	2008-09 £m Total	2007-08 £m Total
Income from external customers	(115.4)	–	–	–	–	(115.4)	(122.3)
Income from other departments	(50.6)	–	–	–	–	(50.6)	(46.3)
Income from the National Insurance Fund	(378.1)	–	–	–	–	(378.1)	(338.3)
Other income	(34.5)	–	–	–	–	(34.5)	(2.4)
	(578.6)	**–**	**–**	**–**	**–**	**(578.6)**	**(509.3)**

Consolidated	RfR 1	RfR 2	RfR 3	RfR 4	RfR 5	Total	Total
Income from external customers	(115.4)	(22.5)	–	–	–	(137.9)	(140.4)
Income from other departments	(44.9)	(176.5)	–	–	–	(221.4)	(221.3)
Income from the National Insurance Fund	(378.1)	–	–	–	–	(378.1)	(338.3)
Other income	(34.5)	–	–	(2.2)	–	(36.7)	(4.3)
	(572.9)	**(199.0)**	**–**	**(2.2)**	**–**	**(774.1)**	**(704.3)**

Of total operating income received, the following relates to services provided to external and public sector customers where full cost exceeds £1.0m. In each case the financial objective is to recover the full costs of the service. This information is provided for fees and charges purposes, not to comply with SSAP 25.

	2008-09 £m			2007-08 £m		
	Income	Full Cost	Surplus/ (deficit)	Income	Full Cost	Surplus/ (deficit)
Fees & Charges raised by the Valuation Office Agency (VOA)						
Rating & Council Tax	(177.1)	177.6	(0.5)	(180.1)	171.7	8.4
Other valuation work	(22.0)	19.4	2.6	(18.1)	16.8	1.3
Work on behalf of HMRC	(11.1)	11.1	–	(11.5)	12.8	(1.3)
Fees & Charges raised by the Core Department						
International Assistance	(1.4)	3.5	(2.1)	(1.8)	1.5	0.3
Money Laundering Regime	(4.4)	5.9	(1.5)	(3.4)	3.6	(0.2)
Bank charges via OPG	(7.6)	8.3	(0.7)	(6.9)	7.2	(0.3)
National Minimum Wage	(7.5)	7.5	–	(6.5)	6.5	–
Collection of Student Loans	(4.9)	4.8	0.1	(6.0)	6.0	–
DWP Welfare Reform Agenda	(3.3)	3.3	–	(2.8)	2.8	–
DWP Disclosure of Tax Credits data to Local Authorities[1]	–	–	–	(1.1)	1.3	(0.2)
DWP Employment Support Allowance IT	(8.0)	8.0	–	(1.0)	1.2	(0.2)
DWP Pensions Reform Delivery Programme	(5.5)	6.0	(0.5)	(1.5)	1.3	0.2
Services provided to the Valuation Office Agency	(5.5)	5.5	–	(4.1)	3.3	0.8
Charges to the National Insurance Fund	(378.1)	346.2	31.9	(338.3)	374.0	(35.7)
Method of Payment Reform Programme	(2.2)	2.1	0.1	–	–	–
Total	**(638.6)**	**609.2**	**29.4**	**(583.1)**	**610.0**	**(26.9)**

[1] For 2008-09 the full cost figures were below £1.0m.

13. Analysis of net operating cost by spending body

		2008-09 £m	2007-08 £m
Spending body:	**Estimate**	**Outturn**	**Outturn**
Core Department	16,078.8	15,888.3	15,178.5
Valuation Office Agency	34.5	26.9	21.3
Net Operating Cost	**16,113.3**	**15,915.2**	**15,199.8**

14. Tangible fixed assets

	Freehold Land & Buildings[1] £m	Accommodation refurbishments[1] £m	Office & Computer Equipment £m	Vehicles £m	Furniture & Fittings[2] £m	Developed Computer Software £m	Assets under construction £m	Vessels £m	Scientific Aids £m	Total £m
Cost or valuation										
At 1 April 2008	107.4	148.3	214.4	27.3	84.2	1,542.2	210.7	30.0	57.7	2,422.2
Additions	–	0.2	16.4	5.1	3.4	1.5	259.4	–	1.2	287.2
Donations	–	–	–	–	–	–	–	–	–	–
Disposals	–	(13.9)	(17.3)	(3.1)	(13.0)	(33.8)	–	(0.1)	(9.0)	(90.2)
Reclassifications	–	17.9	–	–	1.5	148.2	(171.8)	–	4.2	–
Revaluations[3]	(13.3)	(0.5)	5.0	0.8	(0.1)	36.8	–	–	1.3	30.0
At 31 March 2009	**94.1**	**152.0**	**218.5**	**30.1**	**76.0**	**1,694.9**	**298.3**	**29.9**	**55.4**	**2,649.2**
Depreciation										
At 1 April 2008	(0.5)	(76.4)	(155.2)	(19.8)	(48.3)	(675.0)	–	(12.4)	(40.9)	(1,028.5)
Charged in year	(1.7)	(9.0)	(31.9)	(3.9)	(3.1)	(140.0)	–	(1.5)	(6.2)	(197.3)
Disposals	–	13.8	17.1	2.8	12.3	24.3	–	0.1	8.9	79.3
Reclassifications	–	–	–	–	–	–	–	–	–	–
Revaluations[3]	2.2	0.5	(0.1)	–	0.3	(5.6)	–	–	–	(2.7)
At 31 March 2009	**–**	**(71.1)**	**(170.1)**	**(20.9)**	**(38.8)**	**(796.3)**	**–**	**(13.8)**	**(38.2)**	**(1,149.2)**
Net book value at 31 March 2009	**94.1**	**80.9**	**48.4**	**9.2**	**37.2**	**898.6**	**298.3**	**16.1**	**17.2**	**1,500.0**
Net book value at 31 March 2008	**106.9**	**71.9**	**59.2**	**7.5**	**35.9**	**867.2**	**210.7**	**17.6**	**16.8**	**1,393.7**
Asset financing:										
Owned	23.5	80.9	48.4	9.2	37.2	898.6	298.3	16.1	17.2	1,429.4
Finance leased	–	–	–	–	–	–	–	–	–	–
On-balance sheet PFI contracts	70.6	–	–	–	–	–	–	–	–	70.6
PFI residual interests	–	–	–	–	–	–	–	–	–	–
Net book value at 31 March 2009	**94.1**	**80.9**	**48.4**	**9.2**	**37.2**	**898.6**	**298.3**	**16.1**	**17.2**	**1,500.0**
Analysis of tangible fixed assets										
The net book value of tangible fixed assets comprises:										
Core Department at 31 March 2009	94.1	80.0	46.9	9.2	35.5	870.2	292.0	16.1	17.2	1,461.2
Valuation Office Agency at 31 March 2009	–	0.9	1.5	–	1.7	28.4	6.3	–	–	38.8
Core Department at 31 March 2008	106.9	70.7	57.5	7.5	34.8	836.7	207.2	17.6	16.8	1,355.7
Valuation Office Agency at 31 March 2008	–	1.2	1.7	–	1.1	30.5	3.5	–	–	38.0

[1] See note 1.4.2 for the accounting policy for property assets.
[2] See note 1.4.3 for the accounting policy for furniture.
[3] See notes 1.1 and 1.4 for the accounting policy regarding revaluation of fixed assets.

Freehold Land and building 100 Parliament Street

The accounting treatment adopted by HM Revenue & Customs is consistent with that of HM Treasury in respect of our joint arrangement for the land and building on the site. An interim valuation, undertaken in March 2009 on the basis of existing use, established the value as being £94.1m, with the last interim and full valuations having been carried out in January 2008 and November 2004, respectively. Valuations were performed by the Valuation Office Agency, an executive agency of HMRC, whose services include providing valuation and estate surveying services to government departments.

15. Intangible fixed assets

The Department's intangible fixed assets comprise purchased software licences.

	Total £m
Cost or valuation	
At 1 April 2008	22.2
Additions	11.1
Donations	–
Disposals	(0.1)
Reclassifications	–
Revaluation[1]	–
At 31 March 2009	**33.2**
Amortisation	
At 1 April 2008	(16.0)
Charged in year	(3.1)
Disposals	0.1
Reclassifications	–
Revaluation[1]	–
At 31 March 2009	**(19.0)**
Net book value at 31 March 2009	**14.2**
Net book value at 31 March 2008	**6.2**
Analysis of intangible fixed assets	
The net book value of intangible fixed assets comprises:	
Core Department at 31 March 2009	14.2
Valuation Office Agency at 31 March 2009	–
Core Department at 31 March 2008	6.2
Valuation Office Agency at 31 March 2008	–

[1] See notes 1.1 and 1.6 for the accounting policy regarding intangible fixed assets.

16. Financial Assets

The Department holds no financial assets in the form of loans, Public Dividend Capital or investments in other public or private bodies.

The Department holds other financial assets in the form of cash, trade debtors, deposits and advances and other debtors excluding Child Benefit, Child Trust Fund (CTF) and Health in Pregnancy Grant (HiPG), which are disclosed in note 1.3.

17. Stocks and work in progress

	2008-09 £m		2007-08 £m	
	Core Department	Consolidated	Core Department	Consolidated
Stocks	3.2	3.2	4.6	4.6
Work in progress	0.1	4.3	0.4	4.1
	3.3	**7.5**	**5.0**	**8.7**

18. Debtors

18(a) Analysis by type

	2008-09 £m		2007-08 £m	
	Core Department	Consolidated	Core Department	Consolidated
Amounts falling due within one year:				
Trade debtors	–	9.0	–	9.0
Deposits and advances	25.0	24.3	28.6	24.8
Value added tax	17.5	17.1	16.3	16.3
Other debtors – excluding Child Benefit, CTF and HiPG	23.7	24.7	20.8	20.6
Other debtors – Child Benefit, CTF and HiPG	16.7	16.7	12.0	12.0
Prepayments and accrued income – excluding Child Benefit and CTF	14.3	14.9	20.7	21.8
Prepayments and accrued income – Child Benefit and CTF	67.1	67.1	34.3	34.3
Current part of PFI prepayment	9.4	9.4	9.2	9.2
Current part of non-PFI prepayment	3.8	4.0	3.7	3.9
Penalties	515.4	515.4	336.7	336.7
Amounts due from the Consolidated Fund in respect of supply	–	–	–	–
	692.9	**702.6**	**482.3**	**488.6**
Amounts falling due after more than one year:				
Trade debtors	–	–	–	–
Deposits and advances	–	–	–	–
Other debtors	–	–	0.5	0.5
Prepayments and accrued income	–	–	–	–
Barter deals	151.5	153.1	164.7	166.5
	151.5	**153.1**	**165.2**	**167.0**

18(b) Intra-Government Balances

	Amounts falling due within one year		Amounts falling due after more than one year	
	2008-09	2007-08	2008-09	2007-08
		£m		£m
Balances with other central government bodies	34.2	33.5	–	–
Balances with local authorities	2.4	2.2	–	–
Balances with NHS Trusts	2.9	2.1	–	–
Balances with public corporations and trading funds	0.1	–	–	–
Total intra-government balances	39.6	37.8	–	–
Balances with bodies external to government	663.0	450.8	153.1	167.0
Total debtors at 31 March	**702.6**	**488.6**	**153.1**	**167.0**

CFER penalties not yet collected from taxpayers are reported as a debtor in the balance sheet, matched by a corresponding creditor to the Consolidated Fund (see note 20). Within this note they are included in the balance related to 'Penalties'.

19. Cash at bank and in hand

		2008-09 £m		2007-08 £m
	Core Department	Consolidated	Core Department	Consolidated
Balance 1 April	57.2	68.0	75.2	83.7
Net change in cash balances	(8.6)	(16.7)	(18.0)	(15.7)
Balance at 31 March	**48.6**	**51.3**	**57.2**	**68.0**
The following balances at 31 March were held at:				
Office of HM Paymaster General	33.0	35.7	35.4	46.2
Commercial banks and cash in hand	15.6	15.6	21.8	21.8
Balance at 31 March	**48.6**	**51.3**	**57.2**	**68.0**

20. Creditors

20(a) Analysis by type

	2008-09 £m		2007-08 £m	
	Core Department	Consolidated	Core Department	Consolidated
Amounts falling due within one year:				
Taxation and social security	(51.9)	(51.9)	(54.5)	(54.5)
Trade creditors	(150.2)	(154.9)	(147.9)	(149.6)
Other creditors – excluding Child Benefit, CTF and HiPG	(1.0)	(2.0)	(2.0)	(2.2)
Other creditors – Child Benefit, CTF and HiPG	(173.9)	(173.9)	(143.5)	(143.5)
Accruals and deferred income – excluding Child Benefit and CTF	(285.7)	(293.7)	(214.4)	(220.8)
Accruals and deferred income – Child Benefit and CTF	(167.1)	(167.1)	(195.6)	(195.6)
Current part of finance leases	–	–	–	–
Current part of imputed finance lease element of on-balance sheet PFI contracts	(2.4)	(2.4)	(2.6)	(2.6)
Amounts issued from the Consolidated Fund for supply but not spent at year end	(36.6)	(36.8)	(38.0)	(40.0)
Consolidated Fund Extra Receipts due to be paid to the Consolidated Fund				
received	(12.0)	(14.5)	(19.2)	(28.0)
receivable	(442.6)	(442.6)	(291.8)	(291.8)
	(1,323.4)	**(1,339.8)**	**(1,109.5)**	**(1,128.6)**
Amounts falling due after more than one year:				
Finance leases	–	–	–	–
Imputed finance lease element of on-balance sheet PFI contracts	(196.9)	(196.9)	(192.8)	(192.8)
	(196.9)	**(196.9)**	**(192.8)**	**(192.8)**

20(b) Intra-Government Balances

	Amounts falling due within one year		Amounts falling due after more than one year	
	2008-09	2007-08 £m	2008-09	2007-08 £m
Balances with other central government bodies	(591.6)	(448.9)	–	–
Balances with local authorities	(0.8)	(0.5)	–	–
Balances with NHS Trusts	(0.1)	(0.1)	–	–
Balances with public corporations and trading funds	–	–	–	–
Total intra-government balances	(592.5)	(449.5)	–	–
Balances with bodies external to government	(747.3)	(679.1)	(196.9)	(192.8)
Total creditors at 31 March	**(1,339.8)**	**(1,128.6)**	**(196.9)**	**(192.8)**

CFER penalties not yet collected from taxpayers are reported as a debtor in the balance sheet (see note 18), matched by a corresponding creditor. Within this note they are included in the balance 'Consolidated Fund Extra Receipts due to be paid to the Consolidated Fund: receivable'.

21. Provisions for liabilities and charges

Core Department	Early departure costs £m	Child Trust Fund £m	Health in Pregnancy Grant £m	Legal claims £m	Accommodation costs £m	Other £m	Total £m
Balance at 1 April 2008	(128.6)	(122.9)	–	(19.6)	(1.2)	(6.5)	(278.8)
Provided in the year	(43.2)	(80.6)	(40.6)	(12.8)	(6.7)	(1.1)	(185.0)
Provisions not required written back	–	14.7	–	6.1	0.1	0.2	21.1
Provisions utilised in the year	44.3	108.1	–	5.2	0.2	2.8	160.6
Unwinding of discount	(2.0)	–	–	–	–	–	(2.0)
Balance at 31 March 2009	**(129.5)**	**(80.7)**	**(40.6)**	**(21.1)**	**(7.6)**	**(4.6)**	**(284.1)**

Consolidated	Early departure costs £m	Child Trust Fund £m	Health in Pregnancy Grant £m	Legal claims £m	Accommodation costs £m	Other £m	Total £m
Balance at 1 April 2008	(141.4)	(122.9)	–	(24.6)	(1.2)	(6.9)	(297.0)
Provided in the year	(46.6)	(80.6)	(40.6)	(15.5)	(6.7)	(1.1)	(191.1)
Provisions not required written back	–	14.7	–	8.7	0.1	0.2	23.7
Provisions utilised in the year	49.8	108.1	–	5.9	0.2	3.2	167.2
Unwinding of discount	(2.1)	–	–	–	–	–	(2.1)
Balance at 31 March 2009	**(140.3)**	**(80.7)**	**(40.6)**	**(25.5)**	**(7.6)**	**(4.6)**	**(299.3)**

21.1 Early departure costs

The Department meets the additional costs of benefits beyond the normal PCSPS benefits in respect of employees who retire early by paying the required amounts annually to the PCSPS over the period between early departure and normal retirement date. The Department provides for this in full when the early retirement programme becomes binding by establishing a provision for the estimated payments discounted by HM Treasury discount rate of 2.2 per cent in real terms. In past years the Department paid in advance some of its liability for early retirement by making a payment to the Paymaster General's Account at the Bank of England for the credit of the Civil Service Superannuation Vote. The balance remaining is treated as a prepayment.

21.2 Child Trust Fund

The Child Trust Fund Act (2004) established tax-free savings and investment accounts for eligible children born on or after 1 September 2002. The Government makes payments into a Child Trust Fund account for each eligible child, enabling the accumulation of assets to be made available upon attaining the age of 18. A provision of £80.7m has been included in the 2008-09 Resource Accounts as at 31 March 2009 for amounts that will become payable in respect of children born up to 31 March 2009 (2007-08: £122.9m). This provision includes £68.1m (2007-08: £108.7m) for supplementary endowments expected to be payable in respect of children in families where the family income is below the income threshold for Child Tax Credit purposes.

21.3 Health in Pregnancy Grant

The Health and Social Care Act (2008) established entitlement to Health in Pregnancy Grant which provides financial assistance to women to meet the additional costs encountered during pregnancy. Payable from 6 April 2009, a provision of £40.6m has been included as at 31 March 2009 where entitlement criteria have already been satisfied.

21.4 Legal claims

A provision of £25.5m (2007-08: £24.6m) 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 and the amount of the claim can be reliably estimated. Legal claims which may succeed but are less likely to do so or cannot be estimated reliably are disclosed as contingent liabilities in note 32.

21.5 Accommodation costs

A provision of £7.6m has been made (2007-08: £1.2m) mainly for buildings-related claims giving rise to probable liabilities under tenancy agreements where the amount of the claims can be reliably estimated. Claims, which may succeed but are less likely to do so or cannot be estimated reliably are disclosed as contingent liabilities in note 32.

21.6 Other

Provisions relating to various other claims against the Department amount to £4.6m (2007-08: £6.9m).

22. General Fund

The General Fund represents the total assets less liabilities of each of the entities within the accounting boundary, to the extent that the total is not represented by other reserves and financing items.

		2008-09		2007-08
		£m		£m
	Core Department	Consolidated	Core Department	Consolidated
Balance at 1 April	430.9	450.2	270.4	289.8
Prior period adjustment	–	–	–	–
Adjusted opening balance	430.9	450.2	270.4	289.8
Net Parliamentary Funding				
Drawn down	15,925.4	15,951.7	15,222.3	15,254.3
Deemed	38.0	40.0	17.9	16.9
Net financing from the Contingencies Fund	–	–	–	–
National Insurance Fund	1.9	1.9	1.9	1.9
Year end adjustment				
Supply debtor/(creditor) – current year	(36.6)	(36.8)	(38.0)	(40.0)
Excess vote – prior year	–	–	–	–
Net transfer from operating activities				
Net operating cost	(15,888.3)	(15,915.2)	(15,178.5)	(15,199.8)
CFERs repayable to Consolidated Fund	(13.9)	(16.2)	(2.4)	(10.8)
Non-cash charges				
Cost of capital	7.0	7.9	7.5	8.1
Auditor's remuneration	2.0	2.1	1.9	1.9
Transfer from revaluation reserve	9.9	11.3	127.9	127.9
Balance at 31 March	**476.3**	**496.9**	**430.9**	**450.2**

23. Reserves

Revaluation Reserve

The revaluation reserve reflects the unrealised element of the cumulative balance of indexation and revaluation adjustments (excluding donated assets).

	2008-09 £m Core Department	2008-09 £m Consolidated	2007-08 £m Core Department	2007-08 £m Consolidated
Balance at 1 April	59.6	63.6	151.5	154.0
Arising on revaluation during the year (net)	41.3	43.5	36.0	37.5
Transferred to General Fund in respect of realised element of revaluation reserve	(9.9)	(11.3)	(127.9)	(127.9)
Balance at 31 March	**91.0**	**95.8**	**59.6**	**63.6**

24. Notes to the Consolidated Cash Flow Statement

24(a) Reconciliation of operating cost to operating cash flows

	Note	2008-09 £m	2007-08 £m
Net operating cost	13	15,915.2	15,199.8
Adjustments for non-cash transactions	10, 11	(419.7)	(378.8)
Increase/(Decrease) in Stock and work in progress	17	(1.2)	(3.0)
Increase/(Decrease) in Debtors	18	200.1	33.6
less movements in debtors relating to items not passing through the OCS		(137.6)	(24.8)
(Increase)/Decrease in Creditors	20	(215.3)	(0.6)
less movements in creditors relating to items not passing through the OCS		138.0	28.1
Use of provisions	21	167.2	117.0
Net cash outflow from operating activities		**15,646.7**	**14,971.3**

24(b) Analysis of capital expenditure and financial investment

	Note	2008-09 £m	2007-08 £m
Tangible fixed asset additions	14	287.2	254.8
Intangible fixed asset additions	15	11.1	1.7
Proceeds of disposal of fixed assets		(0.4)	(0.7)
Net cash outflow from investing activities		**297.9**	**255.8**

24(c) Analysis of capital expenditure and financial investment by Request for Resources

	Capital expenditure £m	Loans etc. £m	A in A £m	Net total £m
RfR 1: Administration	289.7	–	(0.4)	289.3
RfR 2: Valuation Office Agency	8.6	–	–	8.6
RfR 3: Payments in lieu of tax relief	–	–	–	–
RfR 4: Payments of Local Authority Rates	–	–	–	–
RfR 5: Child Benefit, Child Trust Fund and Health in Pregnancy Grant	–	–	–	–
Total 2008-09	**298.3**	**–**	**(0.4)**	**297.9**
Total 2007-08	**256.5**	**–**	**(0.7)**	**255.8**

24(d) Analysis of financing

	Note	2008-09 £m	2007-08 £m
From the Consolidated Fund (Supply) – current year	22	15,951.7	15,254.3
From the Consolidated Fund (Supply) – prior year		–	–
From the National Insurance Fund	22	1.9	1.9
Payments to the National Insurance Fund		–	–
Advances from the Contingencies Fund		–	–
Repayments to the Contingencies Fund		–	–
Capital element of payments in respect of finance leases and on-balance sheet PFI contracts		3.9	4.9
Net financing		**15,957.5**	**15,261.1**

24(e) Reconciliation of Net Cash Requirement to increase/(decrease) in cash

	Note	2008-09 £m	2007-08 £m
Net cash requirement		(15,955.0)	(15,231.1)
From the Consolidated Fund (Supply) – current year	24(d)	15,951.7	15,254.3
From the Consolidated Fund (Supply) – prior year	24(d)	–	–
Amounts due to the Consolidated Fund received in a prior year and paid over		(28.0)	(66.9)
Amounts due to the Consolidated Fund received and not paid over		14.7	28.0
Increase/(Decrease) in cash		**(16.6)**	**(15.7)**

25. Notes to the Consolidated Statement of Net Operating Costs by Departmental Strategic Objectives

Programme grants and other current expenditures have been allocated as follows:

	2008-09 £m	2007-08 £m
RfR 1: Administration		
Strategic Objective 1	274.9	218.2
Strategic Objective 2	60.4	21.1
Strategic Objective 3	10.9	7.5
RfR 2: Valuation Office Agency	2.9	–
RfR 3: Payments in lieu of tax relief	121.0	83.7
RfR 4: Payments of Local Authority Rates	29.0	29.7
RfR 5: Child Benefit, Child Trust Fund and Health in Pregnancy Grant	11,474.4	10,878.5
Total	**11,973.5**	**11,238.7**

A framework of operational and support activities are used to apportion programme grants and other current expenditure against the strategic objectives within RfR 1. This analysis by apportionment is used as many of the activities undertaken by the Department support more than one of the three objectives within RfR 1. This is the first financial year HMRC has reported against the 2007 Comprehensive Spending Review (CRS07) and the new HMRC Departmental Strategic Objectives.

Capital Employed by Departmental Strategic Objectives at 31 March 2009

	2008-09 £m	2007-08 £m
RfR 1: Administration		
Strategic Objective 1	499.6	695.7
Strategic Objective 2	387.4	155.1
Strategic Objective 3	69.7	55.4
RfR 2: Valuation Office Agency	25.9	23.8
RfR 3: Payments in lieu of tax relief	(11.1)	–
RfR 4: Payments of Local Authority Rates	(0.2)	(0.4)
RfR 5: Child Benefit, Child Trust Fund and Health in Pregnancy Grant	(378.5)	(415.8)
Total	**592.8**	**513.8**

Where identifiable, the capital employed by the Department is allocated by analysis of the underlying assets and liabilities attributable to each Request for Resources (RfR). The remainder is apportioned across RfR 1 objectives on the same basis as for programme grants and other current expenditure as above.

26. Capital commitments

		2008-09 £m		2007-08 £m
	Core Department	**Consolidated**	**Core Department**	**Consolidated**
Contracted capital commitments at 31 March 2009 for which no provision has been made	93.3	95.1	77.2	77.3

27. Commitments under leases

27.1 Operating leases

Commitments under operating leases to pay rentals during the year following the year of these accounts are given in the table below, analysed according to the period in which the lease expires.

		2008-09 £m		2007-08 £m
	Core Department	**Consolidated**	**Core Department**	**Consolidated**
Obligations under operating leases comprise:				
Land and buildings:				
Expiry within 1 year	17.1	18.8	14.8	16.5
Expiry after 1 year but not more than 5 years	13.8	17.0	–	1.9
Expiry thereafter	244.4	260.9	249.9	267.6
	275.3	**296.7**	**264.7**	**286.0**
Other:				
Expiry within 1 year	0.6	0.7	0.1	0.3
Expiry after 1 year but not more than 5 years	15.4	15.5	20.2	20.3
Expiry thereafter	458.9	467.2	438.6	447.6
	474.9	**483.4**	**458.9**	**468.2**

27.2 Finance leases

The Department has no finance leases.

28. Commitments under PFI contracts

28.1 Off-balance sheet

The following assets are not the property of the Department.

Description of Scheme	Estimated Capital Value[1] £m	Contract Start Date	Contract End Date
Trinity Bridge House, Manchester –			
Serviced office accommodation	32	September 1998	August 2013
Elgin House, Edinburgh –			
Serviced office accommodation	10	November 1998	December 2013
Cotton House, Glasgow –			
Serviced office accommodation	10	December 1998	December 2013
Archer House, Stockport –			
Serviced office accommodation	6	May 1999	March 2014
Strategic Transfer Estate to Private Sector -			
Serviced office accommodation	370	April 2001	March 2021
St John's House, Bootle –			
Serviced office accommodation	12	May 2000	July 2025
Newcastle Estate Development -			
Serviced office accommodation	164	October 1999	November 2027
Newcastle Estate Development with DWP (NEDFAR) -			
Serviced office accommodation	54	October 2004	October 2029

28.2 On-balance sheet

The following asset is treated as an asset of the Department under FRS 5. The asset is the provision of serviced accommodation at 100 Parliament Street (see note 14). The substance of the contract is that payments comprise two elements – imputed finance lease charges and service charges. Details of the imputed finance lease charges are in the following table.

		2008-09 £m		2007-08 £m
	Core Department	Consolidated	Core Department	Consolidated
Imputed finance lease obligations under on-balance sheet PFI contracts comprise:				
Rentals due within 1 year	16.4	16.4	16.2	16.2
Rentals due within 2 to 5 years	67.4	67.4	68.0	68.0
Rentals due thereafter	449.6	449.6	624.7	624.7
	533.4	533.4	708.9	708.9
Less interest element	(334.1)	(334.1)	(513.5)	(513.5)
	199.3	**199.3**	**195.4**	**195.4**

28.3 Charge to the Operating Cost Statement and future commitments

The total amount charged in the Operating Cost Statement in respect of off-balance sheet PFI transactions and the service element of on-balance sheet PFI transactions was £294.5m (2007-08: £291.7m); and the payments to which the Department is committed during 2009-10, analysed by the period during which the commitment expires, are as follows.

		2008-09 £m		2007-08 £m
	Core Department	Consolidated	Core Department	Consolidated
Expiry within 1 year	–	–	–	–
Expiry within 2 to 5 years	13.8	13.8	–	–
Expiry within 6 to 10 years	–	–	12.7	12.7
Expiry within 11 to 15 years	206.4	222.0	200.0	216.6
Expiry within 16 to 20 years	29.2	29.2	30.4	30.4
Expiry within 21 to 25 years	8.7	8.7	6.8	6.8
Expiry within 26 to 30 years	4.2	4.2	4.1	4.1
Expiry within 31 to 35 years	–	–	–	–

[1] The estimated capital value is as at commencement of the schemes.

29. Other financial commitments

The Department has entered into non-cancellable contracts (which are not leases or PFI contracts) for various services. The payments to which the Department is committed during 2009-10, analysed by the period which the commitment expires are as follows.

		2008-09 £m		2007-08 £m
	Core Department	Consolidated	Core Department	Consolidated
Expiry within 1 year	0.9	0.9	–	–
Expiry within 2 to 5 years	0.8	0.8	0.5	0.5
Expiry thereafter	–	–	–	–
	1.7	**1.7**	**0.5**	**0.5**

30. Financial instruments

The following disclosures are made to allow users of the Department's financial statements to evaluate the nature and extent of risks arising from financial instruments to which the Department is exposed at the reporting date.

The risks considered are credit risk (the risk of default by a counter-party debtor), liquidity risk (the risk that the Department will not be able to discharge its financial obligations) and market risk (the risk of loss from fluctuations in market prices).

As the cash requirements of the Department are largely met through the Estimates process, financial instruments play a more limited role in creating risk than would apply to a non-public sector body of a similar size. The majority of financial instruments relate to contracts to buy non-financial items in line with the Department's expected purchase and usage requirements and the Department is therefore exposed to little credit or market risk. The Department does not face a liquidity risk as its operations, including benefits payments, are financed by the Exchequer.

30.1 Credit Risk

The Department's objective is full recovery of debt and we actively pursue this recovery. Our policy is to operate normal credit control procedures for the management of risk of default by trade debtors through our Accounts Receivable function. Deposits and advances are recovered on completion of successful litigation.

Due to the nature and immaterial value of trade and other debtors, the Department views the credit risk associated with these debtors as negligible. Consequently no provision for doubtful debt is made in respect of these debtors.

Collateral and other credit enhancements obtained

The Department holds no collateral or other credit enhancement in respect of its financial assets.

30.2 Market risk

Market risk is the risk that the fair value or future cashflows of a financial instrument will fluctuate because of changes in market prices. Market risk includes currency risk and interest rate risk. Currency risk is the risk that the fair value or future cashflows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Department is exposed to negligible currency risk and therefore does not undertake hedging operations. Currency transactions are translated at the spot rate on the transaction date. Interest rate risk is the risk that the fair value or future cashflows of a financial instrument will fluctuate because of changes in market interest rates. The Department does not face an interest rate risk as it has no investments or borrowings and its operations are financed by the Exchequer.

30.3 Embedded Derivatives

The Department has conducted a review of all its material contracts and has concluded that there are no separable material embedded derivatives which require disclosure. The Department continues to monitor the position regarding embedded derivatives on a regular basis.

30.4 Fair Value

The fair value of financial assets and financial liabilities carried at amortised cost is deemed to be a reasonable approximation of their fair value.

30.5 Capital disclosures

This section is not applicable to the Department.

31. Financial Guarantees, Indemnities and Letters of Comfort

The Department has entered into the following quantifiable guarantees, indemnities or provided letters of comfort. None of these is a contingent liability within the meaning of FRS 12 since the likelihood of a transfer of economic benefit in settlement is too remote. They therefore fall to be measured following the requirements of IAS 39.

Managing Public Money requires that the full potential costs of such contracts be reported to Parliament. These costs are reproduced in the table below.

	1 April 2008 £m	Increase in year £m	Liabilities crystallised in year £m	Obligation expired in year £m	31 March 2009 £m	Amount reported to Parliament by Departmental Minute
Guarantees	–	–	–	–	–	–
Indemnities	2.0	0.9	–	(0.1)	2.8	–
Letters of Comfort	–	–	–	–	–	–

The Department has not entered into any unquantifiable contingent liabilities.

32. Contingent liabilities disclosed under FRS 12

At 31 March 2009 contingent liabilities existed in respect of:

- Shipbuilders Relief – a contingent liability of £88.5m (2007-08: £95.0m) exists for various claims against the Department.
- Legal Claims – a contingent liability of £25.4m (2007-08: £10.3m) 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.
- Property Dilapidation – the Department has a small number of contingent liabilities relating to lease termination.
- The Department has a further number of contingent liabilities amounting to £4.7m (2007-08: £5.0m).

33. Losses and special payments

33(a) Losses Statement

		2008-09		2007-08
	cases	**£m**	***cases***	**£m**
Losses are made up of:				
Child Benefit irrecoverable overpayments	*32,009*	7.2	*42,213*	11.3
Law costs remissions	*41,149*	5.7	*71,063*	11.1
Tax penalty remissions	*30,680*	12.6	*27,336*	14.0
Others	*3,917*	0.7	*3,447*	0.9
Total	***107,755***	**26.2**	***144,059***	**37.3**

Details of cases over £250,000

£0.3m – Exchange rate loss in respect of currency conversion.

33(b) Special Payments

		2008-09		2007-08
	cases	**£m**	***cases***	**£m**
Payments and accruals	*17,347*	8.4	*20,177*	5.7
New provisions	*4*	1.1	*100,003*	4.7
Increase in existing provisions		–		0.5
Write back of provisions		(0.8)		(0.5)
Total	***17,351***	**8.7**	***120,180***	**10.4**

Details of cases over £250,000

£1.4m – Compensation payment for costs incurred in respect of a cancelled tender exercise.
£0.7m – Compensation payment for costs incurred in respect of a cancelled tender exercise.
£0.5m – Ex-gratia payments in respect of delayed payments of Age Related Rebates arising from the late processing of electronically submitted pension forms.
£0.4m – Compensation payment to a member of staff in respect of a discrimination claim.
£0.3m – Compensation payment in respect of a personal injury claim.
£0.3m – Ex-gratia payment as redress for fees incurred in respect of a tax investigation.
£0.3m – Compensation payment to a member of staff in respect of a grievance claim.

HMRC receives two types of penalty income: Appropriations in Aid (A in A) penalties that can be applied to fund operational activities and Consolidated Fund Extra Receipts (CFER) penalties that the Department must surrender direct to the Exchequer. A in A penalties are recorded within the Operating Cost Statement (OCS) and any related remissions appear within the losses note above. CFER penalties are recorded within note 5 to the accounts. They are not related to operating activities so are not proper to the OCS and the related losses do not appear within the body of this note. The Department wrote-off £148.6m of CFER fines and penalties in 2008-09 (2007-08: £162.9m).

34. Related-party transactions

The Department is the parent of the Valuation Office Agency. This body is 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 Communities and Local Government and the Welsh Assembly Government.

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 parties has undertaken any material transactions with the Department during the year.

35. Third-party assets

35.1 EU Funds

The Department holds Euro deposits in relation to European Commission (EC) Twinning Projects. For such projects it is common for the lead body to hold Euro funds on behalf of the EC. The funds are payable to other European Union (EU) member states as reimbursement for work undertaken in assisting EU candidate states in preparing for membership of the EU. The Department holds these funds as an agent of the EC.

The Department also holds Euro deposits in relation to traders who are located outside the European Union but who are trading electronically via the internet with EU member states.
These E-Service traders can register with any EU country and then makes monthly declarations to that country of their sales in the EU and the amount of VAT due to each EU member state. Each E-Service trader registered in the UK makes payment to HMRC for the total amount of VAT due from them for all their EU customer sales. The individual Euro payments are held collectively by the Bank of England until instructed each month by the Department to send payment to each of the respective EU member states.

Neither the Department nor the Government generally have any beneficial interest in these funds, which are separately held at the Bank of England. They are set out in the table immediately below.

		31 March 2008	Gross inflows	Gross outflows	31 March 2009
Monies on deposit at the Bank of England					
Euro deposits – EC Twinning Projects	€	0.6m	0.7m	1.1m	0.2m
Euro deposits – VAT on E-Services	€	-	28.8m	28.8m	-

35.2 Seized monies and other assets

The Department manages Sterling and US dollar interest-bearing accounts at the Bank of England containing seized monies. The Department also holds cash and other significant non-monetary assets retained as physical evidence in connection with ongoing legal proceedings. These are not Departmental assets but are held as part of the Department's law enforcement activities and as such do not form part of these accounts. Once legal proceedings have been completed any seized cash is either forfeited to the Home Office, confiscated by the court or, if the defendant is found not guilty, returned.

Where seized assets are forfeited to HMRC without legal proceedings, proceeds from the sale are paid to the Exchequer as CFER within 'Other amounts collectable on behalf of the Consolidated Fund' (note 5).

The assets held at the balance sheet date to which it was practical to ascribe monetary values comprised monetary assets such as bank balances and monies on deposit. They are set out in the table immediately below.

		31 March 2008	Gross inflows	Gross outflows	31 March 2009
Monies on deposit at the Bank of England					
Sterling deposits	**£**	**16.0m**	**15.8m**	**15.6m**	**16.2m**
US Dollar deposits	**$**	**1.0m**	**–**	**–**	**1.0m**

Other significant assets held at the balance sheet date to which it was not practical to ascribe monetary value comprised:

	31 March 2008 Number	31 March 2009 Number
Motor vehicles	**1,070**	**899**
Vessels	**3**	**4**

36. Entities within the departmental boundary

The entities within the boundary during 2008-09 were as follows:

- Supply-financed agencies – Valuation Office Agency
- Non-departmental public bodies – None
- Others – None

The Annual Report and Accounts of the Valuation Office Agency are published separately and can be viewed at www.voa.gov.uk.

37. Post balance sheet events

There are no reportable post balance sheet events. The financial statements were authorised for issue by the Principal Accounting Officer on 16 July 2009.

Accounts Direction given by HM Treasury in accordance with Section 5 (2) of the Government Resources and Accounts Act 2000 and with Section 2 (3) of the Exchequer and Audit Departments Act 1921

The Accounts Direction given by HM Treasury in accordance with section 5 (2) of the Government Resources and Accounts Act 2000 and with section 2 (3) of the Exchequer and Audit Departments Act 1921, covering both the Resource Accounts and the Trust Statement is shown on page 103.

Trust Statement

Principal Accounting Officer's Foreword to the Trust Statement

Scope

HM Revenue & Customs (HMRC) is a non-Ministerial Government Department. It is responsible for collecting direct and indirect taxes, making payments of tax credits and child benefit, collecting repayments of student loans, enforcing payment of the national minimum wage and enforcing Government requirements relating to the movement of goods across the UK national and the EU common frontier. The Trust Statement reports the revenues and expenditures and assets and liabilities related to the taxes and duties for the financial year 2008-09 and reports the full year's activity of HMRC. The costs of running HMRC, and payments of Child Benefit and Child Trust Fund, are reported in the Departmental Resource Accounts.

The taxes and duties which HMRC has accounted for in this Trust Statement are:

- Income, Corporation, Capital Gains, Inheritance, Insurance Premium, Stamp and Petroleum Revenue taxes
- Value Added Tax (VAT)
- Excise duties
- Customs duties
- Betting and Gaming duties
- Air Passenger Duty
- Environmental taxes: climate change levy, aggregates levy and landfill tax
- National Insurance Contributions (NICs)
- Tax Credits and
- Recovery of Student Loan repayments

In their 2008-09 Resource Accounts HM Treasury refer to the Government's Asset Protection Scheme and in particular to a participant meeting part of its payment obligations under the scheme by surrendering accumulated trading losses leading to payments of Corporation Tax which would not otherwise have been made. These accounts do not contain any adjustments to income or debtors in respect of this scheme as no additional Corporation Tax is due yet. This additional Corporation Tax will be shown in income and debtors in future years when it is received/receivable.

RN Ltd, a company registered in 1933, is used by HMRC as a nominee to hold charges securing tax debts owed to HMRC. These debts are already fully reflected in the Trust Statement. RN Ltd also holds as nominee and on behalf of HMRC assets that have been assigned to HMRC in settlement of debts.

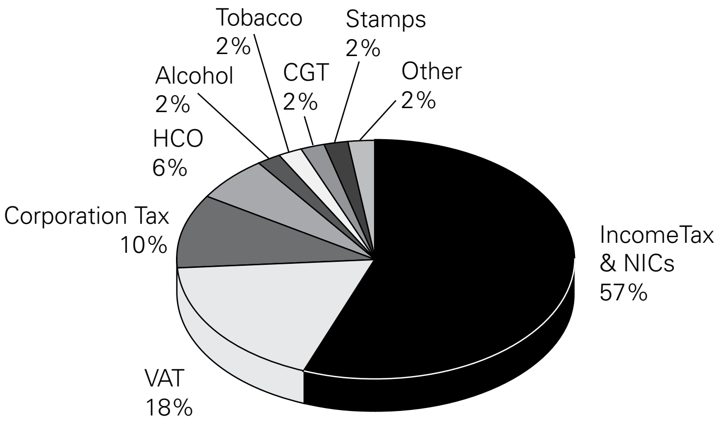
The general direction and priorities for HMRC were set out in the remit letter issued to the Chairman by the Chancellor of the Exchequer on 7 April 2005. HMRC's aim and objectives are stated in the Annual Report to the Resource Accounts, which also provide details of its Management, and includes a Management Commentary.

Financial Review of 2008-09 Trust Statement

1. Total Revenue

The total revenue is £435.7 billion, a decrease of £21.7 billion (4.7 per cent) on last year. This is mainly due to reduced Value Added Tax, Corporation Tax, Stamp Taxes and Income Tax revenues.

Taxes and duties as a percentage of total revenue



The nine taxes and duties specifically named above (Income Tax & National Insurance Contributions [IT & NICs] being reported together) between them account for 97.5 per cent of HMRC revenue in 2008-09

Total revenue is shown before deduction of revenue losses, the increase in provision for doubtful debt and the provision for liabilities provided in the year. In order to analyse revenue from taxes and duties after these changes, the Statement of Revenue and Expenditure should be viewed in conjunction with notes 8 and 9.

	2008-09 £ billion
Total Revenue	435.7
Revenue Losses and increase in Provision for Doubtful Debts (note 8)	(7.9)
Provision for Liabilities provided in the year (note 9)	(7.2)
Total Revenue less items noted above	**420.6**

2. Comparison by Tax Type

2.1 Income Tax & National Insurance Contributions

Income Tax and NICs account for 56.8 per cent of total revenue at £5.7 billion (2.3 per cent) lower than 2007-08.

The reduction is mainly due to a sharp fall in employee bonuses, particularly in the financial sector, and changes to income tax rates and allowances, including the £600 increase in the personal allowance to compensate for the abolition of the 10p starting rate and the reduction in the basic rate from 22 per cent to 20 per cent.

2.2 Value Added Tax

VAT accounts for 18.0 per cent of total revenue at £6.4 billion (7.5 per cent) lower than in 2007-08.

In year VAT receipts are monitored on a cash basis and decreased by £2.4 billion compared to 2007-08.

However year-end accounts are produced on an accruals basis; these accruals have further decreased, mainly due to a reduction in the estimated accrued revenue receivable.

Economic conditions started to reduce cash receipts in the second half of the year (although offset by growth in the first part of the year) and the continuing impact of economic conditions is also reflected in the fall in accrued revenue receivable.

Policy measures introduced in 2008-09 to counteract the effects of the economic climate affected both cash and accruals. These changes allowed taxpayers to arrange payments over a longer period and reduced the VAT rate from 17.5 per cent to 15 per cent.

2.3 Corporation Tax

Corporation Tax accounts for 9.6 per cent of total revenue. Revenues are £5.0 billion (10.7 per cent) lower than in 2007-08. There are higher total revenues from (Off-shore) North-Sea oil companies because of the steep increase in world oil prices up to the middle of 2008 and a corresponding rise in UK gas prices.

These increases are offset by lower net revenue from (On-shore) Non North-Sea oil companies due to adverse economic conditions, particularly in the financial sector, following turbulent conditions during the second half of the year. In addition changes in policy, the largest of which being a decrease in the main rate of On-shore Corporation Tax from 30 per cent to 28 per cent with effect from 1 April 2008 contribute to the decrease.

2.4 Hydrocarbon Oils Duties

Hydrocarbon Oils Duties account for 5.7 per cent of total revenue at £0.2 billion (0.8 per cent) lower than 2007-08. This decrease in revenue is largely due to economic factors, particularly high oil prices at the start of the year and slower economic growth in the second half of the year but these factors are partly offset by higher duty rates introduced on 1 December 2008.

2.5 Alcohols

Alcohol Duties account for 2.0 per cent of total revenue at £0.2 billion (2.4 per cent) higher than in 2007-08. Duty rate increases, on 17 March 2008 and again on 1 December 2008, increased 2008-09 receipts but were partly offset by falling sales particularly for wines and beers. The 2008-09 revenue increase was also partly offset by the trade's anticipation of the 2008 Budget duty rate rises which led to heightened activity towards the end of 2007-08.

2.6 Capital Gains Tax

Capital Gains Tax accounts for 1.9 per cent of total revenue at £2.7 billion (49.1 per cent) higher than in 2007-08. CGT receipts in 2008-09 are largely determined by asset disposals made in the 2007-08 tax year and are highly susceptible to fluctuations in the equity and property markets. A £1.2 billion increase in receipts is largely due to changes in policy measures where investors made use of time allowed to them to re-arrange their affairs ahead of the abolition of taper relief when the CGT regime was reformed in the 2007 Pre Budget Report. Other economic factors in the increase are changes to the volume and price of equity and property.

2.7 Tobacco

Tobacco Duties account for 1.8 per cent of total revenue at £0.1 billion (1.3 per cent) lower than in 2007-08. This is explained by the continued decline in tobacco consumption partly offset by duty rate rises and also a possible increase in the share of UK duty paid sales as economic factors reduced the competitiveness of products purchased abroad.

2.8 Stamp Taxes

Stamp taxes account for 1.7 per cent of total revenue at £6.1 billion (44.5 per cent) lower than in 2007-08. The decrease is mainly due to reduced transaction volumes and prices for residential and commercial property and for shares. In addition there is a relatively small contribution to the fall from the temporary exemption to stamp duty land tax for residential properties sold at no more than £175,000, introduced on 3 September 2008.

2.9 Other Taxes & Duties

The remaining minor taxes and duties account for 2.5 per cent of the total revenue.

3. Movement in Accrual Adjustments

3.1 Debtors and Accrued Revenue Receivable (Note 6)

The total of debtors and accrued revenue receivable, before the provision for doubtful debt, decreased by £12.8 billion (12.1 per cent) between 31 March 2008 and 31 March 2009.

Debtors increased by £2.7 billion (10.8 per cent), mainly due to the economic downturn. This has resulted in increased levels of debt being managed through instalment arrangements.

Accrued Revenue Receivable decreased by £15.5 billion (19.2 per cent), mainly relating to Income Tax (£5.4 billion), VAT (£5.0 billion) and Corporation Tax (£3.9 billion). The decrease reflects both the current economic downturn and changes in policy, such as the VAT rate reduction from 17.5 per cent to 15 per cent.

3.2 Provision for Doubtful Debt (Note 8.4)

	2008-09 **£ billion**	**2007-08** **£ billion**
Debtors	27.7	25.0
Provision	11.2	7.9
Provision as a percentage of Debtors	**40.4 per cent**	**31.6 per cent**

Provision for doubtful debt increased by £3.3 billion (42 per cent). The increase reflects the current economic downturn and takes account of the £2.7 billion increase in debtors, falling debt collection rates and likely increases in corporate and personal insolvencies.

3.3 Creditors, Accrued Revenue Payable & Deferred Revenue (Note 7)

The total of creditors, accrued revenue payable and deferred revenue decreased by £2.7 billion (6.5 per cent). The decrease reflects both the current economic downturn and changes in policy, such as the VAT rate reduction from 17.5 per cent to 15 per cent.

3.4 Revenue Losses (Note 8.2)

Revenue losses decreased by £1.3 billion (22 per cent), from £5.9 billion in 2007-08 to £4.6 billion in 2008-09. This is mainly due to a significant decrease of £1.3 billion in VAT losses. This decrease was caused by a fall in the number of large value cases where revenue losses resulted from the activities of fraudulent companies.

4. Comparison of Movement over the last 5 years

	2008-09 £ billion	2007-08 £ billion	2006-07 £ billion	2005-06 £ billion	2004-05 £ billion
Total revenue	435.7	457.4	436.9	405.2	379.2
Variance to prior year	(21.7)	20.5	31.7	26.0	–
Variance to prior year (%)	(4.7)%	4.7%	7.8%	6.9%	–
Annual money GDP growth rate (%)	1.3%[1]	5.6%	5.9%	4.7%	4.8%
Revenue as a % of GDP	30.5%[2]	32.2%	32.5%	31.9%	31.3%

[1] Outturn figures not available so growth rate based on HM Treasury (HMT) estimate contained in Table C1 of the 2009 Financial Statement & Budget Report (FSBR).
[2] Uses the HMT estimate of Gross Domestic Product (GDP) contained in Table C1 of the 2009 FSBR.

The downturn in revenue in 2008-09 is mainly due to a decline in VAT revenue (see section 2.2 'VAT'), Corporation Tax (see section 2.3 'Corporation Tax'), Stamp Taxes (see section 2.8 'Stamp Taxes') and Income Tax (see section 2.1 'Income Tax & National Insurance Contributions').

In 2008-09 revenue fell by 4.7 per cent compared to a 1.3 per cent increase in GDP. As a result revenue as a percentage of GDP fell from 32.2 per cent to 30.5 per cent.

5. Tax Credits

Tax credits accrued payments when compared to last year were £4.2 billion (21.5 per cent) higher of which:

- £1.7 billion is due to policy changes (which increased the Working Tax Credit threshold and the value of the child element above average earnings);
- £1.9 billion due to higher expenditures on in-work families (changes in the composition of these recipients and an increase in people who have reported falls in their income compared with the previous year), and
- £0.6 billion due to an increase in the number of out of work families receiving tax credits.

Basis for the Preparation of the 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 relating to the collection and allocations of taxes and duties and the revenue income and expenditure and cash flows for the financial year. Regard shall be given to all relevant accounting and disclosure requirements given in *Managing Public Money* and other guidance issued by HM Treasury and the principles underlying UK Generally Accepted Accounting Practice (UK GAAP).

HMRC has worked closely with HM Treasury to ensure that the accounting policies that underpin these accounts are comprehensive, appropriate, and supported to a sufficient level of detail by reports from Departmental business systems.

Owing to the diverse nature of the taxes and duties administered by HMRC, a variety of methods are used to produce the relevant accruals information.

Selection of Appropriate Accounting Policies for the Trust Statement and Use of Judgements and Estimates

As Principal Accounting Officer, it is my responsibility to apply suitable accounting policies in the preparation of the Trust Statement. The underlying approach to accruals measurement is that revenues from taxation are deemed to accrue evenly over the (tax return) period for which they are due. Revenues are recognised in the period in which the event that generates the revenue occurs.

In respect of the direct taxes, the nature of tax legislation and our associated systems, some of the accrued revenue receivable figures and some other items are subject to statistical estimation or forecasts. We have used estimates for a number of taxation streams because the majority of tax returns reporting taxpayer liabilities are not required to be sent to us until several months after the Trust Statement has been published.

In preparing our estimates we have to take account of areas of uncertainty around those factors which determine future revenue flows. We therefore have to make complex judgements concerning some of these factors and we have procedures in place to do this.

We use statistical models to derive the estimates. These are based on a combination of projections based on the most recent revenue flows and forecasts of economic variables on which future revenue flows depend. We have based these forecasts on what we believe to be the relevant inputs. However, because of the areas of uncertainty involved, there will inevitably be differences between our forecasts and future outturns. These differences arise because of the need to make judgements on areas of uncertainty and are not indicative of deficiencies in our models. We believe that the levels of variation are acceptable with a maximum likely overall uncertainty expected to be some £4 billion, which does not significantly affect the reported position. This figure is equivalent to less than 1 per cent of total revenue reported in the Statement of Revenue and Expenditure.

This maximum likely overall uncertainty is based on a combination of evidence from the performance of the models over previous years and the judgement of professional departmental economists and statisticians having substantial experience of forecasting in the area of direct taxes.

The accuracy of the estimates included in the 2007-08 Trust Statement has been reviewed as more recent data has become available, and I can confirm that they were within the levels of overall uncertainty quoted there.

Accrued revenue receivable is separately estimated for each revenue stream and component of income tax. The estimates used are those prepared for Budget 2009 on the basis of the economic assumptions provided by HM Treasury. The most important of these assumptions were that profits from self-employment profit rose by 2 per cent in 2008-09, while savings and dividend income fell by 36 per cent and 27 per cent respectively.

In respect of indirect taxes, accrued revenue receivable and accrued revenue payable are estimated for VAT, as the amounts involved are material. Estimation techniques are not required for other indirect taxes and duties where actual data is available.

No tax collection system can ensure that all those who have a tax liability comply with their obligations. Whilst the Department is concerned with compliance, the Trust Statement does not include estimates of taxes foregone as a result of avoidance and non-compliance with taxpayers' obligations.

Auditors

The Trust Statement is audited by the Comptroller and Auditor General under Section 2 of the Exchequer and Audit Departments Act 1921. The auditor's notional remuneration for this is included in HMRC's Resource Accounts.

No non-audit work was carried out by the auditors for HMRC.

Lesley Strathie
Principal Accounting Officer
9 July 2009

Statement of the Principal Accounting Officer's Responsibilities in Respect of the Trust Statement

HM Treasury has appointed the Chief Executive as Principal Accounting Officer of HMRC with overall responsibility for preparing the Trust Statement and for transmitting it to the Comptroller and Auditor General.

The Principal Accounting Officer for HMRC is responsible for ensuring that there is a high standard of financial management, including a sound system of internal control; that financial systems and procedures promote the efficient and economical conduct of business and safeguard financial propriety and regularity; that financial considerations are fully taken into account in decisions on policy proposals; and that risk is considered in relation to assessing value for money.

The Principal Accounting Officer is responsible for the fair and efficient administration of the tax system, including the assessment, collection and proper allocation of revenue, and payment of tax credits and other entitlements.

Under section 2(3) of the Exchequer and Audit Departments Act 1921, the Principal Accounting Officer is responsible for the preparation and submission to the Comptroller and Auditor General of a Trust Statement for HMRC for the financial year 2008-09. In conforming with HM Treasury direction (see page 103 of this Trust Statement), the Trust Statement reports the revenue collected and expenditure in respect of taxes, duties, National Insurance Contributions, tax credits and Student Loan recoveries administered by HMRC during the year, together with the net amounts surrendered to the Consolidated Fund.

The Trust Statement is prepared on an accruals basis, except for Corporation Tax for small companies, Stamp Duty and National Insurance Classes 1A, 1B and 3, which are accounted for on a cash basis. The Trust Statement must give a true and fair view of the state of affairs of HMRC, including a Statement of Revenue and Expenditure, a Balance Sheet, and a Cash Flow Statement.

The Trust Statement includes a Statement on Internal Control (SIC) which sets out the governance, risk and control arrangements for HMRC. The SIC process is firmly and clearly linked to the risk management process in HMRC.

In preparing the Trust Statement, the Principal Accounting Officer is required to:

- observe the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards have been followed and disclose and explain any material departures in the account.

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which an Accounting Officer is answerable, for keeping proper records and for safeguarding the Department's assets, are set out in the Accounting Officers' Memorandum issued by HM Treasury and published in *Managing Public Money*.

Statement on Internal Control

The Department's Statement on Internal Control, covering both the Resource Accounts and the Trust Statement, is shown on pages 1 to 10.

The Certificate of the Comptroller and Auditor General to the House of Commons

I certify that I have audited HM Revenue & Customs' (the Department's) Trust Statement for the year ended 31 March 2009 under the Exchequer and Audit Departments Act 1921, as amended by the Government Resources and Accounts Act 2000. The Trust Statement comprises the Statement of Revenue and Expenditure, the Balance Sheet, the Cash Flow Statement and the related notes. The Trust Statement has been prepared under the accounting policies set out within the notes to the Statement.

Respective responsibilities of the Accounting Officer and auditor

The Accounting Officer is responsible for preparing the Foreword and the Trust Statement in accordance with Section 2(3) of the Exchequer and Audit Departments Act 1921, as amended by the Government Resources and Accounts Act 2000 and HM Treasury directions made thereunder, and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Principal Accounting Officer's Responsibilities.

My responsibility is to audit the Trust Statement in accordance with relevant legal and regulatory requirements, including Section 2 of the Exchequer and Audit Departments Act 1921, as amended by the Government Resources and Accounts Act 2000, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the Trust Statement gives a true and fair view and has been properly prepared in accordance with HM Treasury directions issued under the Exchequer and Audit Departments Act 1921, as amended by the Government Resources and Accounts Act 2000. I report to you whether, in my opinion, the information in the Principal Accounting Officer's Foreword to the Trust Statement is consistent with the financial statements. I also report whether in all material respects the revenue and expenditure have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In addition, I also report to you if the Department has not kept proper accounting records or if I have not received all the information and explanations I require for my audit.

I review whether the Statement on Internal Control, on pages 1 to 10, reflects the Department's compliance with HM Treasury's guidance, and I report if it does not. In forming an audit opinion on the Trust Statement, I am not required to consider whether the Statement on Internal Control covers all risks and controls, or to form an opinion on the effectiveness of the Department's corporate governance procedures or its risk and control procedures.

I read the other information contained with the Trust Statement and consider whether it is consistent with the audited financial statements. I consider the implications for my opinion if I become aware of any apparent misstatements or material inconsistencies with the Trust Statement. My responsibilities do not extend to any other information.

Basis of audit opinions

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the Trust Statement. It also includes an assessment of the significant estimates and judgements made by the Accounting Officer in the preparation of the Trust Statement, and of whether the accounting policies are most appropriate to the Department's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the Trust Statement is free from material misstatement, whether caused by fraud or error, and that in all material respects the revenue and expenditure have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinions

In my opinion:

- the HM Revenue and Customs Trust Statement gives a true and fair view, in accordance with the Exchequer and Audit Departments Act 1921, as amended by the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of affairs as at 31 March 2009 relating to the collection and allocation of taxes, duties, national insurance contributions, tax credits and student loan recoveries and related expenditures administered by the Department, and the revenue income and expenditure and cash flows for the year then ended;
- the Trust Statement has been properly prepared in accordance with HM Treasury directions issued under the Exchequer and Audit Departments Act 1921, as amended by the Government Resources and Accounts Act 2000; and
- information in the Principal Accounting Officer's Foreword to the Trust Statement is consistent with the financial statements.

Emphasis of Matter: significant uncertainty in the estimates of accrued revenue receivable and accrued revenue payable

In forming my opinion on the truth and fairness of the Trust Statement, which is not qualified, I have considered the adequacy of the disclosures made in Notes 6 and 7 on the estimates of accrued tax revenue receivable of £65.1 billion and accrued revenue payable of £22.4 billion at 31 March 2009. As described in Note 6.1.4, the Department considers that the combined accrued revenue receivable and accrued revenue payable at 31 March 2009 are subject to maximum likely uncertainty of £4 billion in either direction, equivalent to less than one per cent of total revenue reported in the Statement of Revenue and Expenditure. The significant uncertainty is adequately disclosed in the Trust Statement.

Qualified opinion on regularity: tax credits error and fraud

The Trust Statement records £23.7 billion of tax credits in 2008-09. As shown in Note 3.3 to the Trust Statement, the Department's latest estimate is that in 2007-08 error and fraud resulted in overpayments of between 7.9 per cent to 9.2 per cent of the final award by value to which claimants were not entitled. Note 3.3 also shows that the Department estimates that error led to underpayments of between 0.8 per cent to 1.4 per cent of the final award by value. Where fraud and error result in over or underpayment of tax credits the transactions are not in conformity with the Tax Credits Act 2002 and related regulations which specify the criteria for entitlement to tax credits and the method to be used to calculate the award.

The Department currently has no estimate of the total level of error and fraud in the tax credit awards made in 2008-09 and therefore no evidence to demonstrate a lower estimate for overpayments and underpayments attributable to error and fraud in 2008-09. Accordingly, I have been unable to confirm that, in all material respects, tax credits awards are in conformity with the authorities which govern them and have been applied for the purposes intended by Parliament. I have therefore qualified my audit opinion on the regularity of tax credits because of the probable level of overpayments attributable to fraud and error which have not been applied to the purposes intended by Parliament; and because of the probable level of under and over payments in tax credits expenditure which are not in conformity with the relevant authorities.

In my opinion, except for the probable level of error and fraud in tax credits, in all material respects the revenue and expenditure have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Report

Details of these matters are set out in paragraphs 1.13 to 1.17 and 5.18 to 5.32 of my Report on HM Revenue and Customs 2008-09 Accounts.

Amyas C E Morse
Comptroller and Auditor General
16 July 2009

National Audit Office
151 Buckingham Palace Road
Victoria
London SW1W 9SS

Statement of Revenue and Expenditure for the year ended 31 March 2009

	Notes	2008-09 £ billion	2007-08 £ billion
Taxes and Duties			
Income Tax		149.6	155.1
Value Added Tax	2.1	78.5	84.9
Corporation Tax	2.2	41.8	46.8
Hydrocarbon Oils Duties		24.7	24.9
Alcohol Duties		8.5	8.3
Capital Gains Tax		8.2	5.5
Tobacco Duties		7.9	8.0
Stamp Taxes	2.3	7.6	13.7
Other Taxes and Duties	2.4	15.4	15.6
Tax Credits treated as Negative Taxation	3.1	(5.3)	(4.2)
Total Taxes and Duties		**336.9**	358.6
Other Revenue			
National Insurance Contributions	4.1	98.0	98.2
Student Loan Recoveries	4.3	0.8	0.6
Total Other Revenue		**98.8**	98.8
Total Revenue		**435.7**	457.4
Less Expenditure			
Tax Credits treated as Payments of Entitlement	3.1	(18.4)	(15.3)
Bad and Doubtful Debts	8.1	(7.9)	(7.2)
Provision for Liabilities	9	(7.2)	(0.8)
Total Expenditure		**(33.5)**	(23.3)
Less Disbursements			
National Insurance Contributions due to the National Insurance Funds and National Health Services	4.1	(97.5)	(97.6)
Student Loan Recoveries due to the Department for Innovation, Universities and Skills	4.3	(0.8)	(0.6)
Total Disbursements		**(98.3)**	(98.2)
Total Expenditure and Disbursements		**(131.8)**	(121.5)
Net Revenue for the Consolidated Fund		**303.9**	335.9

There were no recognised gains or losses accounted for outside the above Statement of Revenue and Expenditure.

The notes at pages 88 to 102 form part of this Statement.

Balance Sheet as at 31 March 2009

	Notes	31 March 2009 £ billion	31 March 2008 £ billion
Debtors falling due after more than one year	6	**1.4**	2.8
Current Assets			
Debtors	6	15.1	14.3
Accrued Revenue Receivable	6	65.1	80.6
Cash at Bank and in Hand		0.7	0.8
		80.9	95.7
Current Liabilities			
Creditors	7	15.9	19.0
Accrued Revenue Payable	7	22.4	22.2
Deferred Revenue	7	0.8	0.6
Other Payables		0.9	1.0
		40.0	42.8
Net Current Assets		**40.9**	52.9
Total Assets less Current Liabilities		**42.3**	55.7
Provision for Liabilities	9	**8.5**	2.2
Total Net Assets		**33.8**	53.5
Represented by:			
Balance on Consolidated Fund Account	10	**33.8**	53.5

The notes at pages 88 to 102 form part of this Statement.

Lesley Strathie
Principal Accounting Officer
9 July 2009

Cash Flow Statement for the year ended 31 March 2009

	Notes	2008-09 £ billion	2007-08 £ billion
Net Cash Flow from Revenue Activities	A	323.6	338.0
Cash paid to Consolidated Fund		(323.6)	(337.7)
Increase/(Decrease) in Cash in this period	B	**–**	0.3

Notes to the Cash Flow Statement

A: Reconciliation of Net Cash Flow to movement in Net Funds

	2008-09 £ billion	2007-08 £ billion
Net revenue for the Consolidated Fund	303.9	335.9
Decrease in Non-cash Assets	16.1	1.0
Decrease in Liabilities	(2.7)	1.1
Increase in Provision for Liabilities	6.3	–
Net Cash Flow from Revenue Activities	**323.6**	338.0

B: Analysis Of Changes in Net Funds

	2008-09 £ billion	2007-08 £ billion
Increase/(Decrease) in Cash in this period	–	0.3
Net Funds as at 1 April (Opening Cash at Bank)	(0.2)	(0.5)
Net Funds as at 31 March (Closing Cash at Bank)	**(0.2)**	(0.2)

Notes to the Trust Statement

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 the Exchequer and Audit Departments Act 1921. The Trust Statement is prepared in accordance with the accounting policies detailed below. These have been developed by HM Revenue & Customs (HMRC) in consultation with HM Treasury, and with reference to UK GAAP and other relevant guidance. The accounting policies have been applied consistently in dealing with items considered material in relation to the accounts. The impact of International Financial Reporting Standards (IFRS) on the Trust Statement is being examined by HMRC but it is not expected that major changes to accounting policies or disclosures will be required.

The financial information presented in the primary statements is rounded to the nearest £0.1 billion. The financial information presented in the notes to the financial statements is rounded to the nearest £0.1 billion except for Certificates of Tax Deposit, Student Loan Recoveries, tax revenue due to the Isle of Man, revenue losses and provision for liabilities which are rounded to the nearest £1 million.

1.2 Accounting Convention

The Trust Statement has been prepared in accordance with the historical cost convention. Taxes and duties are accounted for on an accruals basis, except for Corporation Tax for small companies, Stamp Duty and National Insurance Classes 1A, 1B and 3, which are accounted for on a cash basis.

1.3 Revenue Recognition

Taxes and Duties Recognised on an Accruals Basis

Taxes and duties are measured at the fair value of the consideration received or receivable net of repayments. 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. Note 6 provides an explanation of Accrued Revenue Receivable.

Taxable events for the material tax streams are as follows:

- Income Tax – earning of assessable income during the taxation period by the taxpayer
- Value Added Tax – undertaking of taxable activity during the taxation period by the taxpayer
- Corporation Tax – earning of assessable profit during the taxation period by the taxpayer
- Excise duties – movement of goods out of a duty suspended warehouse
- Hydrocarbon Oils Duty – production of taxable goods
- Stamp Taxes (Stamp Duty Land Tax and Stamp Duty Reserve Tax) – purchase of property or shares
- Inheritance Tax – the date of agreement of assessment, after death or other chargeable transfer of value
- Capital Gains Tax – disposal of a chargeable asset leading to a taxable gain

Revenues are deemed to accrue evenly over the period for which they are due. No revenue is recognised if there are significant uncertainties regarding recovery of the taxes and duties due.

Repayments of indirect taxes, for example VAT and Hydrocarbon Oils, are accounted for on an accruals basis.

Taxes Recognised on a Cash Basis

Taxes are recognised in the accounting period in which the tax receipt is received and are measured at the cash amount received.

Repayments of Income Tax are recognised in the year the repayment is made.

Tax Credits

Tax credits are recognised in the year in which they are assessed and authorised by HMRC. Authorisation is the point at which the obligation to pay the tax credit arises.

Tax credits are presented as Negative Taxation to the extent that the tax credits are less than or equal to the recipient family's income tax liability and as Payments of Entitlement where tax credits exceed the recipient family's income tax liability. This is consistent with the Organisation for Economic Co-operation and Development's classification rules and international practice for the calculation of net taxes and social security contributions.

Payments of tax credits are provisional until entitlement is finalised after the financial year end. Under-payments are accounted for on a cash basis in the year of payment. Over-payments are recovered from future tax credit awards or through repayments by claimants.

National Insurance Contributions

National Insurance Contributions are collected by HMRC on behalf of the National Insurance Funds of Great Britain and Northern Ireland, and the Health Services for England, Wales, Scotland and Northern Ireland. They are payable to the Funds and the Health Services when received. For 2008-09 an allocation has been made between income tax and Class 1 National Insurance Contributions based on the Department's best estimate of the amounts of each likely to be reported in employers' end of year returns. The estimates are re-assessed when the end of year returns are available and a compensating correction is made in the next year's Trust Statement. At year end, the difference between the revised estimated NIC receipts and amounts which have been paid over to National Insurance Funds and NHS funds is recognised as a creditor or debtor as appropriate. Amounts due from taxpayers to HMRC but not received at the balance sheet date are included as accrued revenue payable in respect of the Funds and Health Services.

Student Loan Recoveries

HMRC collects Student Loans that are recovered through the taxes system on behalf of the Department for Innovation, Universities and Skills (DIUS)[1]. Student loan recoveries are accounted for on the basis of estimated cash collected during the year. The actual amounts recovered during the year are only known after the year end when employers submit their annual returns. Estimates of receipts are made in year using an estimation model and at year end are updated based on the latest figures of employer returns processed. At the year end the difference between estimated receipts (recoveries) and pay-over to DIUS is shown as a debtor or creditor. Differences between estimated and actual recoveries are adjusted and accounted for in the following year.

1.4 Debtors

Debtors are shown net of a provision for doubtful debts.

1.5 Provisions and Contingent Liabilities

Provisions for legal claims 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.

[1] On 5 June 2009 DIUS and BERR merged to become the new Department for Business, Innovation and Skills (BIS).

Contingent liabilities are cases where it is probable that HMRC will be required to settle the obligation and is unable to reliably estimate the amount, or where it is possible that HMRC will be required to settle the obligation. These are not disclosed where disclosure could seriously prejudice the outcome of legal claims against the Department.

2 Taxes and Duties Due

2.1 Value Added Tax

	2008-09 £ billion	2007-08 £ billion
Gross VAT Revenue	139.6	146.5
Less: Revenue Repayable	(61.1)	(61.6)
Net VAT Revenue	**78.5**	84.9

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.

2.2 Corporation Tax

The Corporation Tax revenue of £41.8 billion (2007-08: £46.8 billion) is net of Land Remediation Relief, Research and Development Tax Credits and Film Tax Relief. The estimated figures for the payable elements of these credits are £1 million (2007-08: £1 million) for Land Remediation Relief, £150 million (2007-08: £147 million) for Research and Development and £90 million for Film Tax Relief (2007-08: £117.2 million).

2.3 Stamp Taxes

	2008-09 £ billion	2007-08 £ billion
Stamp Duty Land Tax	4.4	9.5
Stamp Duty Reserve Tax	2.9	3.6
Stamp Duty	0.3	0.6
	7.6	13.7

2.4 Other Taxes and Duties

	Note	2008-09 £ billion	2007-08 £ billion
Inheritance Tax		2.5	3.9
Petroleum Revenue Tax		2.5	1.6
Insurance Premium Tax		2.3	2.3
Customs Duties		2.2	2.1
Air Passenger Duty		1.9	1.9
Betting and Gaming Duties		1.5	1.5
Landfill Tax	2.5	1.0	0.9
Climate Change Levy		0.8	0.7
Agricultural Duties		0.4	0.4
Aggregates Levy		0.3	0.3
Total Revenue Due		**15.4**	15.6

2.5 Landfill Tax

The Landfill Tax revenue of £985 million (2007-08: £878 million) is net of £61 million (2007-08: £59.8 million) contributions made to environmental bodies by landfill operators, under the Landfill Communities Fund (formerly the Landfill Tax Credit Scheme).

Landfill Tax was introduced on 1 October 1996 as a tax on the disposal of waste through landfill. It is levied on landfill operators by weight of refuse disposed in landfill sites. The Landfill Communities Fund was introduced at the same time as the tax. It allows operators to claim tax credits for contributions they make to approved environmental bodies for environmental improvement works in the vicinity of landfill sites. The recipients spend the contributions which meet one of the objectives specified in the Landfill Tax Regulations. Operators can contribute up to 6 per cent of their landfill tax liability and reclaim 90 per cent of the contributions they make as a tax credit. ENTRUST is a not-for-profit private sector company which acts as regulator of the Landfill Communities Fund and is an arm's length body of HMRC.

3 Tax Credits

3.1 Analysis of Tax Credit Expenditure:

	Child Tax Credits 2008-09 £ billion	**Working Tax Credits 2008-09 £ billion**	**Total Tax Credits 2008-09 £ billion**	**Child Tax Credits 2007-08 £ billion**	**Working Tax Credits 2007-08 £ billion**	**Total Tax Credits 2007-08 £ billion**
Tax Credits treated as Negative Taxation	3.6	1.7	5.3	3.0	1.2	4.2
Tax Credits treated as Payments of Entitlement	12.6	5.8	18.4	10.7	4.6	15.3
Total Tax Credits	**16.2**	**7.5**	**23.7**	13.7	5.8	19.5

The division of amounts between Child and Working Tax Credits is based on estimates. Note 1.3 provides an explanation of Negative Tax and Payments of Entitlement.

3.2 Tax Credit Debtors

	Note	**2008-09 £ billion**	**2007-08 £ billion**
Debtors as at 1 April	6	4.3	3.9
Overpayments identified on finalisation of awards		0.5	0.7
Overpayments identified from change of circumstances in year		0.7	0.7
Recoveries made		(0.9)	(0.8)
Remissions/Write-offs	8.2	(0.3)	(0.2)
Debtors as at 31 March	6	**4.3**	4.3
Provision for doubtful debts		(2.3)	(1.8)
Net		**2.0**	2.5

As a result of the finalisation exercise undertaken in 2008-09 further overpayments relating to tax credits paid in 2007-08 totalling £500 million were identified. Adjustments made to payments in 2003-04, 2004-05, 2005-06 and 2006-07 resulted in a net £1.6 million underpayment. These have been accounted for in 2008-09.

In accordance with the accounting policy for tax credits (Note 1.3), amounts under or over paid in 2008-09 and identified during the finalisation exercise being undertaken in 2009-10 are not included in the above figures. It is expected that the values of under and over payments arising from the 2008-09 finalisation exercise will be of the same order as those from the 2007-08 exercise.

Remissions and write-offs in 2008-09 include £31.9 million written off in respect of organised fraud identified during the year.

3.3 Tax Credits Error and Fraud

HMRC measures the overall level of error and fraud by investigating a random sample of finalised awards, although the design of the tax credits scheme affects the speed with which it can complete this work. Some claimants, such as those taxpayers included with Self Assessment, may not finalise their awards for the preceding year until 31 January.

In June 2009, HMRC completed its testing on finalised awards for 2007-08, based on a sample of some 4,111 random enquiries. As a result, HMRC estimates that error and fraud resulted in overpayments of between £1.58 billion and £1.84 billion (7.9 per cent to 9.2 per cent of the final award by value) being paid to claimants to which they were not entitled. In addition, HMRC estimates that error resulted in underpayments of between £0.17 billion and £0.28 billion (0.8 per cent to 1.4 per cent of the final award by value) not being paid to claimants to which they were entitled.

4 Other Revenue

4.1 National Insurance Contributions

	Note	**Net Revenue 2008-09 £ billion**	**Net Revenue 2007-08 £ billion**
Revenue		98.0	98.2
Remissions and Write-offs	8.2	(0.5)	(0.6)
Net Revenue due to the National Insurance Funds and National Health Services for the year		**97.5**	97.6

	Net Revenue 2008-09 £ billion	**Cash Paid to NIFs/NHS 2008-09 £ billion**
National Insurance Fund – Great Britain	74.5	73.6
National Insurance Fund – Northern Ireland	1.4	1.6
National Health Services (NHS)	21.6	22.5
Totals	**97.5**	**97.7**

Balances owing to/(due from) the National Insurance Funds (NIF) and NHS as at 31 March 2009 were:

- NIF Great Britain: £2.8 billion (opening balance at 1 April 2008: £1.8 billion)
- NIF Northern Ireland: (£0.4 billion) (opening balance at 1 April 2008: (£0.2 billion))
- NHS: Nil balance (opening balance at 1 April 2008: £0.8 billion)

The combined balance of £2.4 billion is included within creditors (Note 7).

National Insurance Contributions are paid over to the National Insurance Funds and National Health Services when received and not when accrued.

Almost all Pay-As-You-Earn (PAYE) payments are made as combined payments of income tax and Class 1 National Insurance Contributions without any notification at the time of the breakdown between the two. For 2008-09 an allocation has been made between income tax and Class 1 National Insurance Contributions based on the Department's best estimate of the amounts of each likely to be reported in employers' end of year returns. The estimates are re-assessed when the end of year returns are available and a compensating correction is made in the next year's Trust Statement.

4.2 Certificates of Tax Deposit

Under the Certificate of Tax Deposits (CTD) scheme, HMRC accepts deposits from people liable to UK taxes and other liabilities that are listed in the current Prospectus (details can be found at www.hmrc.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.

Delays in processing between the issue and redemption of CTDs and the transfer of funds to and from the National Loans Fund can result in balances at the year end; these balances are included within debtors or creditors on the Trust Statement Balance Sheet.

Due to the economic downturn there has been a significant increase in the purchasing of CTDs as taxpayers seek greater security for their monies.

	CTD Issues 2008-09 £ million	**CTD Redemptions 2008-09 £ million**	**CTD Total 2008-09 £ million**	**CTD Total 2007-08 £ million**
Receipts	1,284	624	1,908	269
Payments	(1,302)	(619)	(1,921)	(264)
			(13)	5
Balance at 1 April			2	(3)
Balance at 31 March – Included in (debtors)/creditors			**(11)**	2

4.3 Student Loan Recoveries

	2008-09 £ million	**2007-08 £ million**
Receipts	785	581
Payments	(765)	(600)
Balance	20	(19)
Balance at 1 April	(11)	8
Balance at 31 March – Included in creditors/(debtors)	**9**	(11)

The Department recovers Student Loans through the taxes system on behalf of the Department for Innovation, Universities and Skills (DIUS)[2], from those former students eligible to make repayments. Student Loan recoveries are estimated on the basis of the end of year employer returns processed before the Trust Statement is certified. The actual value of Student Loan recoveries is established later in the year, and the difference between the estimate and the actual receipts is adjusted in the Trust Statement for the following year.

There is a net underpayment of £9 million to the DIUS at 31 March 2009 which, with HM Treasury authorisation, will be rectified by increasing payments to DIUS during 2009-10. Any adjustments to the annual figures will be reflected in next year's Trust Statement.

[2] On 5 June 2009 DIUS and BERR merged to become the new Department for Business, Innovation and Skills (BIS).

5 Taxation Revenue due from the Isle of Man

	2008-09 £ million	2007-08 £ million
Opening (debtor)/creditor (amount due from/to IoM in respect of prior year)	(417)	41
IoM Share of Revenue receipts	376	391
Less: Payments made to IoM during the year	(39)	(396)
Less: Revenue collected and retained in IoM	(418)	(453)
Plus: Payments received from IoM	464	–
Balance at 31 March included in debtors	**(34)**	(417)

Under the Isle of Man Act 1979, a revenue sharing agreement exists between the UK and the Isle of Man (IoM) Governments whereby VAT and certain Customs and Excise duties are pooled and shared on an agreed basis.

On 1 April 2007 a revised revenue sharing arrangement based on Gross National Income and forecast receipts came into force and on 5 August 2008 this arrangement was further revised to take account of revenue collected and retained by the IoM resulting in advance monthly payments being made to the IoM or the UK as appropriate. At the end of the year the IoM's annual share of revenue is calculated and adjusted by: the monthly payments made; the amounts collected and retained in the IoM; and any final adjustments in respect of previous years to arrive at the net amount due to/from IoM.

In 2008-09 a one off large payment (£417 million) was made from the IoM which cleared a debtor balance from the 2007-08 Trust Statement. The amount of £34 million due from the IoM at 31 March 2009 was paid in April.

6 Debtors and Accrued Revenue Receivable

	Debtors as at 31 March 2009 £ billion	Accrued Revenue Receivable as at 31 March 2009 £ billion	Total as at 31 March 2009 £ billion	Total as at 31 March 2008 £ billion
Debtors and Accrued Revenue Receivable due within one year:				
Income Tax	6.4	22.1	28.5	33.1
Value Added Tax	7.6	17.8	25.4	29.9
Corporation Tax	3.4	11.0	14.4	17.1
Hydrocarbon Oils Duties	–	1.3	1.3	1.3
Alcohol Duties	0.2	0.5	0.7	0.7
Capital Gains Tax	0.9	–	0.9	0.7
Tobacco	–	0.7	0.7	1.0
Stamp Taxes	0.1	0.3	0.4	0.9
Other Taxes and Duties	0.7	1.6	2.3	2.2
Tax Credit Overpayments	3.0	–	3.0	1.0
National Insurance Contributions	3.3	9.8	13.1	13.2
Isle of Man	–	–	–	0.4
Totals before Provision	25.6	65.1	90.7	101.5
Less Provision	(10.5)	–	(10.5)	(6.6)
	15.1	**65.1**	**80.2**	94.9
Debtors due after more than one year:				
Inheritance Tax	0.8	–	0.8	0.8
Tax Credit Overpayments	1.3	–	1.3	3.3
Totals before Provision	2.1	–	2.1	4.1
Less Provision	(0.7)	–	(0.7)	(1.3)
	1.4	**–**	**1.4**	2.8
Totals before Provision	**27.7**	**65.1**	**92.8**	105.6
Less Provision (Note 8.4)	(11.2)	–	(11.2)	(7.9)
Total	**16.5**	**65.1**	**81.6**	97.7

Debtors represent amounts due from taxpayers or traders in respect of established liabilities for which, at the Balance Sheet date, payments had not been received.

An amount of £0.6 billion is included in the Corporation Tax accrued revenue receivable figure in respect of debts stoodover (postponed) by HMRC pending finalisation of enquiries. Accrued revenue receivable has only been recognised in cases where there is clear evidence that the amount is due to HMRC.

Accrued Revenue Receivable 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 debtors. The majority of these amounts have been estimated using statistical models based on projections of the most recent revenue flows and forecasts of economic variables on which future revenue flows depend.

6.1 Accounting Estimates

Estimates have been provided to support the accrued revenue receivable balances and accrued revenue payable balances where tax returns reporting taxpayer liabilities or associated tax payments are not filed until after the Trust Statement has been published.

Estimates have been provided to support the accrued revenue receivable balances for Income Tax collected under PAYE, self assessment, Company Income Tax and Tax Deducted from Savings Income; Corporation Tax, Value Added Tax, Petroleum Revenue Tax, Stamp Duty Land Tax, Stamp Duty Reserve Tax and National Insurance Contributions (Class 1 collected through PAYE and Class 4 collected through self assessment). Accounting estimates have also been provided to support the Value Added Tax and National Insurance Contributions accrued revenue payable balances.

Descriptions of the estimation techniques and details of the underlying assumptions have not been provided for Income Tax collected under PAYE, Petroleum Revenue Tax, Stamp Duty Land Tax, Stamp Duty Reserve Tax, Company Income Tax and Tax Deducted from Savings Income as the estimated monetary amounts are either relatively small or not deemed to be particularly sensitive to changes in the underlying assumptions.

6.1.1 Corporation Tax

Corporation Tax for large onshore companies is paid by four quarterly instalment payments (QIPs). North Sea companies, who previously paid QIPs, have from 2006-07 moved to paying their Corporation Tax liabilities in three instalment payments (TIPs). Separate accrued revenue receivable estimates have been calculated for onshore and North Sea companies.

Onshore companies

Accrued revenue receivable has been estimated where between one and four QIPs for onshore companies have been received using a model that forecasts companies' Corporation Tax liabilities based on the number and value of QIPs received.

Corporation Tax is assumed to accrue evenly throughout the companies' accounting periods. Assumptions for the proportions of companies' Corporation Tax liabilities that are remitted with each QIP and adjustments for overpayments and late payments of Corporation Tax liabilities are based on historical trends of Corporation Tax liabilities and receipts. The principal assumptions are shown below:

	2008–09 (per cent)	2007–08 (per cent)
Proportion of Corporation Tax liability remitted with first QIP	29.0	27.2
Proportion of Corporation Tax liability remitted with second QIP	22.3	23.1
Proportion of Corporation Tax liability remitted with third QIP	26.4	27.3
Adjustment for overpayment of Corporation Tax liabilities	(10.0)	(10.0)
Adjustment for late payment of Corporation Tax liabilities	6.0	6.0

The proportions of Corporation Tax liability remitted with the first, second and third QIPs are now being separately calculated for each relevant accounting period. The proportions shown above are the overall weighted averages.

For accounting periods where no QIPs have been received, accrued revenue receivable has been estimated based on prior year outturn liabilities at a sectoral level adjusted for forecast growth in Corporation Tax liabilities. The annual growth rates applied are based on the economic assumptions that are provided by HM Treasury and used to forecast Corporation Tax revenues for the April 2009 Financial Statement and Budget Report, and are shown below:

Annual Growth in Corporation Tax liabilities	2008–09[1] (per cent)	2007–08[2] (per cent)
Onshore companies	(7.2)	3.2

1 This is the growth rate used in the 2008-09 Trust Statement and relates to the growth in 2009 liabilities.
2 This is the growth rate used in the 2007-08 Trust Statement and relates to the growth in 2008 liabilities.

North Sea companies

The accrued revenue receivable for 2008-09 is almost entirely attributable to companies with accounting periods ending December 2009. These are accounting periods for which no TIPs have been received and so the estimate is primarily based on prior year outturn liabilities adjusted for forecast growth in North Sea companies' Corporation Tax liabilities. The growth rate used for 2008-09 is shown below

Annual growth in Corporation Tax liabilities	2008–09[1] (per cent)	2007–08[2] (per cent)
North Sea companies	(45.1)	35.7

[1] This is the growth rate used in the 2008-09 Trust Statement and relates to the growth in 2009 liabilities.
[2] This is the growth rate used in the 2007-08 Trust Statement and relates to the growth in 2008 liabilities.

6.1.2 Self Assessment Income Tax and National Insurance Contributions Class 4

Accrued revenue receivable represents accrued tax liabilities for 2008-09 where payment is not yet due at 31 March 2009. The estimation process has three stages:

(i) estimation of accrued tax liabilities for 2008-09. The estimates used are those prepared for Budget 2009 on the basis of the economic assumptions provided by HM Treasury. The most important of these assumptions were that profits from self-employment profit rose by 2 per cent in 2008-09, while savings and dividend income fell by 36 per cent and 27 per cent respectively;

(ii) deduction from the 2008-09 accrued tax liabilities of relevant payments by 31 March 2009. An estimate of these payments is provided by the 'head of duty analysis', a statistical apportionment of total self assessment receipts of income tax, NICs, capital gains tax and student loan repayments between these four components. The breakdown is estimated from separate information on self assessment liabilities;

(iii) a further deduction for payments due by 31 March but not made by that date (these are included in the debtor balances). The amounts relate to payments on account due on 31 January. The breakdown of the total between income tax and NICs is made by statistical estimation.

6.1.3 Value Added Tax

VAT registered businesses in the UK are required to submit VAT returns either monthly, quarterly or annually one month in arrears of the end of the relevant accounting period. Consequently, some, but not all, information relating to VAT accrued revenue receivable and payable was available at the time of publication of these accounts.

To facilitate the creation of estimates for the remaining elements, historical time-series have been created to show the accrued revenue by month. Established statistical forecasting techniques have then been applied to construct estimates for the more recent periods based on the resulting trends. These have been combined with actual return data and adjusted to account for any payments or repayments relating to these returns that were made prior to the financial year end. This provides an estimate of accrued revenue receivable and payable via the regular return process. The statistical models selected on the basis of historical data provide a reliable indication of future accrued revenue receivable and payable.

To construct final estimates of accrued revenue receivable and payable, a number of further adjustments have been made to reflect VAT that is accounted for outside the process described above. The principal 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.

6.1.4 Uncertainty Around the Estimates

Statistical models are used to derive the estimates. These are based on a combination of projections based on the most recent revenue flows and forecasts of economic variables on which future revenue flows depend. The forecasts are based on what is believed to be the relevant inputs. However, because of the areas of uncertainty involved, there will inevitably be differences between the forecasts and future outturns. These differences arise because of the need to make judgements on areas of uncertainty and are not indicative of deficiencies in the models. It is believed that the levels of variation are acceptable with a maximum likely overall uncertainty expected to be some £4 billion, which does not significantly affect the reported position. This figure is equivalent to less than 1 per cent of total revenue reported in the Statement of Revenue and Expenditure.

This maximum likely overall uncertainty is based on a combination of evidence from the performance of the models over previous years and the judgement of professional departmental economists and statisticians having substantial experience of tax forecasting.

7 Creditors, Accrued Revenue Payable and Deferred Revenue

A breakdown of Creditors, Accrued Revenue Payable and Deferred Revenue falling due within one year is as follows:

	Creditors as at 31 March 2009 £ billion	Accrued Revenue Payable as at 31 March 2009 £ billion	Deferred Revenue as at 31 March 2009 £ billion	Total as at 31 March 2009 £ billion	Total as at 31 March 2008 £ billion
Value Added Tax	1.8	7.4	–	9.2	11.1
Corporation Tax	11.1	1.9	0.2	13.2	14.2
National Insurance Funds and the NHS	2.4	13.1	–	15.5	15.6
Other Revenue Creditors	0.5	–	0.6	1.1	0.8
Sundry Creditors	0.1	–	–	0.1	0.1
Total	**15.9**	**22.4**	**0.8**	**39.1**	41.8

Creditors are amounts established as due at the Balance Sheet date but payment has not been made in full.

There are three distinct types of Accrued Revenue Payable. These comprise, firstly, amounts due to VAT traders that have an established revenue liability relating to the financial year, but the date the claim is received is after the balance sheet date; secondly, amounts of debtors and accrued revenue receivable that will when received be passed to a third-party, e.g. National Insurance Contributions due to the National Insurance Funds and National Health Services; thirdly, amounts in respect of Corporation Tax likely to be repayable by HMRC pending finalisation of enquires.

Deferred Revenue includes duties and taxes paid in the current year that relate to future accounting periods.

There are no creditors which fall due after one year.

8 Bad and Doubtful Debts

8.1 Breakdown of Bad and Doubtful Debts

	Notes	2008–09 £ billion	2007–08 £ billion
Revenue Losses	8.2	4.6	5.8
Increase in Provision for Doubtful Debts	8.4	3.3	1.4
Total Bad and Doubtful Debts		**7.9**	7.2

Bad and Doubtful Debts are made up of revenue losses and the movement in the provision for doubtful debts. The analysis of revenue losses is shown below:

8.2 Revenue Losses

	Remissions 2008–09 £ million	Write–offs 2008–09 £ million	Total 2008–09 £ million	Remissions 2007–08 £ million	Write–offs 2007–08 £ million	Total 2007–08 £ million
Income Tax	54	646	700	59	677	736
Value Added Tax	23	2,246	2,269	38	3,516	3,554
Corporation Tax	3	596	599	3	374	377
Alcohol Duties	–	71	71	1	230	231
Capital Gains Tax	4	56	60	4	54	58
Tobacco Duties	–	14	14	–	48	48
National Insurance Contributions	36	480	516	41	544	585
Tax Credits	264	23	287	240	7	247
Other Remissions and Write–offs	2	39	41	9	12	21
Total Revenue Losses	**386**	**4,171**	**4,557**	395	5,462	5,857

Remissions are debts capable of recovery but HMRC has decided not to pursue the liability, for example, on the grounds of value for money or official error. 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.

National Insurance Contribution write-offs include £12 million (2007-08: £35 million) of Class 2 contributions no longer collectable as they became time barred in year.

8.3 Revenue Losses – Cases over £10 million

There were 40 cases (85 cases in 2007-08) where the loss exceeded £10 million, totalling £1,050 million. Specific details are shown below:

There was a write-off of £20 million import VAT and excise duty in respect of a large scale diversion fraud. The debt was considered irrecoverable and write-off appropriate.

There were 32 write-offs of VAT, Corporation Tax and interest relating to Missing Trader Intra-Community Fraud (MTIC) over £10 million each, totalling £893 million. All MTIC cases are assessed to establish if there is potential to recover revenue and, where appropriate, proactive insolvency action is initiated.

There were 7 write-offs relating to insolvency over £10 million each. They were for VAT, Income Tax, Corporation Tax and interest totalling £137 million.

HMRC found that it had made adjustments to some finalised awards beyond the circumstances provided for in the 2002 Tax Credits Act and it is currently examining some 301,000 awards to regularise its enquiries and make repayments where these are due. In 2008-09 it has remitted £30.1 million in respect of some 31,000 cases that were incorrectly finalised.

8.4 Provision for Doubtful Debts

	2008–09 £ billion	2007–08 £ billion
Balance as at 1 April	7.9	6.5
Increase in Provision for Doubtful Debts	3.3	1.4
Balance as at 31 March	**11.2**	7.9

Debtors in the Balance Sheet are reported after the deduction of the provision for doubtful debts. This provision has been estimated using debt analysis, trend analysis (including use of the revenue loss figures from the previous year) and internal expert opinion.

9 Provision for Liabilities

	Legal Claims 2008–09 £ million	Legal Claims 2007–08 £ million
Balance at 1 April	2,220	2,200
Provided in the year	7,230	820
Provision not required written back	–	–
Provision utilised in the year	(905)	(800)
Balance at 31 March	**8,545**	2,220

Provision has been made for legal claims brought by taxpayers against HMRC. The information usually required by FRS 12 is not disclosed on the grounds that it can be expected to prejudice seriously the outcome of the legal claims against the Department.

10 Balance on Consolidated Fund Account

	2008–09 £ billion	2007–08 £ billion
Balance on Consolidated Fund Account as at 1 April	53.5	55.3
Net Revenue for the Consolidated Fund	303.9	335.9
Less amount paid to Consolidated Fund	(323.6)	(337.7)
Balance on Consolidated Fund Account as at 31 March	**33.8**	53.5

11 Contingent Liabilities

11.1 Taxes subject to legal challenge

HMRC is engaged in legal proceedings with taxpayers across a range of cases, including some where reference to the European Court of Justice may be required, as well as cases wholly within the jurisdiction of United Kingdom courts. Depending on the judgement of the relevant court, in some or all of these cases, there may be reductions in revenue and/or repayments of tax. For cases where it is probable that HMRC will be required to settle the legal claim, it has not been practicable to estimate the financial effect. In other cases HMRC considers it possible that it will be required to settle the claims.

The information usually required by FRS 12 is not disclosed on the grounds that it can be expected to prejudice seriously the outcome of the legal claims against the Department.

11.2 Consequences of oil field decommissioning on Petroleum Revenue Tax

The 1975 Oil Taxation Act, as subsequently amended, allows for Petroleum Revenue Tax (PRT) losses arising from the decommissioning of infrastructure associated with oil and gas fields subject to PRT to be carried back indefinitely. As a result, there is always the possibility the field decommissioning costs will be set-off against the assessable profit arising for any chargeable period during the life of the field. The set-off must be made first against the assessable profit arising in the latest possible chargeable period with, thereafter, any balance of the loss offset against the profit of previous periods, working backwards until it is exhausted. As a result, the PRT charges for the period to which the losses get carried back may be less than originally measured and any accrued revenue receivable for those periods will be less than originally thought.

The cost of decommissioning remains uncertain since it will be determined by the domestic and international obligations that prevail when abandonment takes place. The majority of expenditure is likely to be spread over the next 25-30 years or so but this depends on the extent to which the North Sea output can be sustained, so the timing is uncertain. Estimates of cost vary; in June 2007 BERR estimated the cost to be between £15 billion and £19 billion at today's prices (Decommissioning Offshore Energy Installations – A Consultation Document) in respect both of fields subject to PRT and those not, with just over half of all decommissioning costs estimated to fall on fields subject to PRT.

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 parties have undertaken material transactions with the Department during the year.

13 Post Balance Sheet Events

There are no reportable post balance sheet events. The financial statements were authorised for issue by the Principal Accounting Officer on 16 July 2009.

Accounts Direction Given by HM Treasury

ACCOUNTS DIRECTION GIVEN BY HM TREASURY IN ACCORDANCE WITH SECTION 5(2) OF THE GOVERNMENT RESOURCES AND ACCOUNTS ACT 2000 AND WITH SECTION 2(3) OF THE EXCHEQUER AND AUDIT DEPARTMENTS ACT 1921

1. Her Majesty's Revenue and Customs (HMRC) shall prepare a **Resource Account** for the year ended 31 March 2009 in compliance with accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual issued by HM Treasury ("FReM") which is in force for that financial year.

2. The Resource Account shall be prepared so as to give a true and fair view of the state of affairs as at 31 March 2009 and of the net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the year then ended. The Resource Account 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.

3. 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.

4. HMRC shall prepare a **Trust Statement** for the financial year ended 31 March 2009 which shall give a true and fair view of the state of affairs relating to the collection and allocation of taxes, duties, National Insurance Contributions, tax credits and Student Loan recoveries and any other revenues and related expenditures administered by the Department and the revenue income and expenditure and cash flows for the financial year then ended.

5. When preparing this Statement, HMRC shall have regard to the guidance given in the attached Appendix to this Direction. HMRC shall also agree the format of the Principal Accounting Officer's Foreword to the Trust Statement and the supporting notes (including the accounting policies particularly with regard to revenue recognition) with HM Treasury. Regard shall also be given to all relevant accounting and disclosure requirements given in *Managing Public Money* and other guidance as issued by HM Treasury, the principles underlying UK Generally Accepted Accounting Practice and, for tax credits, guidance issued by the Organisation for Economic Co-operation and Development.

6. The Resource Account, together with the Trust Statement, shall be transmitted to the Comptroller and Auditor General for the purpose of his audit examination and report by a date agreed with the Comptroller and Auditor General and HM Treasury to ensure compliance with the administrative deadline for laying the audited accounts before Parliament before the Summer Recess.

7. The Resource Account and Trust Statement, together with this direction, (but with the exception of the appendix), shall be laid before Parliament in one volume containing both financial statements and the Report produced by the Comptroller and Auditor General under section 2(2) of the Exchequer and Audit Departments Act 1921 as amended by the Government Resources and Accounts Act 2000.

8. This Direction supersedes the Direction dated 11 October 2007.

DAVID WATKINS
Head of the Financial Reporting Policy Team, HM Treasury
2 September 2008

National Audit Office

HM REVENUE & CUSTOMS 2008-09 ACCOUNTS

Report by the Comptroller and Auditor General

Issued under Section 2 of the Exchequer and Audit Departments Act 1921

This Report is published alongside the 2008-09 Accounts of HM Revenue & Customs

Amyas C E Morse
Comptroller and Auditor General
16 July 2009

PART ONE Introduction

Background

1.1 Section 2 of the Exchequer and Audit Departments Act 1921 requires the Comptroller and Auditor General (C&AG) to examine the accounts of HM Revenue & Customs (the Department) to ascertain that adequate regulations and procedure have been framed to secure an effective check on the assessment, collection and proper allocation of revenue, and that they are being duly carried out. The C&AG is also required by that Act to examine the correctness of the sums brought to account and to report the results to the House of Commons. The C&AG's audit opinion on the Trust Statement account and this report together satisfy that requirement.

1.2 We have examined the Department's activities and tax streams. The results of that work, our value for money studies under the National Audit Act 1983, and our consideration of the Department's Statement on Internal Control provide the basis for our conclusions about its overall management of the tax systems.

Scope of the audit

1.3 Our examination of the principal tax streams was designed to obtain sufficient evidence on the adequacy and application of the Department's systems, including its management of key risks and its operation and review of regulations and procedure. For the year 2008-09, we selected four areas of our examination for the report:

- Administration of Stamp Duty Land Tax (Part 2).
- Administration of Corporation Tax repayments and postponements (Part 3).
- Progress in tackling fraud on Hydrocarbon Oils Duty (Part 4).
- Administration of Tax Credits (Part 5).

1.4 We also followed up on the key areas covered in our 2007-08 report. Our findings are summarised in paragraphs 1.17 to 1.26. We carried out three value for money studies under the National Audit Act 1983, resulting in the following reports under Section 9 of that Act:

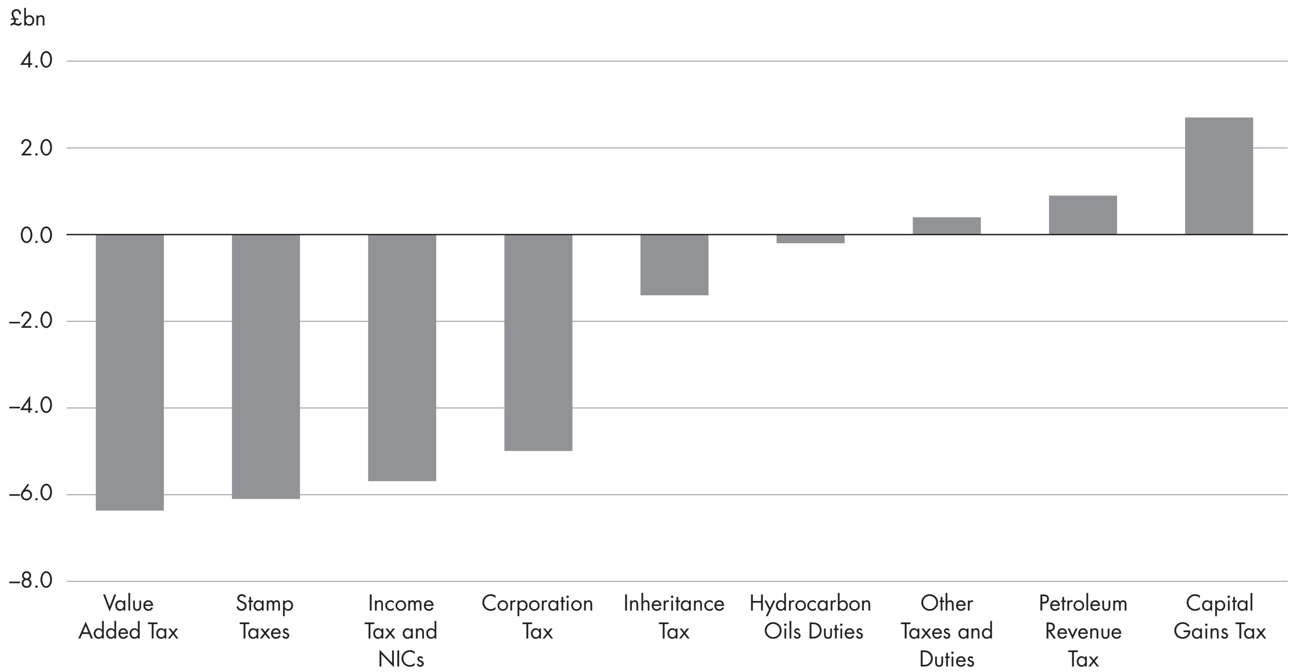
- Control and facilitation of imports (HC 942 of 2007-2008).
- Management of tax debt (HC 1152 of 2007-2008).
- Managing variations in workload (HC 507 of 2008-2009).

Tax Revenues in 2008-09

1.5 In 2008-09 total taxes and duties collected and receivable were £435.7 billion, £21.7 billion lower than in 2007-08. The difference is largely due to falls of £11.4 billion in tax receipts and £15.7 billion in accrued revenues, offset by a £2.7 billion increase in tax debtors and £3.1 billion less creditors **(Figure1)**. The specific reductions in taxes were:

- Stamp Taxes – £6.1 billion, including a £5.1 billion fall due to fewer residential and commercial property transaction volumes and lower prices and a £1 billion due to lower equity prices.
- Corporation Tax – £5.0 billion, reflecting less tax collected from onshore companies (mainly the financial sector), partially offset by more tax from offshore companies as a result of higher oil and gas prices.
- Value Added Tax (VAT) – £6.4 billion, reflecting the effect of the worsening economic conditions in the second half of the year and the reduction in the VAT rate to 15 per cent in December 2008.

1 Changes in 2008-09 Tax Revenues compared to 2007-08



Source: HM Revenue & Customs

- Income Tax and National Insurance Contributions (NICs) -£5.7 billion, mainly due to the effect of changes to income tax rates and allowances, including the £600 increase in the personal allowance to compensate for the abolition of the 10 pence tax rate and the reduction in the basic rate from 22 per cent to 20 per cent, and lower Income Tax collected through Pay-As-You-Earn (PAYE) from a fall in employee bonuses in the financial sector.

1.6 These falls in tax revenues were offset by increases in Capital Gains Tax (£2.7 billion) and Petroleum Revenue Tax (£0.9 billion). A number of factors contributed to the increase in Capital Gains Tax Receipts, including investors taking the opportunity to reorganise their tax affairs ahead of the abolition of taper-relief and the payment of liabilities relating to previous years. The increase in Petroleum Revenue Tax receipts was due to higher oil and gas prices.

1.7 Net revenues were further reduced after allowing for revenue losses of £4.6 billion following the write-off and remission of debts, an increase of £3.3 billion in the provision for doubtful debts, and an increase of £7.2 billion in the provision for liabilities arising from legal claims brought by taxpayers against the Department. After allowing for all expenditure and disbursements, the net revenue for the Consolidated Fund for 2008-09 was £303.9 billion, £32 billion lower than the previous year.

2 Trends in debtors across the main taxes

Debt	31 March 2009 £bn	31 March 2008 £bn	Change £bn
Income Tax & NICs	9.7	8.4	1.3
Value Added Tax	7.6	7.1	0.5
Corporation Tax	3.4	2.2	1.2
Tax Credits	4.3	4.3	0.0
Other	2.7	3.0	(0.3)
	27.7	**25.0**	**2.7**
Less Provisions for Bad and Doubtful Debts	(11.2)	(7.9)	(3.3)
Total	**16.5**	**17.1**	**(0.6)**

Source: HM Revenue & Customs

Debtors

1.8 Debtors at 31 March 2009, before provisions for doubtful debts, were £27.7 billion, £2.7 billion (11 per cent) higher than at 31 March 2008. **Figure 2** provides an analysis of the trends in debtors across the main taxes.

1.9 The economic downturn has been a major factor in the increase in debtors. VAT has seen an increase in taxpayers not filing on time or filing on time but not paying. Similar trends have also been seen in other taxes in 2008-09. Income Tax Self Assessment filing rates are lower, down by one per cent to 88 per cent while debtors have increased by 15 per cent over the year. Similarly, Corporation Tax filing rates are down four per cent to 70 per cent while debtors have increased 55 per cent. The Department is currently assessing the evidence of under payment of PAYE and NICs deductions throughout the year.

1.10 Following the 2008 Pre-Budget Report, the Department launched its Business Payment Support Service to help businesses that are having difficulty in paying tax debt due to the economic conditions. The Service allows viable businesses suffering temporary financial difficulties more time-to-pay tax debts. By the end of June 2009, the Department had reached 158,000 agreements with a value of £2.74 billion through the Service. More than half of these arrangements are for periods of three months or less, and the Department's monitoring shows that over 90 per cent of instalments have been paid as agreed. By the end of June, 76,000 agreements (worth £1.7 billion) had been paid in full, leaving 82,000 (worth £1.04 billion) still running.

1.11 The Department estimated the debt that may not be collected mainly based on historical collection rates. Its estimate of debt that may not be collected includes debt discharged due to adjustments in the underlying tax liability as well as debt remitted or written-off. In light of the economic downturn and increasing debtor levels, it has increased provision for doubtful debts to £11.2 billion at 31 March 2009, equivalent to 40 per cent of total debtors; this compares to a provision of £7.9 billion (32 per cent of total debtors) at 31 March 2008. The £3.3 billion increase in the provision includes £1.2 billion that has been added to reflect the current economic downturn, including the effect on collection rates.

1.12 The Department is changing its approach to debt management. In November 2008 we reported[1] that the Department needed to improve its debt management, by strengthening risk profiling; managing debt through a single system; linking and pursuing together debts owed by an individual taxpayer on different taxes; using more innovative methods for communicating with customers; and improving the efficiency of its telephone centre operation. The Department is now moving to a campaign-based approach by analysing debtors and tailoring its interventions according to previous behaviour, risk and likely ability to pay. It also intends to increase the debt management capacity and capability through its Pacesetter programme, pilot the use of private debt collection agencies, expand the Debt Management Telephone Centre, and bring VAT into the Department's core debt management system.

Accrued Revenues Receivable and Payable

1.13 The Department estimated accrued revenue receivable at £65.1 billion and accrued revenue payable at £22.4 billion. These estimates relate to revenue receivable from taxpayers-whose 2008-09 returns are not filed until after end of the financial year. **Figure 3** provides an analysis by the accrued revenue estimates by tax. The falls in accrued revenue reflect the underlying decline in tax liabilities described in paragraph 1.5 above.

1.14 The Department prepares separate accrued revenue estimates for each tax using statistical models for each tax stream. Note 6 to the Trust Statement describes the estimation techniques and details of the underlying assumptions used in the estimate of accrued revenue receivable for Corporation Tax, self-assessed Income Tax and Class 4 National Insurance Contributions, and Value Added Tax. The Department considers that the levels of variation are acceptable with a maximum likely overall uncertainty expected to be some £4 billion, equivalent to less than one per cent of total revenue.

3 Accrued Revenue Receivable and Accrued Revenue Liabilities

	31 March 2009 £bn	31 March 2008 £bn	Change £bn
Accrued Revenue Receivable			
Income Tax & NICs	31.9	37.9	(6.0)
Value Added Tax	17.8	22.8	(5.0)
Corporation Tax	11.0	14.9	(3.9)
Other	4.4	5.0	(0.6)
	65.1	**80.6**	**(15.5)**
Accrued Revenue Liabilities			
Value Added Tax	7.4	9.0	1.6
Corporation Tax	1.9	0.0	(1.9)
National Insurance Funds and NHS	13.1	13.2	0.1
Total	**22.4**	**22.2**	**(0.2)**
Net Accrued Revenues	**42.7**	**58.4**	**(15.7)**

Source: HM Revenue & Customs

1 Management of tax debt (HC 1152 of 2007-2008).

1.15 We have examined the models used to support the estimates, assessing the appropriateness and validity of the inputs used, and testing the calculations, including the overall uncertainty of the estimates. Some, including those for accrued revenues for PAYE and VAT, draw on records of returns received from traders after 31 March 2009, and so involve very little forecasting.

1.16 For Corporation Tax and self-assessed Income Tax, where the returns relating to 2008-09 liabilities are likely to be submitted several months after the end of the tax year, the Department has to rely on forecasts. We have reviewed the Department's work to confirm that the models are fit for purpose and that the assumptions take appropriate account of the economic downturn. The self assessment forecast is based on the Office for National Statistics' latest estimates of self employment, dividend and savings income growth. Corporation Tax is based on the latest Treasury estimates of profitability in 2009, and the Department has reviewed aspects of its model to assess the effect of repayments on the overall estimate of accrued revenues.

1.17 We are satisfied that the significant uncertainty in the estimates of accrued revenue receivable and accrued revenue liabilities is adequately disclosed in the Trust Statement. The Comptroller and Auditor General's certificate and report includes an emphasis of matter in respect of the significant uncertainty, although his opinion is not qualified in respect of this matter.

Follow up on our 2007-08 Report

1.18 Our 2007-08 Report commented on the Department's collection of income tax through PAYE and Self Assessment. In 2008-2009 we examined its progress in dealing with some of the issues identified.

The collection of income tax through PAYE

1.19 Following the introduction of online filing in 2005, the Department has consistently improved its processing of employer end-of-year returns. By the end of October 2008 the Department had processed 57.1 million (98.5 per cent) of the 58 million 2007-08 returns (P14s) expected, of which only 0.9 per cent of returns failed to meet the Department quality standards. This is an improvement on the previous year where 50.9 million (92.5 per cent) of the 55 million 2006-07 returns expected were processed at the same point, with 1.4 per cent failing to meet quality standards, and significantly ahead of the performance achieved in 2005.

1.20 On 29 June 2009, the Department transferred the processing of PAYE for individuals on to the National Insurance Recording System. The new system will bring all information on individuals' employment and pension income together and has a more complete view of a taxpayer's income. This will improve its ability to match returns with its records and reduce the volume of cases requiring manual checking.

1.21 The deferral of the processing transfer from April 2008, as initially planned, has limited the Department's progress in clearing existing backlogs of PAYE cases that require manual checking. 'Open cases' arise where the Department's systems identify discrepancies in taxpayer records or are unable to match a return to a record. In our 2007-08 report, we recommended that the Department establish appropriate contingency arrangements to clear processing backlogs. At the end of March 2009, there were 20 million open cases compared to 16.2 million at 31 March 2008. This would have been worse if the Department had not used data matching and automated clearance processes to clear over five million open cases that would have been held for manual checking. The Department plans to reach a steady state where open cases for each tax year are cleared within a year and there are no backlogs. It expects the new processing system will greatly reduce the number of cases requiring clerical review each year.

1.22 The delays in clearing open cases can mean that taxpayers are not notified promptly of additional tax payable or refunds due. Based on the Department's last in depth analysis of open cases in 2005, the backlog could affect around 4.5 million individuals who have overpaid in total some £1.6 billion of tax and a further 1.5 million individuals who have underpaid in total some £400 million of tax. Following the contingency actions taken in 2008-09, the Department is undertaking a detailed analysis of the remaining open cases to assess the impact on taxpayers.

1.23 The Department can also experience difficulty in matching information in the employer's end of year return with PAYE and National Insurance deductions paid over in the year. The Department has a project to examine the backlog of unreconciled employer returns, focusing on the more significant cases, and to establish a new process for managing these cases in the future. At the end of 2008-09 there were 500,000 unreconciled employer returns, but the Department considers that there will be no material tax consequences for the vast majority of employers. A sample analysis of 4,000 high value cases identified around 100 cases that involved repayment or recovery.

The collection of income tax through Self Assessment

1.24 The Department introduced a number of important changes to Self Assessment in 2008, including a redesign of the paper and online main tax return and a new deadline of 31 October for filing paper returns. The online deadline remains at 31 January. The Department maintained the good progress made in recent years in the number of returns filed on time and online – by 31 January 2009, 69 per cent of returns (5.8 million) were filed online, significantly exceeding the Department's target of 58 per cent. In addition, it successfully ensured that the unprecedented peak in demand was managed without the service disruptions experienced in 2007-08.

1.25 However, the percentage of returns filed on time continued to fall with some 1.2 million (12.9 per cent) of returns issued not being returned by the filing deadline. The Department considers that advancing the deadline for filing paper return by three months was always likely to adversely affect the number of returns filed by the deadline. The refinement of Self Assessment continues to remove from it established and more compliant taxpayers with simple tax affairs, while taxpayers new to the process are generally less compliant.

1.26 The Department's latest estimates based on the 2003-04 tax year indicate that 32 per cent of filed returns were incorrect, resulting in an under-declaration of liabilities, with an estimated £3.1 billion to £3.8 billion of tax at risk. Last year, we recommended that the Department consider producing its estimates more quickly. It now plans to produce estimates for 2004-05 and 2005-06 later in summer 2009.

1.27 The collection of self assessed liabilities can be postponed where taxpayers appeal against assessments, penalties, surcharges or amendments. In 2007-08 we reported that these items were given little attention and substantial backlogs of uncleared items had built up. During 2008-09 the Department began investigating this backlog, focusing on postponements relating to return years 2005-06 and earlier and has improved the clearance rate. As at January 2009 there were 82,316 postponements, worth £1.2 billion, a small increase on 2007-08.

Conclusion

1.28 Whilst recognising that no tax collection system can ensure that all those who have a tax liability comply with their obligations, the National Audit Office's work in 2008-09 provided assurance that HM Revenue and Customs has framed adequate regulations and procedure to secure an effective check on the assessment, collection and proper allocation of revenue, and that they were being duly carried out. This assurance is subject to the observations on specific aspects of the administration of taxes in this report.

1.29 In 2008-09 tax revenues were significantly lower than the previous year. The Department's Trust Statement shows that total taxes and duties collected and receivable in 2008-09 were £435.7 billion, £21.7 billion lower than in 2007-08. Debtors increased by £2.7 billion to £27.7 billion, partly due to the effects of the economic recession. The Department has increased its provision for doubtful debts to £11.2 billion, equivalent to 40 per cent of total debtors, including an adjustment for the lower collection rates expected in the downturn. It also significantly reduced its assessments of accrued revenues to a net £42.7 billion at 31 March 2009, £15.7 billion lower than at 31 March 2008. Net revenues were further reduced following the Department's decision to increase by £7.2 billion its provision for liabilities arising from legal claims brought by taxpayers.

1.30 The Department is offering support to businesses in temporary financial difficulty during the recession through its Business Payment Support Service and time-to-pay arrangements. The recession has added to the uncertainty over the realisation of these debts. The Department is changing a number of aspects of its approach to debt management and consolidating the recording of its principal taxes onto its core debt management system. The increased risk of default by tax debtors underlines the need for the Department to actively manage debt.

1.31 Deferring the introduction of the new PAYE service has contributed to the build up in open cases on individual tax records. During 2008-09 the Department successfully introduced new data matching and automated clearance processes to allow it to clear over five million open cases that would have had to be manually checked. At March 2009 there were still some 20 million open cases, of which some six million are likely to entail additional tax payable or a refund. The Department should extend its use of data matching to assist in the clearance of the level of open cases and seek to identify and prioritise the processing of cases that are likely to have a tax effect.

1.32 There are other delays in tax processing. In addition to the 20 million open cases in processing, there are some 500,000 unreconciled employer returns, and in Self Assessment there are over 80,000 postponements, worth £1.2 billion. On Corporation Tax there are some 15,600 postponements, valued at £9.2 billion. While it is inevitable that the tax systems will include cases under examination, backlogs in processing can mean taxpayers are uncertain about their liabilities, the Department's systems do not record up to date data, and in some cases this can lead to delays in accounting for revenues and making repayments. The Department needs to undertake a comprehensive assessment of all processing work on hand and establish a clear action plan for their clearance.

PART TWO

Stamp Duty Land Tax

Introduction

2.1 Stamp duty land tax (SDLT) is a tax on land transactions. It was introduced on 1 December 2003 to replace stamp duty on land and buildings. The Government's objectives for introducing SDLT were to:

- promote fairness by addressing stamp duty avoidance, particularly in commercial property transactions;
- support e-business, through the introduction of e-filing and, in particular, electronic conveyancing; and
- create a modern legal framework for stamp duty in line with other taxes, and a charge that is based more on the substance of transactions.[2]

2.2 Prior to December 2003, stamp duty charges were based on the documents transferring title and could be avoided if the transaction was documented in a particular way. The Finance Act 2003 attached the tax charge to the transaction rather than the stamping of documents, and made the purchaser responsible for assessing the tax due and reporting and paying this to the Department. The Act also introduced an enforcement and compliance regime for SDLT that was in line with other taxes.

2.3 Our 2003-04 Report[3] looked at the introduction of SDLT, including the Department's systems for processing the new tax, and its initial compliance work. In 2008-09, we have examined the Department's progress in implementing SDLT, including processing the tax, the compliance regime, and anti-avoidance measures.

Stamp Duty Land Tax receipts

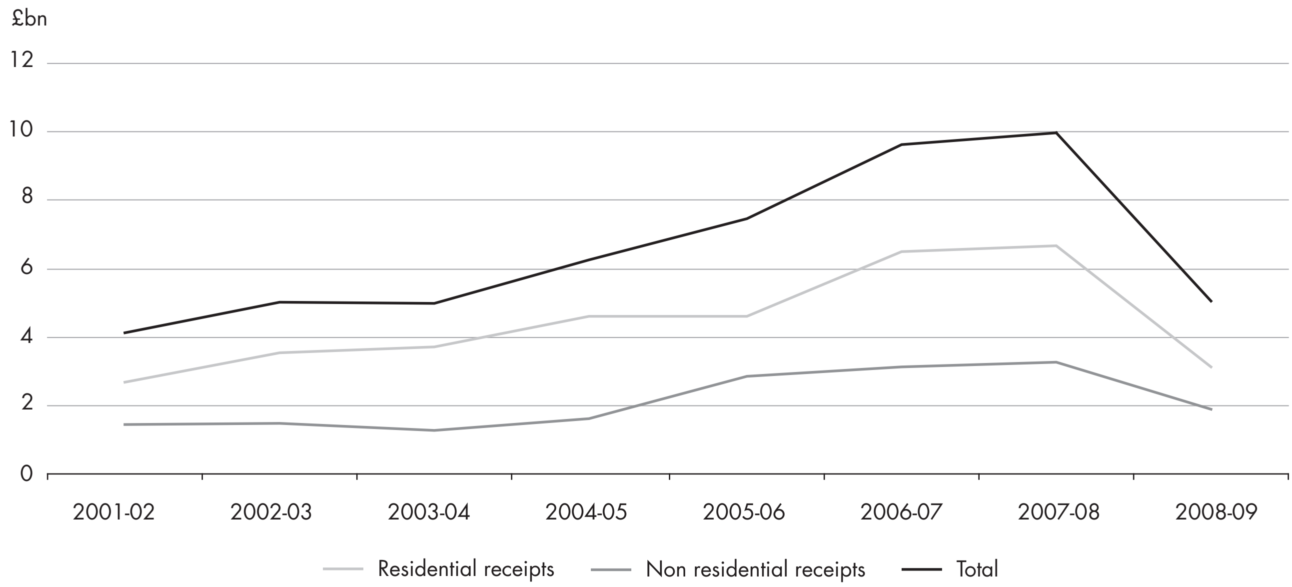
2.4 The receipts from SDLT exceeded the Department's expectations. **Figure 4 overleaf** shows the total stamp duty and SDLT receipts each year from 2001-02 to 2008-09, and the split between residential and non-residential transactions.

2.5 The Department estimated[4] that the new tax would raise an additional £330 million in 2004-05, rising to £430 million per annum from 2005-06. The actual increase compared to 2003-04 was £1.3 billion in 2004-05 and £2.5 billion in 2005-06. Much of this increase was due to the rising property market. The number and value of transactions both increased, and as the values increased, more transactions were pushed into bands at which higher rates of SDLT were payable. The rates of SDLT payable range from zero to four per cent, and depend upon the consideration paid and whether the transaction is freehold or leasehold and residential or non-residential. **Figure 5 overleaf** shows that most of the increase in SDLT receipts from 2004-05 until 2007-08 occurred in the higher percentage bands.

2.6 The effect of the rising property market following the introduction of SDLT makes it difficult to directly compare the new tax with Stamp Duty and assess the contribution made by the introduction of the new tax. The Department did not perform a detailed analysis of the increase in receipts to quantify the contribution of the new tax and of the rising property market.

2 Modernising Stamp Duty on land and buildings in the UK, A Consultative Document, April 2002.
3 Comptroller and Auditor General: Inland Revenue: Standard Report 2003-04 – Child and Working Tax Credits and Stamp Duty Land Tax (HC 1602).
4 Final Regulatory Impact Assessment Modernising Stamp Duty, 2004.

4 Stamp Duty and Stamp Duty Land Tax receipts



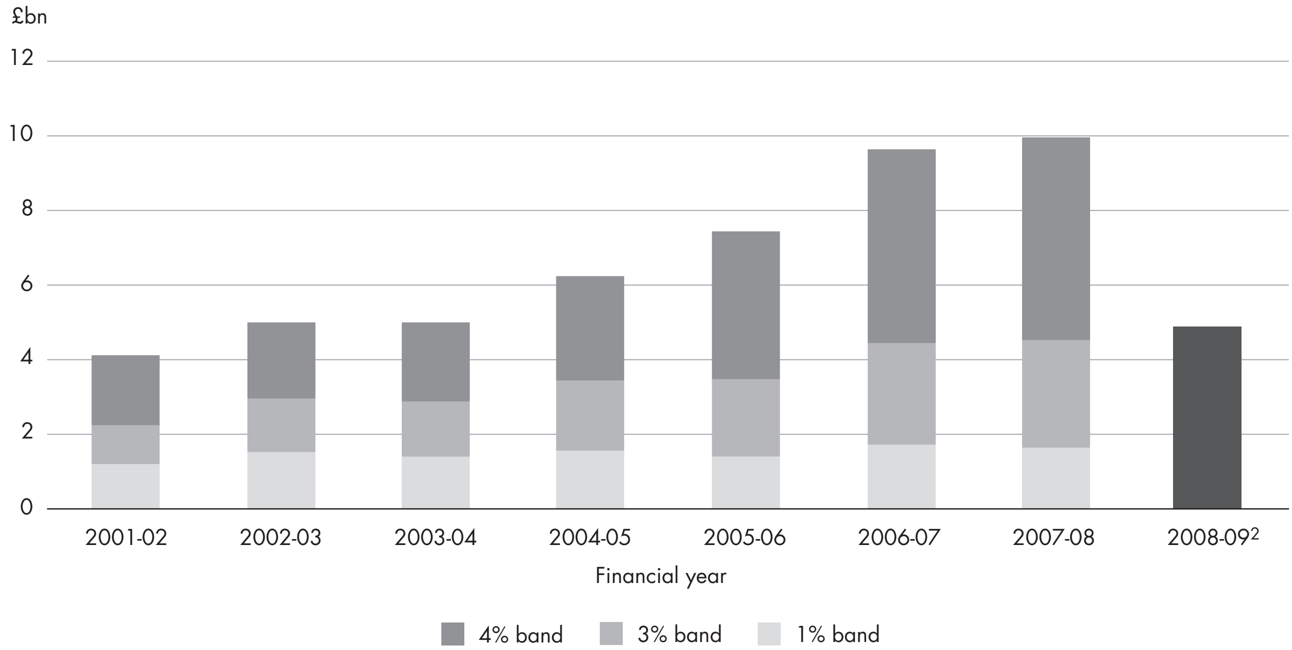
Source: HM Revenue & Customs

NOTES

1 The receipts figures are cash-based and exclude accruals adjustments.

2 The split between residential and non-residential receipts for 2008-09 is an estimate as actual figures are not yet available.

5 Stamp Duty and Stamp Duty Land Tax receipts by consideration band



Source: HM Revenue & Customs

NOTES

1 The receipts figures are cash based and exclude accruals adjustments.

2 The analysis by band is not yet available for 2008-09.

2.7 In 2008-09, SDLT receipts decreased by £5.1 billion, or over 50 per cent. This was the second largest decrease in receipts of any single tax, even in absolute terms. The Department estimates that £3.5 billion of the decrease is due to the reduction in transaction numbers, which fell by 45 per cent, and £1.3 billion is due to the decrease in property values. The remaining difference is due to policy changes including the temporary raising of the threshold for the one per cent band from £125,000 to £175,000.

2.8 The Department's analysis of the factors affecting receipts is not a prediction of what total receipts should be, because it does not currently have a robust estimate of the tax gap. Several features of SDLT make it difficult to estimate the tax gap, including lack of information on transactions using avoidance schemes (see paragraphs 2.33 and 2.38), a minimum threshold for reporting transactions (see paragraph 2.9) and limited management information on general non-compliance (see paragraphs 2.27-29). Better understanding the tax gap is the Department's top strategic priority for its SDLT compliance work, and it has begun a project that will contribute to this (see paragraph 2.41).

Filing SDLT Returns

2.9 The purchaser is responsible for notifying the Department of a transaction by completing a SDLT return. Most purchasers use an agent, such as a solicitor or a conveyancer, to file the return on their behalf. Once the Department receives a valid SDLT return, it issues a Land Transaction certificate (SDLT 5), which the purchaser needs for registering the transaction at the Land Registry. In the 2008 Budget, the procedures for notifying the Department of transactions were simplified to reduce the administrative burden on taxpayers. The threshold for notifying transactions was raised[5] and the requirement to file a return was abolished for transactions below the notifiable threshold.

2.10 The Department predicted that the new tax would require fewer staff to process returns, both because SDLT is self-assessed and because it planned to have a new computer system to automate the processing of returns. However, the computer system was not ready when the tax was introduced in December 2003 and was implemented in stages, between August 2004 and May 2005. In the meantime, the transactions were processed manually, requiring high levels of staff. Even after the computer system was live, significantly more exceptions were generated than the Department had predicted, and staff were needed to process these. The number of staff processing returns did not reduce in line with the Department's expectations until the middle of 2007, when the use of online filing became more widespread.

2.11 SDLT returns can be filed on paper or online. Until 30 October 2008, agents could also use commercial software or an HMRC CD-Rom to complete the SDLT return, and send the data to the Department in a barcode which was scanned to download the data into the Department's computer system. This method of filing has now been discontinued, with agents encouraged to file online instead. **Figure 6 overleaf** shows the percentage of returns filed using each of the three main filing methods for each quarter since January 2006.

2.12 Online filing has advantages for the Department and for taxpayers:

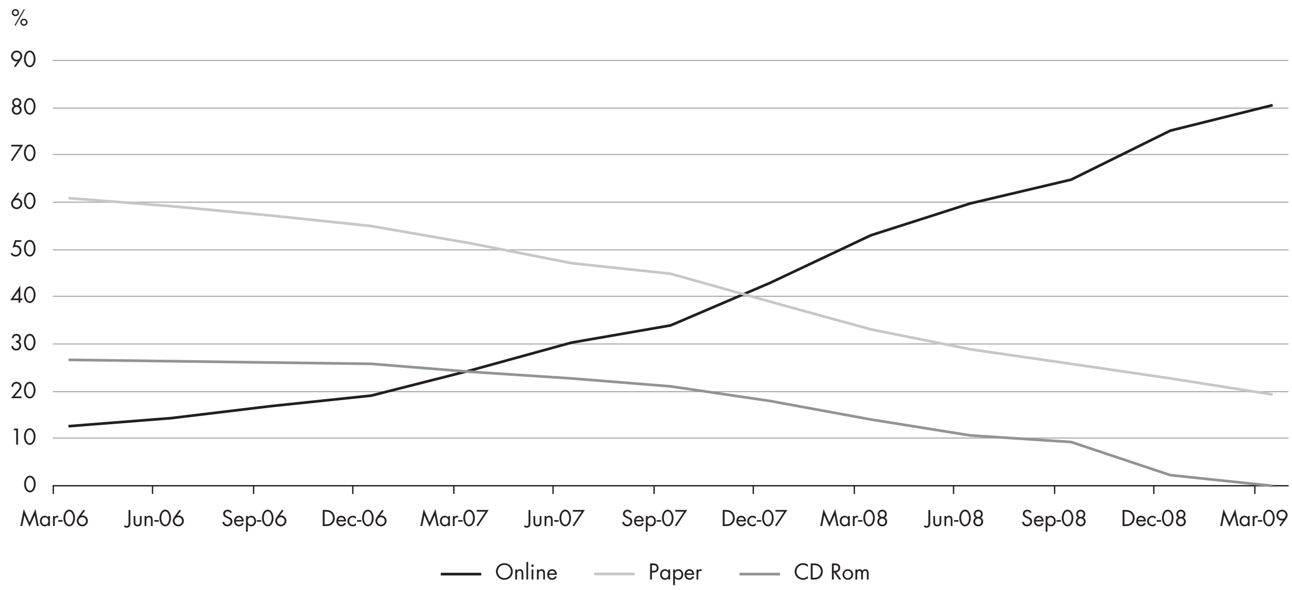
- Information is validated as it is entered, so mistakes can be rectified immediately, saving the taxpayer and the Department time in investigating erroneous or incomplete forms.
- The SDLT liability is calculated automatically, reducing the scope for calculation errors.
- The SDLT 5 is issued electronically on successful submission of an online return, so the taxpayer does not have to wait and the Department does not have the costs of processing and posting the form.

2.13 Despite these advantages, the take-up of online filing was initially lower than expected. To encourage online filing, the Department commissioned research into practitioners' awareness of, and attitude to online filing; provided guidance on its website on the benefits and practicalities; and set up an Outreach team to explain the benefits to solicitors and other conveyancing professionals. As a result, online filing grew from 13 per cent in the quarter ended 31 March 2006 to 81 per cent in the quarter ended 31 March 2009, exceeding the target of 75 per cent even though the Department had set this target to be ambitious.

2.14 The increase in online filing has allowed the Department to issue SDLT 5s more promptly and reduced its use of SDLT 8 forms to correct information that is missing from the paper return, or invalid, inconsistent or illegible. During 2008-09, the Department increased the percentage of SDLT 5s issued within its target time of five days from 80 per cent to 93 per cent. It also exceeded its target of reducing the percentage of returns resulting in the issue of an SDLT 8 to below five per cent.

5 The threshold was raised from £1,000 to £40,000 for freehold transactions. For transactions involving leases with a term of seven years or more, notification is only required where the chargeable consideration other than rent exceeds £40,000 or where the annual rent exceeds £1,000.

6 The percentage of SDLT returns received by filing method since 2006



Source: HM Revenue & Customs

2.15 One of the objectives for the introduction of SDLT was supporting e-business, particularly the introduction of electronic conveyancing. E-conveyancing allows the transfer of ownership of property, including registration with the relevant Registry and notification of SDLT, to be processed electronically. In England and Wales, the process is being led by the Land Registry and is not yet fully operational. A similar process, Automated Registration of Title to Land (ARTL), has been introduced in Scotland.

SDLT Compliance Regime

The new compliance regime

2.16 One of the objectives of SDLT was to introduce a modern enforcement and compliance regime, in line with other taxes. SDLT is a self-assessed tax, so it is the taxpayer's responsibility to calculate and pay the correct amount of tax. The Department considers that most returns are completed accurately and that the correct amount of tax is paid, but carries out a compliance review on some returns. It can launch an enquiry within nine months of the filing date if it needs further information to assess whether the correct amount of tax has been calculated and paid. It also has six years in which to make a "discovery assessment" of extra SDLT due if it finds relevant information that the taxpayer has not disclosed.

The Department's compliance yield since the introduction of SDLT

2.17 Our 2003-04 Report looked at the Department's plans for implementing the new compliance regime and found that it initially intended to review a large number of high risk transactions in 2004-05. However, the deferral of the computerised processing system diverted staff resources from compliance work, which was significantly reduced. The Department does not have data on the actual yield from this work in 2004-05, but believes it was negligible. **Figure 7** shows the additional yield, number of enquiries closed, and annual cost of compliance work from 2005-06 onwards.

2.18 The yield to staff cost ratio gives an indication of the productivity of the compliance team, although it is not an exact match of yield to resources applied. The yield is recognised in the year the case is settled and the costs are recognised in the year in which they are incurred. As with other taxes, SDLT enquiries may last for more than one year, especially if they are complex and high yielding, so work on an enquiry may not result in a yield until a future year.

2.19 Following the implementation of the computerised processing system in 2004-05, the Department was able to increase its compliance activity and had compliance staff in its Birmingham, Bristol and Manchester offices. As Figure 7 shows, it achieved a yield of over £6.3 million in 2005-06, which increased to £10.9 million in 2006-07 as staff gained more experience in working cases.

2.20 As part of its programme of efficiency savings, the Department closed its Manchester office in July 2007, followed by the Bristol office in March 2008. Only three staff from Manchester and Bristol transferred to Birmingham, resulting in a loss of cumulative experience. Despite the office closures, the cost of compliance increased in 2007-08, because the staff in Birmingham had to be trained and build up expertise. The team also experienced a high level of turnover in 2007-08, which had a large impact because the team was so small, and resulted in a further loss of expertise and the need for more training. In addition, staff in Manchester had to prepare enquiries to be handed over and the new staff in Birmingham had to familiarise themselves with the transferred enquiries, adding to the time spent on each enquiry. This disruption resulted in a decrease in the compliance yield for 2007-08 and in the number of cases settled.

2.21 The compliance yield increased in 2008-09, and the costs of compliance work were the lowest recorded. The Department attributes its success to the comparative stability of the compliance team and to its focus on completing high yielding cases. Two large commercial transactions accounted for over £8.6 million of the yield and work carried out prior to 2008-09 contributed to the successful resolution of these cases.

The Department's current compliance activity

2.22 The Department achieved a high yield in 2008-09, although the small number of enquiry staff limited the number of enquiries it opened. Figure 7 shows that the number of completed enquiries declined in 2007-08. **Figure 8** shows that although there was a slight increase in the number of enquiries completed in 2008-09, only 203 enquiries were opened, representing 0.02 per cent of the one million returns filed in the year.

7 Compliance yield and costs

Year	Compliance yield[1] £'000	Number of enquiries closed	Compliance yield as percentage of total SDLT receipts %	Cost of compliance work[2] £'000	Staff cost: yield ratio[3]
2005-06	6,318	451	0.08	479	£1:£13.20
2006-07	10,896	728	0.11	566	£1:£19.24
2007-08	3,373	270	0.03	778	£1:£4.34
2008-09	13,253	322	0.28	461	£1:£28.76
Total or average for period	33,840	1,771	0.11	2,284	£1:£14.82

Source: HM Revenue & Customs

NOTES

1 The compliance yield is made up of additional receipts from enquiries, including interventions, and avoidance cases. Interventions are where the Department's action prevents an incorrect refund of tax. Avoidance case yields occur when the taxpayer agrees to settle after the Department challenges the scheme. The compliance yield does not include deferment cases, where the Department has taken action to ensure that deferred consideration is paid. The Department recorded yields from this work from 2007-08, when the yield was £1,201,000 and recorded a yield of £719,000 in 2008-09.

2 The cost comprises staff costs only, and is based on the percentage of staff time spent on compliance work.

3 Based on actual figures.

8 Number of cases opened and completed by quarter

Quarter	Apr-Jun 08	Jul-Sep 08	Oct-Dec 08	Jan-Mar 09	Total 2008-09
Number of enquiries open at start of quarter	491	409	377	397	491
Number of enquiries opened in quarter	2	68	43	90	203
Number of enquiries closed in quarter	84	100	23	115	322
Number of enquiries open at end of quarter	409	377	397	372	372

Source: HM Revenue & Customs

2.23 The Department has three main ways of identifying returns to enquire into:

- Profiling. This involves identifying specific risk factors, and creating a profile to identify cases displaying the risk characteristics. The profile is then run on the database containing details of all SDLT returns, to extract those transactions displaying the risk factors for further investigation.
- Third party information. The main source of information is other parts of the Department, although some information is received from external sources.
- Random sampling. A very small proportion of returns are selected for enquiry on a statistically random basis. As a result, the cases selected are often very straightforward, with minimal risks. The purpose of random enquiries is to act as a deterrent to non-compliance, and to improve the Department's understanding of the nature and extent of non-compliance across the population.

2.24 The Department investigates all cases selected by random sampling and reviews all third party information received. The number of cases it identifies using profiling depends upon the resources it has to effectively work further enquiries once it has dealt with the third party information and random cases. The Department has been reducing its use of profiling since December 2006, and only opened 49 enquiries identified through profiling in 2008-09. It selects the profiling cases it judges likely to be highest yielding. However, the overall number of high risk cases identified through profiling largely depended upon the resources the Department had to work enquiries and a high level judgement that the yield from such cases was likely to be lower than from other work. The number of cases investigated was not determined by a quantitative analysis of the number and type of high risk cases and estimated compliance yield. In 2009-10, the Department intends to increase its profiling and reinstate its Project Board, which is responsible for researching risk factors, targeting work relating to the risk, and ensuring that the outcome of this work informs its selection of cases in the future.

2.25 The Department is satisfied that the 372 enquiries open at the end of 2008-09 were being satisfactorily progressed and not awaiting Departmental action. It has a Quality Assurance programme for its enquiry work to help ensure that enquiries are brought to a timely and appropriate conclusion, and that the correct procedures are followed. In October 2008, the Department introduced a process to review all enquiries that have been open over twelve months and has begun to examine these cases. **Figure 9** shows the length of time taken to complete the enquiries settled in 2008-09.

2.26 The length of time it takes to complete an enquiry depends on the nature of the risk, the complexity of the case, and the level of cooperation from the taxpayer. Many of the cases that have been open for over six months are purchases of a business, awaiting confirmation of the valuation of goodwill so that the value of the land and buildings can be determined. These have been referred to the Valuation Office Agency, which assists with the valuation of complex goodwill.

The Department's management information for compliance work

2.27 The Department recognised the value of having a computerised case management system for its compliance work in 2002 before SDLT was implemented, but decided that it could not justify the cost. Because it has limited resources for its compliance work, and recording and analysing data without a dedicated computerised package is time consuming, the Department only records basic data on enquiries.

2.28 Although the compliance team are able to assess whether the investigation of a particular risk factor has been worthwhile, the lack of detailed management information makes it difficult for the Department to quantify the total level of non-compliance and thereby evaluate the overall success of its compliance activity; justify the level of resources required to effectively tackle non-compliance; and prove that it is directing its compliance resources to where they will have most impact.

2.29 The Department is planning to implement a computerised case management system for its compliance activity later in 2009-10, which will include a module adapted to the requirements of its SDLT compliance work.

9 Length of time taken to complete enquiries in 2008-09

Length of time to complete enquiry	Number of enquiries	Percentage of enquiries
Under 3 months	51	16
3 to 6 months	16	5
6 to 12 months	38	12
Over 12 months	217	67
Total	322	100

Source: HM Revenue & Customs

The Department's compliance strategy

2.30 In March 2009, the Department drafted a three year strategy for its compliance and avoidance work. The strategy defines the Department's objectives, the challenges it faces in tackling avoidance and evasion, and its strategy for meeting its objectives. The strategy includes:

- developing an understanding of the behaviour of different customer groups;
- developing and communicating guidance to make it easier for customers to comply;
- reviewing and simplifying legislation and procedures;
- improving data management and compiling a comprehensive risk assessment to target resources;
- working with others to share intelligence; and
- ensuring resources are used to maximum effect.

2.31 The Department is already implementing elements of the strategy. The proposed compliance management information system should help the Department with its aim of improving data management and aid the development of a comprehensive risk assessment that it can use to target its resources and ensure that it has appropriate coverage of risk. The Department is working with the Land Registry to improve the identification of transactions that have been self-certified, but where the consideration is actually above the threshold for notification. This work will help to address the risk that purchasers use self-certification to avoid alerting the Department to a transaction that is liable to SDLT. The Department is also working with the Valuation Office Agency to develop guidance on the valuation of goodwill for all taxes, to help taxpayers with valuations that are often complex and make it easier for them to be compliant. The actions that the Department is taking on avoidance are described in paragraphs 2.32 to 2.42.

Anti-avoidance measures

Disclosure requirements

2.32 The Finance Act 2004 introduced the requirement for promoters of certain tax avoidance schemes to provide information about the scheme ("disclose the scheme") to the Department. The disclosure arrangements were extended to cover SDLT in 2005[6]. For SDLT, disclosure is required only for schemes involving commercial property with a market value of at least £5 million. The aim of the disclosure regime for SDLT was to obtain a comprehensive list of the avoidance schemes in operation. This list was to be used to formulate policy on introducing new legislation to close any avoidance loopholes.

2.33 Unlike the disclosure regime for Income Tax, Corporation Tax and Capital Gains Tax, users of SDLT avoidance schemes are not required to notify the Department when a scheme is being used. The Department believed that, because the disclosure requirements were drawn so widely, having to disclose use of a scheme would have imposed an undesirable burden on scheme users.

Schemes disclosed

2.34 By the end of March 2009, the Department had received 764 scheme notifications. The actual number of schemes in use was less than 764 as some schemes were disclosed by more than one promoter and separate notifications are in some cases variations on a theme. **Figure 10** shows the number of scheme notifications made in six monthly intervals from 1 August 2005 when the disclosure regime was introduced. A large number of schemes were notified when the avoidance legislation was introduced because all the schemes already in use were captured. The number of scheme notifications has reduced over time, because most schemes have been disclosed so only new schemes are now being notified. The introduction of anti-avoidance legislation also means that some types of scheme can no longer be used.

10 Number of SDLT avoidance scheme notifications received

	Aug 05 – Sept 05	Oct 05 – March 06	April 06 – Sept 06	Oct 06 – March 07	April 07 – Sept 07	Oct 07 – March 08	April 08 – Sept 08	Oct 08 – March 09
Number of scheme notifications	295	190	75	110	32	34	14	14
Cumulative number of scheme notifications	295	485	560	670	702	736	750	764

Source: HM Revenue & Customs

6 The disclosure arrangements were extended to cover SDLT by The Stamp Duty Land Tax Avoidance Schemes (Prescribed Descriptions of Arrangements) Regulations 2005 (SI 2005 No. 1868).

2.35 The Department uses the information disclosed to decide whether to:

- make a case to the Treasury for the law to be changed to block future applications of the scheme;
- investigate whether there are technical grounds for challenging the interpretation of the law in individual cases applying the scheme; or
- take no action on the basis that it judges that the scheme is within the intention of the law, or alternatively has very limited application.

2.36 These decisions often involve complex judgements on whether a particular scheme technically complies with the law, and if so, whether it uses an exemption for a purpose that was not intended and therefore the law should be changed. **Figure 11** summarises the main categories of avoidance scheme which require action (i.e. are not classified as 'inoffensive') and the action taken by the Department in response to the scheme. It also shows the tax potentially avoided in the cases known to the Department.

Investigating cases using avoidance schemes

2.37 The Department did not undertake any work to investigate and challenge cases using avoidance schemes until 2007. This was because it considered it needed to understand how the new legislation worked in practice, and wanted to give taxpayers time to understand how the new tax applied to complex transactions before it began investigations.

2.38 The disclosure scheme rules for SDLT do not oblige users of avoidance schemes to tell the Department when they are using a scheme. If the avoidance scheme brings the chargeable consideration below the threshold requiring a return, the Department may not even know that a transaction has taken place. As well as making it difficult to establish the overall level of avoidance, these factors make it difficult for the Department to identify specific cases to investigate.

2.39 The Department identifies most of the avoidance cases it investigates through voluntary disclosures. The Department identifies a small number of other cases by looking for returns naming a promoter known to have promoted or used a scheme, identifying large property deals for which no return has been received, or through referrals from other parts of the Department. The Department has not yet tested the legality of any avoidance schemes in a court of law. This is because it did not start investigating any cases until 2007 and because there are no specific legal precedents, which makes investigating cases time consuming and expensive. The Department has now begun to challenge some cases and estimates that there could be test cases by 2010.

Future action on anti-avoidance

2.40 The disclosure regime for SDLT is being extended to cover residential property transactions above £1 million and to identify users of avoidance schemes. These changes were announced in April and November 2008, and draft regulations have been published for consultation with stakeholders.

2.41 In 2008-09, the Department began a project to understand how to assess the scale and scope of avoidance. This work is focusing on commercial transactions and will include understanding the motivations of those using avoidance schemes and defining a compliance spectrum of acceptable and unacceptable behaviour. It will explore the possibility of using databases of property transactions and other information to make a robust estimate of the SDLT tax gap.

2.42 The extension of the disclosure scheme will make it easier for the Department to identify when new avoidance schemes are being used and therefore to evaluate the extent of avoidance. It intends to use this information, and the results of its work on assessing the scale and scope of avoidance, to target its anti-avoidance and compliance work.

Conclusions

2.43 SDLT receipts exceeded the Department's expectations once the new tax was introduced. The Department has not formally quantified how much of the additional yield was due to the new tax and how much due to the rising property market. In 2008-09, SDLT receipts fell by over 50 per cent, due to the decrease in the number of transactions and the decrease in transaction values.

2.44 The expected efficiency savings from SDLT were not fully realised until the use of online filing, introduced in 2005, became significant. The implementation of the new SDLT computer system took longer than planned and even when operational, significant staff resources were still needed to deal with the exceptions raised. Resources had to be diverted to processing from other activities, including compliance work. Uptake was initially slow but the Department made good progress in encouraging online filing and 81 per cent of returns are now filed online.

11 Summary of anti-avoidance schemes, action taken by HMRC, and tax at risk

Description of the scheme	Action taken by HMRC	Tax at risk[1]
Lease with Break Clause		
These schemes are set up so that there is a long leasehold granted on the property that renders the freehold virtually worthless, and therefore subject to no or minimal SDLT. Instead, payment is made by the purchaser to insert or exercise a break clause in the lease held by the vendor, or for the vendor to not exercise a break clause in the lease held by the purchaser. The payment for inserting or exercising a break clause is not subject to SDLT.	**Legislative action** Section 75A of the Finance Act 2003 was introduced with effect from 6 December 2006[2], with the intention of blocking the use of these schemes. **Other action** The Department is investigating eight cases arising before 6 December 2006.	£14 million from eight cases.
Sub-sale schemes		
These schemes take advantage of sub-sale relief in section 45 of the Finance Act 2003. They are structured so that the sale of the property for market value between two third parties can claim subsale relief because there also exists a contract for the purchaser to pass the property on, in this case to a connected party. The transaction is structured such that another relief can be claimed, or a low value transfer can be arranged, when the property is passed on.	**Legislative action** Section 75A of the Finance Act 2003 was introduced with effect from 6 December 2006[2], with the intention of blocking the use of these schemes. **Other action** The Department is investigating cases arising both before and after the introduction of section 75A on 6 December 2006. The basis for challenge will be the application of section 45 relief for cases arising before 6 December 2006 and the application of both section 45 relief and section 75A for cases arising after that date.	£175 million from 202 cases.
Partnerships		
These schemes involve arranging a connection between the purchasing partnership and the vendor. This results in the proportion of the consideration being taken into account as assessable for SDLT being reduced to nothing, or almost nothing.	**Legislative action** The Department is reviewing all the legislation relating to partnerships and considering whether it is appropriate to revise the legislation. It is also drafting guidance for taxpayers on this complex area. **Other action** The Department is investigating 18 cases.	£22 million from 18 cases.
Alternative finance		
These schemes take advantage of a relief intended to allow for alternative financing where a standard interest-based mortgage is not used on religious grounds. Under the avoidance scheme, a subsidiary of a financial institution is set up to eventually own the property without having to pay SDLT.	**Legislative action** Section 73AB of the Finance Act 2003 was introduced with effect from 12 March 2008[3], which disallows the alternative finance exemptions if there are arrangements for a person to acquire control of the relevant financial institution. **Other action** The Department is investigating a case arising before 12 March 2008.	£6 million from one case.

11 Summary of anti-avoidance schemes, action taken by HMRC and tax at risk *continued*

Description of the scheme	Action taken by HMRC	Tax at risk[1]
Unit Trusts		
These schemes use an offshore unit trust to transfer ownership of the property, using section 64A of the Finance Act 2003 which states that transfer of a property to a unit trust is not chargeable to SDLT.	**Legislative action** Section 64A of the Finance Act 2003 was removed with effect from 22 March 2006[4], with the intention of blocking the use of these schemes. **Other action** Only one case was identified following legislative action and the Department did not pursue this case.	None

Source: HM Revenue & Customs

NOTES

1 The 'tax at risk' figure is the amount of tax potentially payable from the cases under investigation by the Department in May 2009. It does not include an estimate of the amount of tax at risk from all cases that might be using these schemes.

2 Section 75A inserted by The Stamp Duty Land Tax (Variation of the Finance Act 2003) Regulations 2006 (SI 2006 No. 3237).

3 Section 73AB inserted by para 155 of the Finance Act 2008.

4 Section 64A removed by para 166(2) of the Finance Act 2006.

2.45 The diversion of resources meant that the Department built up its compliance activity more slowly than planned, with no additional yield recorded in 2004-05. Over the next four years, the Department's compliance work yielded a total of nearly £34 million. Compliance work was also disrupted by the reorganisations caused by closure of the regional offices, resulting in a drop in the yield and increased cost in 2007-08. The Department achieved a high yield in 2008-09, partly reflecting work in previous years. The impact of staff turnover can be high because the SDLT compliance team is so small and the work is specialist. The Department's SDLT Compliance Strategy recognises the need for succession planning and to improve training and guidance for the compliance team. The Department should ensure it implements the strategy.

2.46 Only 203 enquiries were opened in 2008-09. The Department does not have a quantitative analysis of the tax at risk and the amount of work required to tackle non-compliance effectively. Whilst it aims to use its resources on the highest risk cases, the number of cases that it identifies for investigation depends on its resources, taking into account a high level judgement on the likely yield. The lack of readily accessible management information contributes to the difficulty of making a sound estimate of the total level and nature of non-compliance. The Department should ensure that it implements the proposed case management system as planned and that the system will enable it to produce a comprehensive analysis of all its compliance work. It should then ensure that it matches the size of the compliance team to the overall level of risk, taking into account the need to examine sufficient transactions to provide an effective deterrent effect. The Department has told us that it plans to do this.

2.47 The disclosure regime was extended to SDLT in 2005. For SDLT, unlike other taxes, it is difficult for the Department to identify cases because the disclosure rules for SDLT do not require users to tell the Department when they are using an avoidance scheme. The Department is investigating individual cases to see whether it can challenge the technical application of the law. This did not start until 2007, and therefore it has not brought any cases before the courts, although it has begun to challenge individual cases and estimates that there could be test cases by 2010.

2.48 The lack of a reliable estimate of the SDLT tax gap makes it difficult for the Department to assess whether it is targeting its resources effectively and to justify the use of additional resources. Understanding how to make a better estimate of the tax gap is the Department's top strategic priority for SDLT compliance. The Department has recently prepared a high level compliance strategy that identifies the challenges it faces, and it is undertaking work to allow a sounder estimate of the tax gap. The extension of the disclosure regime will provide further information on the use of avoidance schemes, and the implementation of the computerised case management system will provide more information on the results of compliance enquiries. The Department intends to use this information to produce a detailed analysis of the extent and nature of non-compliance. It should set yield targets based on the estimated level of total non-compliance and avoidance, and use these targets to determine the level and allocation of its compliance resources.

PART THREE

Corporation Tax Postponements and Repayments

Introduction

3.1 Corporation Tax is charged on the worldwide taxable profits of UK based companies.[7] Companies not based in the UK but having a permanent office or branch are taxed only on their UK activities.[8] In 2008-09 the Department collected net Corporation Tax revenue of £42.8 billion. This is shown in **Figure 12** together with the breakdown in net Corporation Tax revenue between the main broad industrial sectors over the past four years.

3.2 In our 2004-05 Standard Report we examined various aspects of the Department's management of Corporation Tax. We have continued that process in 2008-09 and focused on:

- postponements: Corporation Tax due is 'postponed' when a company appeals against the Department's judgement of how much tax is due. The Department can also postpone the collection of tax from a company for reasons of administrative efficiency and customer service;
- repayments: the Corporation Tax process can produce repayments, the volume and value of which are increasing in the current trading conditions faced by many companies. We examined the Department's procedures and its response to identified risks.

12 Net Corporation Tax revenue

Year	Net Corporation Tax Revenue (£bn)	Financial Services (including Life Assurance) (£bn)	Oil & Gas (£bn)	Home Industrial & Commercial (£bn)	Estimated Total Number of Taxpayers
2005-06	41.9	11.2	7.3	23.4	875,000
2006-07	44.3	12.2	6.9	25.2	900,000
2007-08	46.4	12.4	6.1	27.9	975,000
2008-09	42.8	7.6	10.4	24.8	–

Source: HM Revenue & Customs

NOTES

1 'Estimated Total Number of Taxpayers' is the number of companies with profits chargeable to Corporation Tax (it does not include companies with losses or which had no taxable profits after allowances). The 2007-08 figure is an estimate and may be revised by the Department before it is published in April 2010. The 2008-09 figure is not yet available.

2 Figures for Number of Taxpayers split by main broad industrial sectors are not available.

3 For 2007-08 and 2008-09, the breakdown of net receipts between industrial sectors is subject to change as tax payments originally made in respect of a group of companies are re-allocated to individual companies within the group.

4 Net Corporation Tax revenue is on a cash basis and therefore does not match the Trust Statement income figure which is prepared on an accruals basis.

7 For the purposes of this report, the term 'company' encompasses all bodies liable to Corporation Tax. This includes: limited companies, clubs, societies, trade associations, housing associations and groups of individuals carrying on businesses other than partnerships.

8 Income and Corporation Taxes Act 1988, Sections 8 and 11.

The Corporation Tax Process

Legal obligations

3.3 Legislation places key obligations on companies, as shown in **Figure 13**.

13 Key obligations

Requirement	Legislation
Registration	
Companies that are new and begin to carry on business or trade, or those that were dormant or have recommenced trading, must inform the Department that they are liable to tax within three months.	Section 55, Finance Act 2004
Payment	
Companies must pay the right amount of Corporation Tax on time. *Payment deadline* – the deadline for payment is before the deadline to file a Company Tax Return. Generally, companies must pay by nine months and one day after the end of their Corporation Tax accounting period – this is called the 'normal due date'. *Instalments* – companies with taxable profits over £1.5 million must pay by instalments at three month intervals starting in the middle of their accounting period and finishing in the fourth month after its end.	Sections 59D(1) & 59E, Taxes Management Act 1970 Statutory Instrument No 3175/1998
Filing	
Companies must file the tax return by 12 months after the end of their Corporation Tax accounting period – the 'statutory filing date'.	Schedule 18, paragraph 3, Finance Act 1998

Source: HM Revenue & Customs

Corporation Tax rates

3.4 There are two rates of Corporation Tax, depending on the company's taxable profits. These are the 'lower' rate (also called the 'small companies' rate) and the 'upper' rate (also called the 'full' or 'main' rate).[9] There is a sliding scale between the lower and upper rates known as 'marginal rate relief' so that the effective rate of tax gradually rises as taxable profits increase. The Government updates tax rates through the annual Finance Act. The current rates are 21 per cent and 28 per cent respectively.

Self assessment

3.5 Corporation Tax uses a self assessment process.[10] This process requires each company to work out how much tax it owes for each accounting period. For this purpose it has to calculate the amount of profit on which it must pay tax – the 'Taxable Profit for Corporation Tax'. The starting point is the pre-tax profit figure in its financial statements which it adjusts to arrive at the final self assessment figure. **Figure 14** provides a simplified illustration of this process.

The Department's framework for administering Corporation Tax

3.6 **Figure 15 on page R20** shows the key components of the Department's framework for administering Corporation Tax.

3.7 The Department administers Corporation Tax on the basis of 'process now, check later'. Essentially this means that the Department processes Company Tax Returns with minimal intervention and then carries out post processing checks including compliance enquiries on selected cases.[11]

9 Income and Corporation Taxes Act 1988, Paragraph 1, Section 13.
10 Finance Act 1998, Paragraph 7, Schedule 18.
11 The Finance Act 2007, introduced deadlines for when the Department can initiate a compliance enquiry in respect of Company Tax Returns for accounting periods ending after 31 March 2008. The requirements vary depending on the specific circumstances but in general, where a Company Tax Return is delivered by the statutory filing date, the Department has 12 months from the date of delivery in which to initiate a compliance enquiry.

14 The Corporation Tax calculation process

Profits

Pre-tax profits taken from financial statements

↓

Adjustments

Pre-tax profits are adjusted to arrive at taxable profits. Examples are shown below.

Capital Allowances	Loss Relief	Group Relief
Companies can offset the cost of capital purchases	Companies can offset losses incurred in a prior year[1]	Companies can offset current year losses made by other group companies[2]

↓

Application of tax rates

Tax rates are applied to taxable profit to obtain gross Corporation Tax payable

↓

Final Adjustments

Gross Corporation Tax payable is reduced to reflect any tax already paid (for example, tax instalments) and tax credits due to the company

↓

Corporation Tax payable or repayment due[3]

Source: HM Revenue & Customs

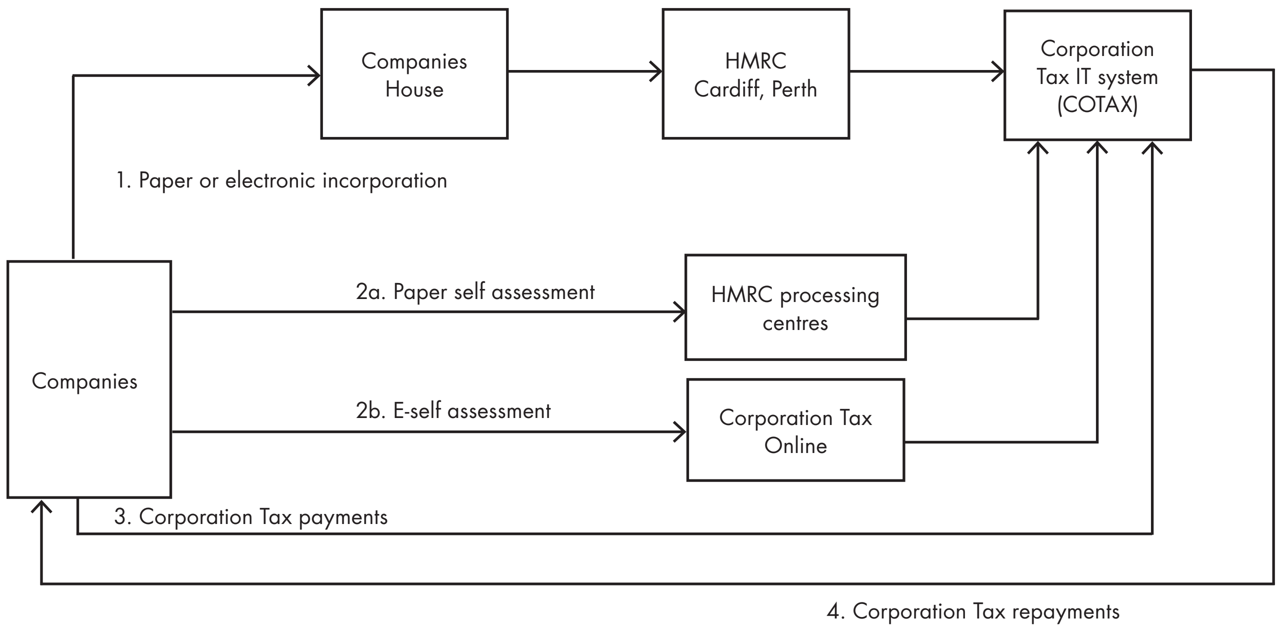
NOTES

1 Trading losses may be offset against the profits of the previous year's Corporation Tax accounting period, or carried forward and offset against profits in any future accounting period. Offsetting losses against prior or future profits allows companies and organisations to reduce their Corporation Tax liability and potentially receive a repayment of Corporation Tax.

2 For Group Relief, companies are members of the same group if one company is a 75 per cent subsidiary of the other or both companies are 75 per cent subsidiaries of a third company.

3 Each company arrives at the above 'Corporation Tax Payable' or 'Repayment Due' by completing the Company Tax Return.

15 The Department's administration of Corporation Tax



Source: HM Revenue & Customs

NOTES

1 Companies are incorporated with Companies House who forward the incorporation data to HMRC Cardiff and Perth for input to the Corporation Tax IT system (COTAX) which keeps taxpayer records. COTAX is the Department's main system for supporting the administration of Corporation Tax. It holds self assessment and Corporation Tax payments and repayment details for all companies and organisations eligible for Corporation Tax. Other IT systems, such as CTA/CTC, exist that support the historic (pre-1993) and non-standard Corporation Tax items that COTAX cannot handle.

2 Companies file their tax returns (self assessments and supporting documents) by submitting them either to HMRC processing centres for input to COTAX or by e-filing using the 'Corporation Tax Online' system. From April 2011, all companies will be required to file online for accounting periods ending after 31 March 2010 where the company tax return is delivered after 31 March 2011.

3 Companies make payments of Corporation Tax which are processed by HMRC and recorded in COTAX.

4 Repayments are a common feature of the Corporation Tax self assessment regime as described at paragraph 3.22 onwards.

3.8 The compliance function is carried out by the Large Business Service responsible for around 771 of the largest UK businesses[12] and Local Compliance Offices responsible for other companies. The Department selects cases for compliance enquiries using risk criteria, for example, overseas interests and transactions involving company directors, to identify cases with a relatively higher risk of error or evasion. **Figure 16** provides details on the volume of the Department's Corporation Tax related compliance work in 2008-09.

3.9 Enquiry work can be complex and the Department may have to deal with various agents including tax advisors, legal advisors, accountants and auditors as well as the company itself and its Directors. This work is subject to quality assurance processes within the Large Business Service and Local Compliance. Since October 2008, the Department has operated new procedures for the Large Business Service that use an issues based approach rather than a review of a sample of enquiries. The new approach focuses on areas where there are signs that improvements may be required, for example, where compliance enquiries are taking a long time to clear or generating low yields. Local Compliance introduced a new quality assurance process in September 2007 covering all aspects of its work including enquiries. Local Compliance Office managers have to prepare a Quality Risk Plan that captures the risks to quality identified within their teams and how they will be addressed. The Department's Risk and Intelligence Service selects cases for Local Compliance intervention nationally based upon risk, with information fed from approved gateways only. The Risk and Intelligence Service conducts quality checks on the risks identified before submission to Local Compliance.

12 The Department defines a business as 'large' if it has 250+ employees. A 'business' includes all the companies within that business. This is the definition used to demarcate the boundary between 'large and complex' and 'Small and Medium – SME' in Local Compliance.

16 The Department's Corporation Tax compliance work in 2008-09

	Large Business Service	Local Compliance Offices
Number of enquiries in progress at year end	3,970	27,753
Number of new enquiries launched during the year	1,014	19,744

Source: HM Revenue & Customs

NOTE

Unlike Local Compliance, the Large Business Service looks at the number of 'risks' working rather than the number of company enquiries. A risk might cover a number of accounting periods and different companies.

3.10 The aim of a compliance enquiry is to confirm the accuracy of a self assessment set out in the Company Tax Return and results in:

- confirmation of the self assessment – no changes are required; or
- disagreement with the self assessment and provision of an amended figure. The company can appeal against the Department's assessment. An appeal can result in the tax charged being 'postponed'.

Corporation Tax Postponements

Types of postponement

Section 55 postponements

3.11 If a company does not agree with the Department's decision about its Corporation Tax affairs, the Department generally settles the matter through further discussion. Where agreement cannot be reached the company may be able, under Section 55 of the Taxes Management Act 1970, to apply to the Department for a review of the amount of tax and/or penalties due, the payment of which is postponed pending completion of the appeal. Departmental staff not previously involved with the matter under dispute complete these reviews and the Department informs the company of the outcome. If the company does not agree with the result, it has 30 days to refer the appeal to the independent tax tribunal which makes a determination on the amount of Corporation Tax and/or penalties due.[13]

Section 1 postponements

3.12 If the Department has reason to believe that an assessment will ultimately be reduced, for example, where the company is part of a group of companies and losses are expected to be set off from elsewhere within the group, it may postpone the tax pending finalisation. The basis for these postponements is the Department's interpretation of the responsibilities of the Commissioners for Her Majesty's Revenue and Customs for the collection and management of Corporation Tax as set out in Section 1 of the Taxes Management Act 1970 and relevant case law.

Management and governance arrangements

3.13 The Department's day to day management of postponements takes place primarily within the Large Business Service and Local Compliance Offices, although cases are also handled by other directorates such as Charities Assets and Residence. **Figure 17 overleaf** provides details of the type, volume and value of postponements managed by the Department over the last two years.

3.14 Postponement cases can be extremely complex. Many are related to accounting periods before the introduction of self assessment in 1999 when companies could appeal against assessments raised by the Department. Currently there is £3.6 billion of postponements recorded on COTAX for pre-self assessment accounting periods (covering the period 1 October 1993 to 30 June 1999) of which £3.2 billion relates to some 60 companies that are part of the largest businesses managed by the Large Business Service. The complex issues involved often mean that it takes many years of litigation before liability can finally be resolved.

3.15 Our examination of postponements in Local Compliance Offices found that many cases for 'small and medium' enterprises were several years old with no evidence of action since the postponement occurred. The Department is taking steps to address this and has recently started to clear-out 'old' postponements below a certain amount without further investigation. The first stage of this process relates to:

- 2,765 postponements of £10,000 or below, with a total value of £3.4 million, where the company concerned is no longer registered with Companies House; and

13 This 'two tier' approach (i.e. Departmental review and tribunal determination) was introduced from 1 April 2009. The independent tax tribunal is administered by the Tribunals Service (an executive agency of the Ministry of Justice). Prior to 1 April 2009, appeals were made to HMRC's General or Special Commissioners.

17 Management of postponements

Type	Number of accounting periods postponed As at 28 March 2008	Number of accounting periods postponed As at 31 March 2009	Value of postponements (£m) As at 28 March 2008	Value of postponements (£m) As at 31 March 2009
Large Business Service				
S1 TMA	1,251	1,200	4,244	4,096
S55 TMA	888	647	5,656	4,095
Sub-total	**2,139**	**1,847**	**9,900**	**8,191**
Local Compliance				
S1 TMA	7,208	6,875	385	409
S55 TMA	7,370	6,018	564	588
Sub-total	**14,578**	**12,893**	**949**	**997**
Other Directorates				
S1 TMA	430	375	28	28
S55 TMA	528	457	406	96
Sub-total	**958**	**832**	**434**	**124**
Total	**17,675**	**15,572**	**11,283**	**9,312**

Source: HM Revenue & Customs

NOTES

1 S1 TMA = Section 1, Taxes Management Act 1970; S55 TMA = Section 55, Taxes Management Act 1970

2 The values of postponements shown in Figure 17 include Corporation Tax charged and any associated penalties. For example, as at 31 March 2009, the total tax postponed was £9,246 million and the total penalties postponed were £66 million, giving the combined total of £9,312 million shown above.

3 As at 28 March 2008, the total number of accounting periods postponed was 17,124. However, 551 had both Section 55 and Section 1 postponements, hence the total of 17,675 shown above.

4 As at 31 March 2009, the total number of accounting periods postponed was 15,125. However, 447 had both Section 55 and Section 1 postponements, hence the total of 15,572 shown above.

5 Information for years prior to 2008 is not available.

6 The figures above reflect gross postponements in COTAX. As at 31 March 2009 there was £949 million of postponements in other CT related IT systems such as CTC/CTA. These figures are not included in Figure 17 as breakdowns are not available. Most, if not all, will be S55 TMA postponements.

- 1,603 postponements of £10,000 or below, with a total value of £2.1 million, relating to live companies and accounting periods up to 31 December 2001.

3.16 The Department's Corporation Tax and Value Added Tax (CT&VAT) Directorate, together with operational teams in Local Compliance, are looking at ways in which the Department can manage postponements and prevent the build up of unresolved cases in the future. This includes a review of Local Compliance work lists and the provision of data to help Local Compliance identify and sort postponements to ensure that work is targeted appropriately. The Department regards this exercise as a high priority.

3.17 CT&VAT is accountable for the performance of the Corporation Tax regime, including understanding the underlying trend in postponements and their effect on the tax and its customers. Various reports can be produced that provide CT&VAT with information on the volume and value of postponements at a particular point in time and the approach being taken to manage these amounts. The Department does not produce regular, detailed information on the age profile of all postponements (although we understand that this is possible) believing it to be of minimal qualitative value for management purposes. We consider that such information would add an additional dimension to the Department's oversight of postponements and could be factored in alongside existing considerations of case complexity, tax at risk and available resource to help target cases that should be worked as a priority.

3.18 The management of all aspects of Corporation Tax, including postponements, is monitored by the Department's Business Taxes Board and Corporation Tax Delivery Group[14] and monthly reports produced to Director and Director General level. The Department's position is that CT&VAT would report any risks or problems through normal processes, escalating to Departmental Board level on an exception basis where appropriate. However, what this means is that neither the Executive Committee nor the Departmental Board receives information on postponements on a regular basis. We consider that the provision of such information, for example, on the volume and value of postponements over time with details of expected outcomes, would help senior management to monitor this issue more easily.

Case management processes

3.19 Postponements are recorded on COTAX, which has limited facility to record comments about individual cases, but essentially progress is tracked through the use of paper based files. Our visits to Local Compliance identified the following problems:

- retrieval of records – not all of the corresponding paper based records for those postponements that we sought to examine were available at the time of our initial visit. However, the Department has now provided 100 of the remaining 104 case files for examination.
- Organisation of paper records – the Department has prepared guidance on the key points that staff should follow to ensure that paper files are kept in good order and are easy to navigate. In practice, we found that the quality of paper based files was variable with some easy to follow and others less so. Given the inherent complexity of many cases, it is important that files are organised to a consistently high standard so that they are readily accessible to those who may need to use them, for example, when new staff take up post.
- Alignment of paper records to COTAX – we identified cases shown as postponements on COTAX where there was no reference to the postponement in the paper based case file. We also found examples of postponements shown on the Department's work list that were not recorded as postponements in COTAX. This issue arose in other areas of our audit where COTAX could not be updated to reflect significant events, for example, receipt of an amended self assessment, even though significant periods of time had elapsed (years in some cases).

3.20 The Department's reliance on paper-based records means that it does not back-up key information to facilitate recovery in the event of information loss, for example, through fire. The Department plans to centralise the storage of paper files in large scale repositories which will increase the Department's need to consider effective contingency arrangements.

Financial reporting

3.21 The Department flags postponements within COTAX[15] to stop it from attempting to collect tax during a postponement. Historically, the Department has not recognised any income in respect of postponements flagged in COTAX. However, audit work indicated that the Department was likely to receive tax from some cases and that these amounts could be measured reliably thus meeting the criteria for asset recognition in the Trust Statement. In May 2009, the Department conducted a review of large postponements to assess how much tax it expected to receive as at 31 March 2009. The review encompassed all postponements over £25 million within the Large Business Service and all postponements over £10 million with Local Compliance. In monetary terms this represented £6.1 billion of the £8.2 billion (74 per cent) total value postponed within the Large Business Service and £0.3 billion of the £1.1 billion (27 per cent) total value postponed in Local Compliance and other directorates. The review identified £1,354 million included in postponements which would have been released to revenue on the finalisation of assessments. It also identified £1,819 million where the assessments recorded in COTAX were too high and would need to be reduced. The Department has adjusted the 2008-09 Trust Statement to reflect these items.

14 Business Taxes Board – chaired by the Director General for Business Tax and attended by Business Tax Directors, the Board monitors and discusses key high level risks, issues and performance across the business taxes including Corporation Tax. The Corporation Tax Delivery Group is responsible for overseeing the end to end Corporation Tax process and includes members from relevant business areas.

15 The Department calls this a 'standover'.

Corporation Tax Repayments

The basis for repayments

3.22 Most Corporation Tax repayments arise when a company's finalised assessment reveals an earlier overpayment of tax; for example, through the payment of instalments ahead of the final assessment. Repayments can also arise when companies offset losses against taxable profits. A company can offset losses incurred in their current Corporation Tax accounting period against taxable profits earned in the previous period. This reduces the liability for the previous period, resulting in a repayment of any excess tax paid.[16]

3.23 **Figure 18** provides details of the value of repayments in the last four years. Repayments in 2008-09 were higher than in previous years, reflecting the difficult trading conditions experienced by many companies since 2007-08. The Budget 2009 is also likely to give rise to additional repayments in 2009-10 and 2010-11 as it increased the scope for companies to offset losses against the taxable profits of earlier years.

The repayments process

3.24 The Department's assurance over the propriety of repayments is based primarily on a system of pre and post-repayment checks. The COTAX system has a series of programmed inhibits. Some repayments are inhibited on the 'Overpayments Requiring Urgent Review' work list, and if basic checks are not conducted within 14 days, they are processed automatically to prevent delay. Other repayments are inhibited permanently on the 'Overpayments List', and require manual intervention before they can proceed any further. COTAX also undertakes an automatic risk assessment to identify cases that require pre-repayment security checks. High value repayments, together with a sample of lower value repayments, are checked by the originating Large Business Service or Local Compliance Office to confirm their validity. No repayments are made against these cases until the review process is complete. In addition, repayments over a certain threshold must be authorised individually prior to being made. The vast majority of other repayments are processed automatically and the money is transferred directly to the company's bank account or repaid via payable order.

18 Repayments

	2005-06	2006-07	2007-08	2008-09
Value (£bn)	4.7	5.4	8.1	9.7

Source: HM Revenue & Customs

NOTE

The Department does not routinely produce information on the volume of repayments and this could not be produced for the purposes of this report without significant resource cost.

3.25 The Department's post-repayment regime involves cases being selected by the COTAX system and placed on a weekly action work list for manual post-repayment security checks.[17] If there are concerns, they are escalated accordingly.

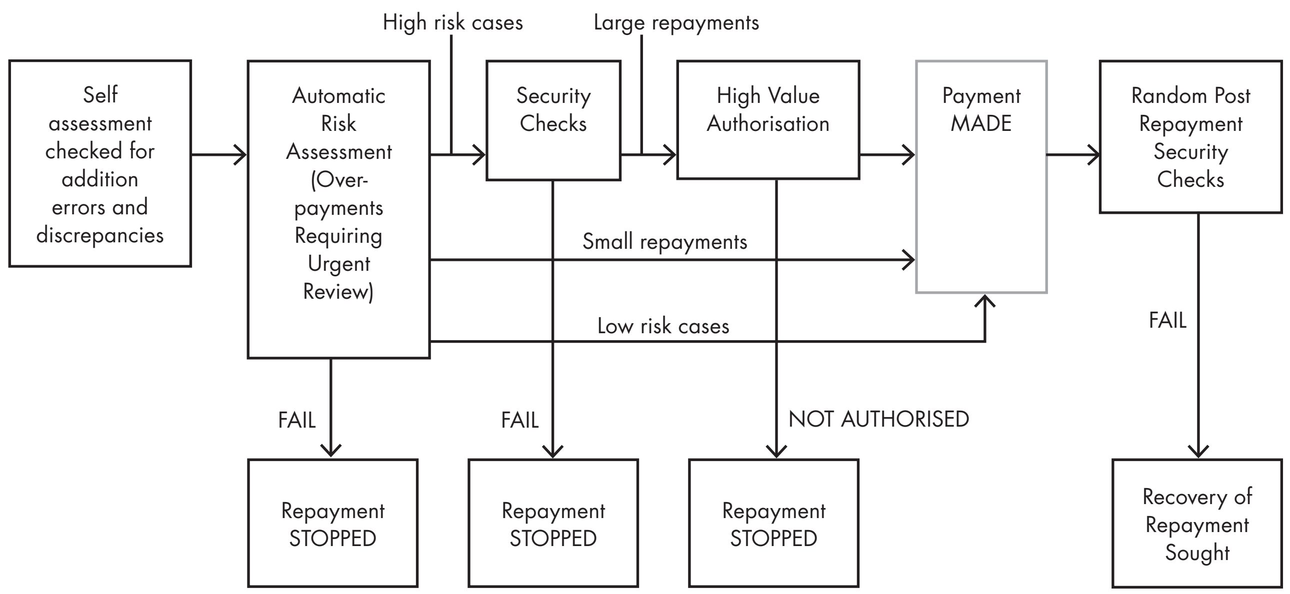
3.26 **Figure 19** illustrates the Corporation Tax repayments process and associated key controls.

3.27 In addition to repayments of Corporation Tax, the Department needs to make other types of payments to companies, for example, when paying tax credits on qualifying expenditure (such as research and development or the production of British films). The Department may also need to reimburse a company, for example, for income tax deducted at source on some types of investment income received. These payments are initiated by a manual intervention in COTAX to create a dummy receipt against which a 'repayment' can then be made, if appropriate. The Department refers to receipts created in this way as 'District Set-off' (DSET) postings.

3.28 The Department uses DSET postings to enable repayment processing on COTAX rather than an alternative approach of a manual payable order. DSET postings and repayments are created by individual officers i.e. there is no separation of duties between setting up and approving a DSET posting and the subsequent repayment. However, the Department flags up repayments following a DSET posting as higher risk and they have an increased chance of being picked up by the Department's pre and post repayment security checks. The number of repayments following a DSET posting is shown in **Figure 20.**

16 The legal basis for repayments is Section 59D(2) of the Taxes Management Act 1970 – where tax paid exceeds the tax due, "the excess shall be repaid".
17 This list can include cases that have already had a pre-repayment check, if the circumstances are such that the post-repayment risk criteria are also matched.

19 The Corporation Tax repayments process



Source: HM Revenue & Customs

20 Corporation Tax repayments following DSET posting

Annual totals	2005-06	2006-07	2007-08	2008-09
Volume	8,998	8,300	7,037	7,130

Source: HM Revenue & Customs

NOTES

1 The figures above relate to DSET postings of £100 or more.

2 The Department does not routinely produce information on the value of repayments following DSET posting and this could not be produced for the purposes of this report without significant resource cost.

The Department's response to repayments risk

3.29 The Department has established a 'Repayments Taskforce' to identify and assess the risks presented by repayments across the different tax streams and to ensure that business areas have addressed identified risks and are following agreed action plans. **Figure 21 overleaf** sets out the Taskforce's conclusions on the most significant risks facing repayments, together with the actions proposed. The Department is undertaking a six-monthly review of this assessment and business area action plans.

21 Corporation Tax repayment assessment results

Risk identified	Action proposed
A dependence on the integrity of Companies House records as part of the Corporation Tax registration process. There is a risk that Corporation Tax registration details are inconsistent with those held by Companies House and/or that information submitted in support of a self assessment is inconsistent with accounts filed at Companies House. In turn, this creates a risk that erroneous/improper Corporation Tax repayments are made or that the Department continues to work on postponements and make determinations in respect of companies that have ceased trading.	The Department is working closely with Companies House, specifically looking at improving the incorporation and initial registration processes, and also on a joint approach to filing of financial information. The plan is to deliver improvements during 2010-11. This will provide greater assurance over the integrity of information feeding into COTAX and the consistency of Corporation Tax self assessments with accounts filed at Companies House.
Risks around existing pre-repayment checking systems. More specifically: old and limited automatic risk rules, no input from Departmental risk experts (Risk & Intelligence Service and Knowledge Analysis Information Unit), a focus on internal rather than external fraud. The Department also concluded that not all offices had the capability to undertake security checks.	The Department is reviewing the effectiveness of the pre-repayment checking system and an action plan to address identified issues is scheduled for 2009-10.
Limitations in escalation routes and intelligence gathering when issues were identified by officers undertaking security checks.	The Department is changing the process for pursuing issues identified by security checks and the gathering and utilisation of intelligence.

Source: HM Revenue & Customs

Conclusion

Postponements

3.30 Figure 17 shows the Department has reduced the volume and value of postponements during 2008-09. However, the total value of postponement cases is still over £9 billion. Historically, the Department has not actively monitored the low value high volume cases in Local Compliance and so it has experienced a gradual build-up of postponements in this area. It is important that the Department has effective case management, oversight and accounting processes to ensure that cases are resolved on a timely basis and companies have certainty about their tax affairs. Since early 2008, the Department has been reviewing its treatment of postponements. The Department has stated that it is developing a long term response. This should identify the actions that it plans to take within a defined timetable and encompass the issues highlighted below.

3.31 In September 2008, the Department started work to clear-out 'old' cases to help reduce the current volume of Local Compliance postponements. This is a one-off initiative to 'write-off' those cases that the Department knows it cannot, or believes it is no longer worth attempting to, pursue to a resolution. The Department recognises that active management of postponements should prevent the build up of unresolved cases and remove the need for such 'clear-out' work in the future.

3.32 Postponement cases are recorded in the Department's Corporation Tax IT system (COTAX). However, the Department has no single electronic case management system for postponements. Consequently, the Department manages cases using a combination of data from COTAX and supporting paper based case files. To ensure accuracy and completeness, as well as the confidentiality of customer information, it is important that the Department has controls in place to align data on COTAX with the paper based records. Otherwise, as we found, mistakes can arise on individual cases which can then lead to the inclusion of incorrect amounts in the Department's accounting records. Our audit identified that the Department needs to improve its performance:

- in more timely processing of key information for example, amended self-assessments. This would help to ensure that significant developments on individual cases are reflected on COTAX within a reasonable timescale;
- in the quality and clarity of information held on paper-based case files;
- in the ability to retrieve case files easily so that records can be updated and cases progressed without undue delay; and
- in the financial reporting of the status of postponements.

3.33 As a priority, the Department should introduce arrangements to obtain periodic assurance, for example, through sample review, that paper records and COTAX remain aligned. Longer term, the Department should consider the merits of encompassing postponements within existing plans for the development of an HMRC electronic compliance case management system.

3.34 As a result of our audit, the Department conducted a review of postponements at the year end that gave rise to a reduction of Corporation Tax revenue in the Trust Statement of £465 million. It also provided up to date information for a significant element of the population based on case by case analysis. The Department should use this experience to develop a regular review to inform the management and oversight of postponements and facilitate the preparation of the figure in the Trust Statement. Summary information on postponements should be monitored by the Executive Committee and the Departmental Board. As a minimum, this information should include details of values and volumes profiled by age and location, together with information on expected outcomes.

Repayments

3.35 The value of repayments has risen steadily in recent years, totalling £9.7 billion in 2008-09. This trend is expected to continue as companies face difficult trading conditions and it is vital that the Department has effective controls in place around such large sums of money flowing out of the Department. The Department is taking action, through its Repayments Taskforce, to identify and address risks presented by repayments and has internal reviews underway and planned, for example, by Internal Audit, to examine the extent to which identified risks are mitigated by the existing control framework.

3.36 While repayments are made primarily through automated processes, a significant volume of repayments (over 7,000 in 2008-09 – Figure 20) arise from manual intervention in the COTAX system and there is no separation of duties within this process. We consider that there is an increased risk of inappropriate repayments being made though this process of manual intervention (known as 'DSET' by the Department) that would be addressed through the introduction of separation of duties between the set up and authorisation of these repayments. We understand that the Department's reviews encompass manually initiated repayments and will provide specific conclusions about its assessment of the adequacy of current procedures.

PART FOUR

Excise Duties – Hydrocarbon Oils Duty

Introduction

4.1 Excise duties are levied on alcohol and tobacco products and mineral oils. Minimum duty rates and a framework for administration of excise duties are set out in various EU Directives. But subject to these, each EU Member State may determine its own rates and administrative requirements.

4.2 Excise duty is liable on hydrocarbon oils at the time it is either produced or imported, at either full or rebated rates specified by the Hydrocarbon Oil Duties Act 1979. Rebates are applied to fuels intended for use in non-road traffic vehicles, such as farm tractors, mowing machines or road construction vehicles, or for heating. These products contain chemical markers and dyes to deter and enable detection and misuse as road fuels. Some oils (known as 'Tied Oils') used for certain industrial purposes, such as the manufacture of tyres and paints, are relieved of duty.

4.3 In 2008-09, the Department collected £24.6 billion from mainly road fuels (unleaded petrol and diesel). Since 2006-07, the yield has increased by £1 billion (four per cent), as shown in **Figure 22**. In 2008-09, the seven largest oil companies operating in the United Kingdom accounted for approximately 90 per cent of the total duty, some £22 billion. The balance came mainly from smaller producers and businesses that trade in imported oil.

4.4 The existence of oils on which no or reduced duty has been paid provides two major risks to revenue through fraud:

- **Laundering process or by mixing:** rebated fuel can either be treated to remove chemical markers and dyes added to allow its identification, or it can be mixed with duty-paid road fuel or lubrication oils and then sold at full or near duty paid.
- **Misuse:** directly diverted for use in vehicles driven on the public highway.

4.5 Misuse of rebated fuel is the simplest fraud, but also the easiest for the Department to detect by looking for the marker dye. Fuel laundering is a more complicated process and is harder to detect. Fraudsters "wash" (by adding a laundering agent) or filter oils to remove the colour dyes and chemical markers.

4.6 Since 2001, the Department has published each year an estimate of hydrocarbon oils revenue lost to the Exchequer, mainly because of fraud. Its estimate of oil losses in 2002-03 was £1.2 billion in Great Britain (GB) with a non-UK duty paid market share of £260 million in Northern Ireland (NI). The Department considers that a significant proportion of the non-UK duty paid market in NI relates to legitimate cross-border shopping of fuel. Also, although it is unable to quantify and differentiate from legitimate cross-border shopping, there is also a large element of fraud resulting from smuggling of fuel from the Republic of Ireland for use in Northern Ireland. The price differential in diesel between the two countries, which is affected by a number of factors, including duty differentials and currency exchange rates, has provided an incentive to smugglers. Also, the border is around 300 miles long with numerous crossing points, making it easy for fraudsters to evade capture. The Department believes that smuggling to the mainland is limited at present. But this risk continues to be monitored.

22 Hydrocarbon Oils Duty — Budget Forecast/ Net Receipts

	2006-07	2007-08	2008-09
Budget Forecast (£bn)	23.7	24.9	25.1
Receipts (£bn)	23.6	24.9	24.6

Source: HM Revenue & Customs and HM Treasury Budget Reports

NOTE

Receipts reflect cash received and therefore does not match the Trust Statement revenue figure which is prepared on an accruals basis.

4.7 In 2002, the Government announced a UK Oils Strategy to tackle the fraud. This report outlines the Department's progress and the Committee of Public Accounts previous recommendations, that it should:[18]

- have timely information on the nature and scale of the problem to tackle it effectively;
- consider measures of productivity and effectiveness to assess the quality of intelligence work and compare performance across regions;
- provide incentives for traders to move from manual, paper-based returns to lodging returns electronically and set a target date for the full electronic submission of returns;
- ensure regulatory impact assessments are founded on a sound understanding of the nature of the issues and the likely effect of the proposed regulations; and
- review whether the penalties for oils fraud provide a proportionate deterrent or punishment for the seriousness of the criminal activity, and also consider whether its prosecutions strategy is delivering the results needed to deter potential fraudsters.

Progress against Targets

4.8 The United Kingdom is the only EU Member State that has published estimates of oils fraud. The Department has a target, by 2007-08 to hold the illicit market share for oils in Great Britain at no more than 4.4 per cent, and to continue this up to 2010-11. In 2008 the oils tax gap methodology was subject to a fundamental review; details were published in the Measuring Indirect Tax Gaps Report 2008. The 2006-07 estimate, using the revised methodology, is 4.6 per cent (rounded to five per cent), **Figure 23**. The Department believes, however, on the basis of operational evidence, that this estimate is too high. It carried out a random checking exercise which found illicit fuel in less than 0.5 per cent of vehicles checked, which suggests a lower illicit market share than it had estimated. The assumptions underlying the methodology are currently being re-checked.

4.9 In Northern Ireland, the Department made a public commitment in 2001 to establish and then maintain an upward trend in deliveries of UK duty paid road fuel into Northern Ireland. Its current estimates show some success, with a fall in the non-UK duty paid diesel market share from 53 per cent in 2002-03 to 40 per cent in 2006-07. Likewise, the non-UK duty paid petrol market share fell from 18 per cent to 14 per cent over the same period.

23 Diesel and Petrol: Illicit and non-UK duty paid market share and associated revenue losses

	2002-03	2003-04	2004-05	2005-06	2006-07
Market Share – GB					
Diesel illicit market	10%	9%	7%	6%	5%[1]
Market Share – NI					
Diesel *(non UK duty paid)*	53%	50%	41%	41%	40%
Petrol *(non UK duty paid)*	18%	18%	14%	14%	14%
Revenue Losses (£m)					
GB Diesel	1,250	1,250	1,100	850	750
NI Diesel	200	210	180	190	200
NI Petrol	60	60	50	50	50

Source: HM Revenue & Customs

NOTES

1 Figure has been rounded from 4.6 per cent.

2 Estimates include duty and VAT.

3 Due to sampling errors, confidence intervals are provided for tax gap estimates. The figures above are central estimates and are interpreted by HMRC as an indicator of long-term trends in the illicit market and non-UK duty paid share rather than a precise estimate of the level.

4 All estimates for Northern Ireland relate to total non-UK duty paid consumption, rather than the illicit market. This reflects the present difficulty disaggregating total revenue losses between illicit activity and legitimate cross-border shopping.

18 HM Customs and Excise Standard Report-15th Report of Session 2005-06 (HC 695).

4.10 The long time lag in obtaining the relevant data means that the Department does not have estimates of the illicit market until at least 18 months after the financial year to which they relate. Estimates for 2007-08 are therefore not yet available. The Department constantly monitors and assesses operational information to maintain current knowledge of the nature of the fraud and to target its resources accordingly. However, it recognises the need to develop lead indicators, to provide information on in-year changes on the scale of the illicit market.

The Oils Strategy

4.11 The key elements of the Strategy included:

- the Registered Dealers in Controlled Oils scheme to provide a stronger regulatory regime to control the sale and distribution of rebated oils;
- enhancing the existing control of tied oils distribution by requiring all customers, as well as distributors, to be individually approved by the Department and to keep and provide records;
- extra HMRC officers including additional investigators to break up criminal gangs behind oils fraud;
- a new central intelligence unit to support all operational activity with the best information and intelligence available across Government;
- new technological support, particularly in the new intelligence unit and in the specialist testing units;
- greater use of sanctions at the Department's disposal, including vehicle seizures, duty assessments and prosecution in such a mix as is necessary to recover lost revenues and prevent fraud occurring; and
- tackling displacement threats as criminals exploit alternative opportunities for oils fraud.

4.12 The Department recognises the need to continually assess and take action to identify, test and address new risks. For example, extending the Registered Dealers in Controlled Oils scheme to aviation turbine fuel in 2006. However, it is to review the Strategy in 2009-10 to ensure it remains robust and will update it as necessary.

Registered Dealers in Controlled Oils (RDCO) Scheme

4.13 The cornerstone of the Strategy is the Registered Dealers in Controlled Oils scheme (the Scheme) under which the Department authorises distributors to operate. The Department's previous focus was on illicit supply and use and involved detecting illicit fuel and imposing of sanctions. But this provided little control over how illicit suppliers and users were sourcing their illegal fuel.

4.14 Since April 2003, all distributors of controlled oils must register with the Department. Around 4,000 are currently registered under the Scheme, the majority of which are required to submit monthly returns with customer details for all commercial sales of rebated fuels, and domestic sales of more than 3,500 litres per supply or 10,000 litres per annum, **Figure 24**. Distributors have a "duty of care" to take reasonable steps to ensure that the sale of rebated oils is for legitimate use. The Department can impose a range of penalties and sanctions for non-compliance, including withdrawing registration. When distributors apply for admittance to the Scheme, they are subjected to detailed background checks by the Mineral Oils Relief Centre (which maintains a database of registered traders).

4.15 Only around 10 per cent of the RDCO returns are submitted electronically, but this does include all the major oil companies. The Department has notified smaller and medium sized traders of the facility and undertaken educational visits to explain how to use the system. It acknowledges that the software, although robust, is not easy to use and best suited for traders with enhanced computer knowledge. Also, funding required to simplify the system needs to be considered in the wider context of its other IT projects. Against this background, the Department does not consider it would be appropriate to make the on-line use mandatory.

4.16 The effectiveness of the Scheme depends on the Department's analysis of the returns to monitor trends. It is therefore important that the returns are submitted promptly. The number of returns submitted late has decreased from 14,896 in 2003-04 to 5,278 in 2008-09. The Department's approach to increasing compliance has focused on educational visits and warning letters. To discourage a pattern of non-compliance it recently targeted traders who have repeatedly failed to submit returns on time. Penalties are to be issued for persistent failures and, as a last resort, registrations may be revoked.

24 Registered Dealers in Controlled Oils (RDCO) Scheme – performance data

	2003-04 (start of scheme)	2004-05	2005-06	2006-07	2007-08[1]	2008-09
Registrations:						
Registered Traders	2,795	3,025	3,244	3,549	3,784	4,030
Applications approved with conditions imposed	24	13	4	6	9	3
Number of applications refused	2	3	4	4	3	3
Returns:						
Returns received	36,217	54,174	52,718	52,757	45,547	43,532
Percentage of electronic returns received	9.7%	6.5%	8.7%	8.6%	8.8%	9.5%
Returns received late	14,896	18,244	14,307	11,082	8,657	5,278
Sanctions:						
Warning letters issued	N/A	N/A	N/A	3,263	5,269	4,657
Applications revoked due to poor compliance	2	3	7	9	7	2

Source: HM Revenue & Customs

NOTES

1 In 2007 the Scheme rules were relaxed for some dealers allowing them to submit annual rather than monthly returns.

2 N/A = Data not collected.

4.17 In 2007, the Department reviewed the RDCO scheme to establish the extent to which it was achieving its strategic objectives. It consulted internal and external stakeholders, such as trade bodies and individual businesses. The key issues raised and the Department's responses were as follows:

Key Issues	**Department's Response**
Some traders found 'duty of care', record keeping and subsequent return completion, onerous and time consuming.	The Department has introduced an annual return for compliant traders supplying 10,000 litres or less per year. It is also continually reviewing the trader population and assessing the possibility to reduce the burden further.
Department 'heavy handed' regarding the imposition of penalties for failure to obtain customer VAT numbers and/or post codes.	To assist business, the relevant public notice is currently being updated to inform businesses that they should advise their customers that failure to provide VAT numbers and/or post codes is likely to result in visits being made by both Excise and VAT staff.
No facilities to notify the Department anonymously of suspicious activity.	Traders can now notify the Department anonymously via a confidential phone line or directly to the Mineral Oils Relief Centre. The Department has centralised the collation and analysis of oils specific information received from all sources, including human intelligence, to enable more effective analysis and targeting of necessary action.
Some traders commented that nothing seems to be done about their concerns, after informing the Department of suspicious behaviour.	The Department has informed all traders that information will only be shared by either party where it does not compromise any legal restrictions, duty of confidentiality, or operational effectiveness. It also publishes two activity reports each year; one covering Great Britain (GB), the other Northern Ireland (NI), providing examples of how working with the industry has contributed to helping the Department tackle oils fraud. Following discussions with industry representatives only the NI report will still be published. The GB report will be replaced with regular flyers covering national activities for inclusion with returns sent to all RDCOs. These will give brief summaries of cases and information, such as how to contact the Department to report any suspicions about misuse of fuel, any changes to the scheme or any trend information which could be of use to RDCOs in attempting to control the product. After a prosecution the Department now ensures that, where possible, this is reported in either the local or national press. In addition to providing feedback to industry its aim is to deter others.

4.18 The Department considers that the introduction of the RDCO scheme has led some fraudsters to change their behaviour, from purchasing large quantities of controlled oils from a small number of traders to small quantities from a larger number of traders. This and other potential trends are explored through data analysis and supporting activity by compliance officers.

4.19 In 2002, controls were tightened on business dealing in 'Tied' oils used for industrial purposes, e.g. the manufacture of plastics and paint. Around 1,200 traders are on this scheme, and are required to be approved by the Department and submit monthly returns if the throughput of oils is expected to exceed 10,000 litres per annum. In 2008-09, the Department undertook an internal review of the scheme to identify potential risk areas and a programme of high priority assurance visits is to be undertaken in 2009-10.

Operational Measures

4.20 The Department has established an Oils Strategy Delivery Group (OSDG) responsible for commissioning projects to tackle high risk traders and activities and to coordinate interventions across the Department. All the operational teams involved in delivering the strategy are represented on the OSDG. Performance packs are produced on a monthly basis. Our review of the OSDG minutes verified that these packs are monitored, performance is challenged and remedial action initiated when required.

Risk and Intelligence Officers

4.21 Risk and Intelligence officers using a risk scoring system are able to identify high risk RDCO traders to be visited by compliance officers. A small proportion of traders deemed medium and low risk are also visited to ensure the risk process has correctly identified high risk traders. It also has a deterrent effect across the whole spectrum of RDCO traders. Results of the visits are fed back to the risk officers to update the risk process. The Department is exploring how to develop the oils risk matrix, and make it more flexible along the lines of the alcohol risk assessment database, which came into operation in 2005. A more flexible system would allow the risk team to decide the frequency of visits over a defined period using their own judgement in conjunction with the information generated by the risk database.

4.22 As part of its Workforce Change Programme, designed to enable the Department to operate more efficiently, the Risk and Intelligence Service has recently been through a period of significant change to centralise the service. The Change Programme aimed to provide, amongst other things, opportunities to enhance the development of expertise, the sharing of knowledge and best practice and to improve the quantity and quality of intelligence. It is too early to comment on whether these aims have been achieved.

4.23 All the excise risk teams supporting compliance activity have now been centralised and based on one site, the aim being to maximise the potential impact of operational interventions. These teams are multifunctional, supporting a cross-tax approach to risk. There has been significant cross-departmental effort to train staff and work towards achievement of the potential benefits of this change, which is further supported by the use of new risk tools and the different skills and experience brought by the new team members. However, none of the oils risk team volunteered to relocate to the centralised risk team, resulting in a loss of oils expertise. This, together with the upheaval of the move, has contributed to the decrease in the number of compliance referrals from around 1,900 in 2007-08 to 1,500 in 2008-09. However, in part this reduction is also consistent with the Department's drive to a focus on outcomes and quality rather than quantity of referrals.

4.24 The Department acknowledges that it needs to do more to assess the success of its intelligence packages, i.e. better targeting of high risk areas. Key performance indicators are currently being developed for 2009-10, which will be monitored quarterly by the Oils Strategy Delivery Group to ensure that the benefits of centralisation are realised.

Compliance Officers

4.25 Compliance Officers work with the oils traders and distributors to ensure understanding of requirements and compliance with the RDCO and Tied Oils schemes. These officers also undertake audit activity following commercial detections of misuse of rebated fuels or other fraud. Such cases can result in significant assessments, which can recover duty due in the previous three years. As well as tackling specific cases of misuse, these assessments, along with other penalties can have a strong deterrent effect. In addition, Compliance Officers have a key role in exploring new risks. A National Assurance Plan has been developed to ensure co-ordinated risk based activity on all aspects of the oils regime and includes projects to test risks identified by all operational and policy areas, for example, in relation to specific products or types of businesses or transactions.

Inland Detection Officers

4.26 Detection Officers target large scale commercial misuse by traders through the specialist Road Fuel Testing Unit (RFTU). Three types of testing may be carried out: sight, gravity and chemical testing. A sight test is the quickest way of checking for red diesel. It is not conclusive, and so a gravity or chemical test may be undertaken. The nature and scale of the operation will determine which type of test can be applied.

4.27 Information arising from detections is referred to the risk team, who will review, add further information and intelligence and then ask Local Compliance to investigate. The detection might involve a single vehicle, but the RFTU officer will ask if there are any other vehicles involved to establish the potential scope of the misuse. Risk & Intelligence undertake further checks to establish the number of vehicles involved. Local Compliance Officers will then raise an assessment in respect of fuel misused in all vehicles. For the period April 2001 to March 2008, the RFTU has undertaken 580,204 challenges, which resulted in 26,844 detections.[19]

4.28 To enhance its ability to detect and deter fraud, the Department continually explores new markers and testing methodologies. It is also increasing its focus on the commercial suppliers of fuel.

Illustrations of detection activity

- A HMRC roadside operation led to the detection of a recycling vehicle using laundered fuel. When officers visited the owners' premises they found a stock tank containing fuel, which was a mixture of transmission oil, waste product and technical oil. In total, 8,000 litres of oil was seized along with 20 vehicles.
- During an operation in the Midlands, officers detected a vehicle running illegally on red diesel. It transpired, following further investigations, that a number of vehicles belonging to the trader had been running on illegal diesel and an assessment for over £10,000 was issued.

Source: HMRC Oils Activity Report – 2005

Criminal Investigators

4.29 Criminal investigators aim to prosecute key offenders and to disrupt and dismantle the criminal gangs behind large-scale supply of illicit fuel using an array of sanctions. From April 2001 to March 2008, the Department achieved the following:

- Total oils seized:16.99 million litres *(Great Britain 7.61ml; Northern Ireland 9.38ml)*.
- Laundering plants disrupted: 225 *(Great Britain 123; Northern Ireland 102)*.
- Assessments raised £49.2 million.
- Confiscation orders raised £3.35 million *(Great Britain £3.1 million; Northern Ireland £250,000)*.
- Vehicles seized in Northern Ireland 6,972.

4.30 The Department focuses its prosecution activity on those areas where it considers such action will be most effective, in particular, when tackling serious crime. Activities to date under the Strategy have led to 113 convictions (Great Britain 80; Northern Ireland 33). The average sentence in Great Britain was 48 months in 2007-08 compared with 16 months in 2001-02. Since 2002-03, the average sentence in Northern Ireland has ranged from six to eight months, **Figure 25 overleaf** Penalties are currently being reviewed as part of the Department's wider review of its powers.

4.31 In 2008, the Department set up a Special Civil Investigation Team to tackle the main oils fraudsters, using the most appropriate sanctions available across all taxes. This new team works closely with other operational teams including Criminal Investigation.

Illustration of a major investigation

HMRC officers arrested 11 people across the UK in a major operation targeting multi-million pound fraud. The arrests were linked to suspected oils fraud estimated to be in the region of £10 million. The organised criminal fraud involved the wholesale trading of hydrocarbon oils and associated money laundering. This nationwide operation involved over 100 HMRC criminal investigators, supported by officers from several police forces.

Source: HMRC Oils Activity Report – May 2007

19 Year on year details are published in HM Revenue & Customs Autumn Performance Report 2008.

25 Use of Sanctions

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Assessments							
Fraud detected and identified following referral by Inland Detection	£8.3m	£13.2m	£11.5m	£7.0m	£3.1m	£2.5m	£3.6m
Penalties[1]							
Number	N/A	N/A	N/A	N/A	161	335	182
Total Value[2]	N/A	N/A	N/A	N/A	£48,000	£93,000	£47,000
Prosecutions (GB)							
Number of Convictions	9	8	17	12	17	13	4
Average sentence (months)	16	14	14	15	16	28	48
Confiscation Orders[2]	£660,000	£374,000	£167,000	£125,000	£272,000	£1.48m	N/A
Prosecutions (NI)							
Number of Convictions	15	3	4	nil	4	4	3
Average sentence (months)	16	8	7	nil	2	6	6
Confiscation Orders	nil	£250,000	nil	nil	nil	nil	nil
Vehicles seized	684	1,576	901	812	856	1,199	844

Source: HM Revenue & Customs Autumn Performance Report 2008

NOTES

1 The penalty is £250 for non-submission of returns. Penalties can also be levied at five per cent on the tax due.

2 Figures are rounded to nearest £000's.

3 N/A = Data not collected.

Working with Others

4.32 An integral part of the Department's approach to tackling oils fraud is an active and cooperative relationship with the Industry. The establishment of the Joint HMRC-Industry Intelligence and Security Forum in May 2003 was a clear statement of their intentions to work together as partners. The central principles of the Forum are to:

- ensure that where the Industry has information on the illegal activity, the pathways exist to pass that information to the Department; and
- provide a forum in which the Department can provide feedback on its activity so that the Industry is reassured that information received is acted upon.

4.33 The Department works closely with legitimate industry and has looked at ways to improve relationships, including collaborative activity to address fraud, as well as to ensure that any policy response is risk based and proportionate. With industry agreement, the GB oils forum has recently been established as a national consultative forum on oils excise duty related issues. The NI forum has been retained to discuss NI specific operational issues. Both groups meet twice a year. In addition, industry representatives are encouraged to contact the Department on a continuing basis to ensure regular dialogue.

4.34 The Department also works closely with other agencies, e.g. the Police, Vehicle Operator and Services Agency, Trading Standards. In Northern Ireland it liaises closely with the other stakeholders in the Organised Crime Task Force (OCTF) and Revenue Commissioners in the Republic of Ireland. The OCTF has recently set up a cross border sub-group on oils which is chaired by the Department.

Illustration of collaborative working

HMRC officers took part in a Lancashire Constabulary–led joint operation with officers from the Vehicle Operator and Services Agency, the Department of Work and Pensions, the Driver Vehicle Licensing Agency and the Environment Agency. The operation identified four commercial vehicles using rebated fuel and around 40 infringements of legislation enforced by other agencies, ranging from vehicle excise duty to benefits fraud, were also detected.

Source: HMRC Oils Activity Report – 2005

Conclusion

4.35 The Department has made good progress in reducing the illicit oils market in Great Britain from 10 per cent in 2002-03 to 4.6 per cent in 2006-07. The estimated cost to the Exchequer has decreased from £1.25 billion to £750 million over the same period. The Department's aim is from 2007-08 to hold the illicit market share at 4.4 per cent and to continue this up to 2010-11.

4.36 The Department believes that the latest estimates of the oils tax gap are too high and is undertaking further work on the methodology and emerging fraud risks. In light of this work and the review of the Strategy, it should consider the scope to bring about a significant and measurable reduction in the illicit market, including a cost/benefit analysis to determine the resources needed to achieve this.

4.37 The non-UK duty paid diesel market share in Northern Ireland has also been reduced from 53 per cent in 2002-03 to 40 per cent in 2006-07. This has been largely achieved by the Department's close liaison with other stakeholders on the Organised Crime Taskforce.

4.38 The Department has made some progress in implementing the Committee's previous recommendations. The Registered Dealers in Controlled Oils (RDCO) scheme has been reviewed and amended to ensure that its aims are achieved, whilst further reducing the administrative burden on traders. To avoid unnecessary assurance visits, the Department is exploring ways which would allow the risk team to decide the frequency of visits over a defined period using their own judgement in conjunction with the information generated by the risk database. The data capture system for RDCO returns however should be updated to make it easier for smaller traders to use. A challenging target date should then be set for the full electronic submission of returns.

4.39 The Department does not have ready access to the underlying data that it uses to measure the illicit market. This data is only available to the Department some 18 months after the financial year: so, for example, estimates for 2007-08 will only become measurable when the relevant data is gathered in October 2009. To mitigate this the Department is currently developing lead indicators to enable it to make a more timely assessment of trends.

4.40 The Department has recently centralised the risk and intelligence team structures to facilitate better quality intelligence packages and therefore improved targeting of high risk areas. But this has proved challenging, particularly as none of the oils risk team relocated. The new centralised risk team therefore had no experience of oils when it was set up. Although the new staff are being trained, it would have been preferable if, at least in the short term, the Department could have retained a few of the ex-staff at the current site until the new staff were sufficiently trained and experienced to take on the new role. Moving forward, however, it is important that the performance is monitored to ensure that the benefits of centralisation are realised.

PART FIVE

Tax Credits

Introduction

5.1 Tax credits form part of the personal tax system. The Department accounts for this expenditure in its Trust Statement for taxes, duties and other revenues and related expenditure. We examine the Department's administration of tax credits as part of the Comptroller and Auditor General's overall responsibilities for the audit of revenue under Section 2 of the Exchequer and Audit Departments Act 1921.

5.2 Child and Working Tax Credits (tax credits) were introduced in April 2003 as part of the Government's reforms of the tax and benefits system to relieve child and in-work poverty. Child Tax Credit addresses the needs of families with children, and provides financial support based on the number of children and any disabilities they may have. It is available to those aged 16 or over, whether working or not, who are responsible for at least one child. Working Tax Credit supports working people by topping-up earnings; the amount depends on factors such as age and/or the number of hours worked – with additional support for eligible childcare costs or where a member of the household is disabled.

5.3 **Figure 26** gives an overview of the tax credits payments and the administrative costs of the scheme for 2007-08 and 2008-09.

5.4 Our examination of the 2008-09 Trust Statement has continued the work we carried out and reported on in previous years, including the review of the Department's progress in dealing with issues raised earlier. This report covers:

- managing overpayments caused by adjustments to awards;
- recovering tax credits debts;
- reducing claimant error and fraud; and
- improving services to claimants.

Managing overpayments caused by adjustments to awards

5.5 The Department initially calculates a provisional annual award of tax credits for eligible claimants based on their income for the previous tax year and their current family circumstances. Awards can be adjusted during the year and claimants are required to tell the Department about changes in their circumstances. After the end of each year, the Department asks claimants to confirm by 31 July their actual circumstances and income so that it can assess the final award and, where appropriate, establish a provisional award for the subsequent year. If the provisional award

26 Tax Credits: Scheme Overview

	2008-09 (provisional)	2007-08 (final)
Families benefiting[1]	5.9m	5.6m
Net cash paid to claimants in year[2]	£24.1bn	£20.0bn
Final value of awards[3]	Not yet known	£19.9bn
Administrative cost[4]	£584m	£570m
Staff employed by the Department on tax credits throughout the year[5]	10,600	9,200

Source: HM Revenue & Customs

NOTES

1 Figures represent the average number of families benefiting (excluding IS/JSA out of work cases paid by DWP).

2 The Department makes a final assessment of awards after the end of the year when the claimant's actual income and circumstances are known.

3 Actual information for 2008-09 will be available in May 2010, after awards have been finalised.

4 Administrative costs for 2007-08 have been restated from £581m following a revision to the overhead apportionment methodology.

5 Staff numbers for 2008-09 reflect more accurate time recording.

has resulted in an overpayment, the Department seeks to recover the overpayment from future awards or, if there is no ongoing entitlement, directly from the claimant. If the provisional award was lower than the final award, the Department pays the claimant the balance.

5.6 As shown in **Figure 27**, overpayments in 2007-08 caused by adjustments to awards were £1.0 billion, significantly lower than the first three years of the scheme and maintaining the reduction in the levels of overpayment seen in 2006-07. The changes in the 2005 Pre-Budget Report and, in particular, the increase to £25,000 in the threshold for income rises which would be disregarded when awards were finalised, accounted for most of the fall in overpayments. The Department anticipated that these changes would reduce overpayments by one third, although overpayments are some 40 per cent lower than the levels seen in 2005-06 before the measures began to take effect. Administrative improvements in the Department's processing of changes in circumstances which affect entitlement have also contributed to the fall in overpayments. As we reported last year, however, the Department cannot disaggregate the respective contribution of the policy and operational changes.

5.7 Figure 27 also shows that underpayments have increased to £0.8 billion in 2007-08 and now affect some 1.3 million families, some 500,000 more than in 2006-07. This increase reverses the downward trend in underpayments seen in previous years. This is a result of the component in the Pre Budget Report 2005 package which aimed to tackle the problem of families overestimating falls in their income. From April 2007, when an estimate of a reduced current year income is reported, future payments are adjusted but a one-off payment is no longer made for the earlier part of the year. Instead, when the award is finalised at the end of the year any necessary adjustment is made then.

5.8 As household incomes fall as a result of the recession it is likely that more families will become eligible for tax credits and that existing claimants will be able to claim higher amounts. This effect will be partly offset by households ceasing to be eligible due to unemployment or because their working hours fall below the threshold for claiming working tax credit. The Department is currently forecasting additional net spending of up to £500 million annually.

27 Tax Credits Overpayments and Underpayments to 31 March 2008

	2003-04	2004-05	2005-06	2006-07	2007-08
Total Net Payments	£13.5bn	£15.5bn	£17.1bn	£18.6bn	£20.0bn
Families benefiting	4.6m	5.0m	5.3m	5.5m	5.6m
Overpayments	£2.2bn	£1.8bn	£1.7bn	£1.0bn	£1.0bn
As a percentage of total payments	16.3%	11.6%	10.0%	5.4%	5.0%
Families affected by overpayments	1.9m	2.0m	1.9m	1.3m	1.3m
Average overpayment	£1,028	£866	£827	£738	£705
Underpayments	£0.5bn	£0.6bn	£0.5bn	£0.5bn	£0.8bn
As a percentage of total payments	3.4%	3.6%	3.2%	2.8%	4.0%
Families affected by underpayments	0.7m	0.9m	0.9m	0.8m	1.3m
Average underpayment	£651	£614	£620	£626	£618

Source: HM Revenue & Customs

NOTES

1 Excludes IS/JSA out of work cases paid by DWP.

2 Comprising total overpayments after finalisation.

3 In accordance with the Department's normal approach, this figure excludes remissions and recoveries of overpayments made before the end of the year.

4 Tax Credit awards for 2008-09 are not all due to be finalised until the end of January 2010. The Department will publish overpayment statistics on these awards in May 2010.

5 Average over and underpayments based on actual figures.

5.9 In 2007-08 we reported that the Department found that it had made adjustments to some finalised awards beyond the circumstances provided for in the 2002 Tax Credits Act. It is currently examining some 301,000 awards to regularise its enquiries and make repayments where these are due. It established an initial provision of £20 million to cover an estimated 20,000 awards where it believed that unlawful recoveries from claimants would have to be repaid. By the end of March 2009, out of 187,000 cases examined, the Department had written off £30.1 million in respect of some 31,000 cases that had been incorrectly finalised. Further scans of the tax credits system have identified additional cases which will need to be examined. The Department has increased its provision to reflect a total cost of this exercise over three years to £53 million to take account of the increased number of cases, better information on their make-up and the value of remissions.

Recovering tax credits debts

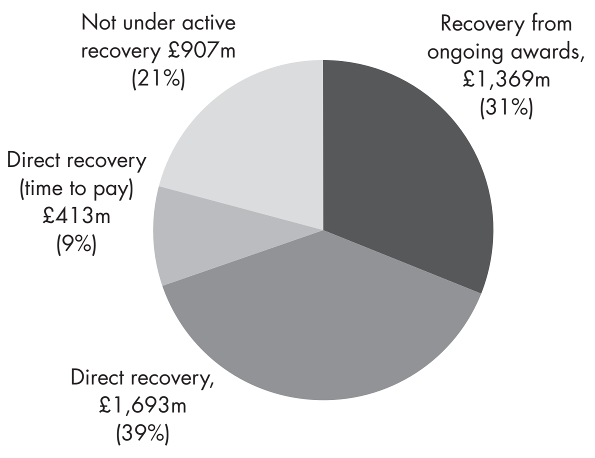
5.10 At the end of March 2009, the Department had £4.4 billion[20] of overpayments to be recovered. As **Figure 28** shows, £1.4 billion is being recovered from on-going awards. £2.1 billion which cannot be recovered from on-going awards is with the Department's Debt Management and Banking directorate for direct recovery, of which £413 million is being managed under time to pay arrangements. £907 million of the debt was not subject to active recovery as at 31 March 2009, because claimants disputed the overpayments and collection was suspended or the overpayments related to awards that had not been finalised. As **Figure 29** shows a significant proportion of tax credits debt relates back to the early years of the scheme.

5.11 The overall level of tax credits debt was broadly stable throughout 2008-09, with new tax credits debts of £954 million and clearance/recovery of £932 million – a net increase of £22 million. **Figure 30** shows that new debts in 2008-09 were much lower than in earlier years. This decline was mainly due to measures announced in the Pre Budget Report 2005 which have reduced overpayments to less than five per cent of entitlement. The Department has cleared on average £980 million of tax credit debt in each of the last four years. But with new debt identified each year of a similar amount, the balance of uncollected debt has shown little change and the Department will have to increase the clearance rate if it is to begin to reduce the balance.

5.12 In 2008-09, the Department recovered £417 million by offsetting overpayments from previous years against current awards. The Department automatically recovers an overpayment from ongoing entitlement if the claimant is still receiving tax credits payments under the same award. To avoid putting claimants into hardship, the maximum rate at which debt can be recovered from current awards is restricted.

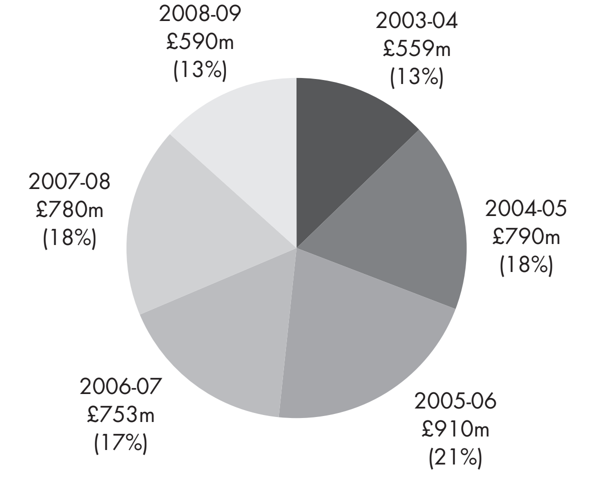
5.13 The Department's Debt Management and Banking directorate is responsible for the direct recovery of overpayments where claimants' circumstances or status has changed and they have ceased entitlement to their awards. The Department allows claimants to make repayment in instalments over a twelve month period and can allow more time to pay or defer collection in cases of financial hardship. At 31 March 2009, of the £2.1 billion of debt with Debt Management and Banking for direct recovery, £413 million was subject to time to

28 Tax Credits Debt at 31 March 2009 by Method of Recovery (percentages rounded to the nearest whole number)



Source: HM Revenue & Customs

29 Tax Credits Debt by Year of Award (percentages rounded to the nearest whole number)



Source: HM Revenue & Customs

20 This figure is higher than the £4.3 billion reported in the Trust Statement due to £46 million of write-offs recorded in the Department's financial accounts not yet processed in the tax credits system.

30 Tax Credits Debt Identified and Cleared since 2005-06

	2005-06 £m	2006-07 £m	2007-08 £m	2008-09 £m
Debt newly identified in year[1,2]	1,811	1,552	1,108	954
Debt cleared in year				
Recovery from Ongoing Awards	500	555	439	417
Direct Recoveries	120	228	242	225
Remissions	380	123	390[3]	290
Total clearances	**1,000**	**906**	**1,071**	**932**
Net movement in debt balance	**+810**	**+646**	**+37**	**+22**

Source: HM Revenue & Customs

NOTES

1 Debts newly identified in year do not necessarily equate to the year of award.

2 This includes debt immediately set-off against previous underpayments.

3 The remissions figure for 2007-08 includes £140 million of remissions for debt relating to system errors in the early years of the scheme.

4 Totals do not necessarily sum due to roundings.

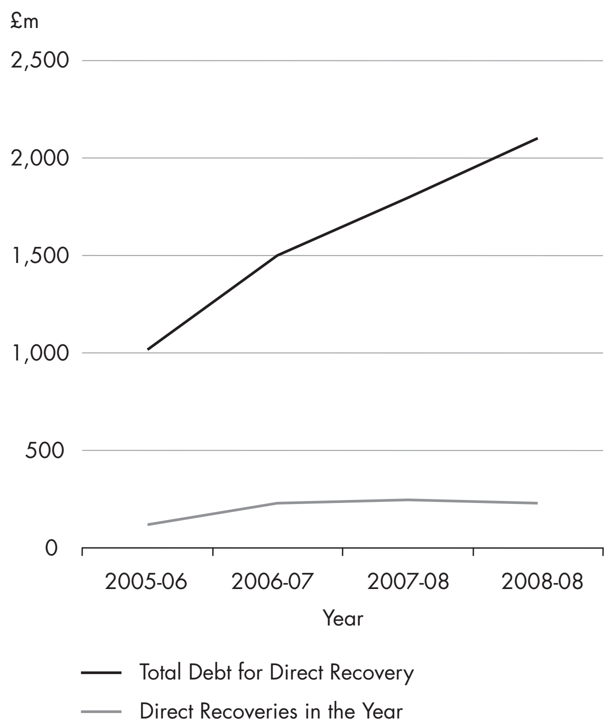
pay arrangements. As **Figure 31** shows, debts for direct recovery have increased more rapidly than the rate of collection. By March 2009, tax credits debt managed by Debt Management and Banking for direct recovery stood at £2.1 billion, compared with cash recoveries in the year of £225 million.

5.14 The Department currently prioritises much of its debt activity (including tax credits debts) by value – with greater priority being given to higher value debt. Some 94 per cent of tax credits debt is less than £5,000 and six per cent is below £250. The Department is now increasingly prioritising debts by risk rather than by value, using debt campaigns with collection strategies tailored to each segment and designed to use available resource to maximum effect.

5.15 The Department is taking steps to improve its management of tax credits debt. In line with the Transformation Programme and its compliance strategy, it is grouping claimants according to the behaviour that led to the overpayment as well as their circumstances, and applying a more tailored response to recovering the debt. These steps include:

- forming a Debt Recovery Co-ordination Group to bring together all the activity relating to tax credits debt recovery;
- testing a campaign-based approach to the recovery of debt relating to 2008-09 finalisations; and
- trialling on a voluntary basis the use of the PAYE system to recover overpayments through Income Tax coding adjustments as an alternative to direct recovery.

31 The Accumulation of Tax Credits Debt for Direct Recovery



Source: HM Revenue & Customs

5.16 Since April 2003, the Department has written off £1.3 billion of the £8.4 billion overpayments of tax credits (this figure includes subsequent changes to entitlement), including £0.3 billion in 2008-09. It has now made a provision of £2.3 billion in the Trust Statement for overpayments it expects not to be recovered. This provision is equivalent to 53 per cent of total tax credits debt at 31 March 2009, compared to 41 per cent in the previous year. The main reasons for the change are the full provision against classes of tax credits debt which the Department has earmarked for write-off, and the lower rate of cash recoveries on debts transferred to Debt Management and Banking for direct recovery.

5.17 The Department is also looking to write-off certain classes of uncollectible tax credits debt. In addition to those where the cost of collection would be high relative to the value of the debts and therefore would represent poor value for money, these include certain manual payments for awards that could not be administered through the tax credits computer system. In some instances the Department has also not administered the timely annual renewal of these awards in strict accordance with the Tax Credits Act 2002, thereby limiting its ability to recover any overpayments in relation to these awards. It initially proposes to write-off debt in these categories of some £235 million. During 2009-10 it plans to analyse further other classes of debt currently included within the provision with a view to write-off.

Reducing claimant error and fraud

5.18 Tax credits are complex. Claimants make genuine errors in their applications which result in incorrect awards, for example by misunderstanding what should be reported as income or incorrectly calculating childcare costs. Claimants may also provide false information or misrepresent their circumstances to obtain tax credits.

5.19 The Department's Error and Fraud Analysis Programme is designed to provide an estimate of the overall level of error and fraud in tax credits and its composition, based on an annual examination of a stratified random sample of 4,111 finalised awards. The legislation only allows the Department to begin its enquiries after claimants have finalised their award and entitlement has been determined. It requires claimants to return their renewal pack by the end of July although it is possible to do this on the basis of an estimated income which can be updated until the end of the following January. This means that for some 2008-09 awards the Department will not be able to start its investigations until February 2010.

5.20 The Department's latest estimate, based on finalised awards for 2007-08, is that error and fraud resulted in between £1.58 billion and £1.84 billion (7.9 per cent to 9.2 per cent of the final award by value) being paid to claimants to which they were not entitled. In addition, the Department estimates that error led to between £0.17 billion and £0.28 billion (0.8 per cent to 1.4 per cent of the final award by value) not being paid to claimants. This expenditure has not been applied to the purposes intended by Parliament and does not conform with the requirements of the Tax Credits Act 2002.

5.21 Whilst the Department has made changes to its compliance procedures since 2007-08, there is currently no evidence to demonstrate a lower estimate of error and fraud in the tax credit awards for 2008-09. As these levels of error and fraud are material within the context of the £23.7 billion expenditure on the scheme, the Comptroller and Auditor General has again qualified his opinion on the regularity of the expenditure reported in the 2008-09 Trust Statement in respect of tax credits error and fraud.

5.22 **Figure 32** gives a summary of the Department's estimated ranges of error and fraud in each of the last three years of the scheme. These estimates which are based on the results of the Department's Error and Fraud Analysis Programme, does not include figures for organised fraud which is measured separately. In 2008-09 losses from organised fraud were £31.9 million.

32 HMRC's estimates of error and fraud on finalised awards

Year	2005-06	2006-07	2007-08
Value of finalised awards[2]			
£bn	16.0	18.2	19.9
Error and fraud favouring the claimant			
Estimated range (%)	8.5-10.6	7.2-8.4	7.9-9.2
Estimated value (£bn)	1.36-1.69	1.3-1.54	1.58-1.84
Error favouring HMRC			
Estimated range (%)	1.4-2.4	1.3-2.1	0.8-1.4
Estimated value (£bn)	0.23-0.39	0.24-0.39	0.17-0.28

Source: HM Revenue & Customs

NOTES

1 The Department estimates levels of error and fraud based on the examination of a random sample of finalised awards.

2 Excludes IS/JSA out of work cases paid by DWP.

5.23 Since 2006-07, increases in error and fraud have been primarily in the categories of ineligible children, overstated work and hours and ineligible disability claims. The Department estimates that fraud accounted for £150 million (8.8 per cent) of total error and fraud in 2007-08. This is higher than the estimated £40 million (2.8 per cent) of fraud identified in 2006-07, but is partly explained by a change in approach to the classification of fraud cases in its Error and Fraud Analysis Programme.

5.24 As we reported in 2007-08, the Department improved its methodology to provide a more robust estimate of the overall levels of error and fraud in tax credits and to produce this estimate much earlier than in previous years. Its concentration of random enquiries in four compliance offices has helped to improve the consistency and quality of case work. As the estimate is based on finalised awards at the end of the year, it excludes error and fraud identified on awards terminated during the period as a result of its compliance activity.

5.25 In earlier years the Department set a target based on a fixed number of compliance checks. In 2008-09, its compliance teams carried out over 105,000 pre and post payment checks[21], which identified incorrect payments of £296 million. It also increased the number of compliance checks undertaken before awards were paid, to reduce the risk of incorrect awards entering the system. An analysis of the number of compliance checks performed and their estimated yield in 2008-09 is given in **Figure 33**.

5.26 In 2007-08 the Department used its Error and Fraud Analysis Programme to identify the exposure to losses from particular risks and the breakdown between error and fraud for each risk. It has used this analysis to develop a strategy for tackling key risks. In July 2008, it published the new strategy with a high level plan to reduce the level of customer error. At the same time, it announced a target to limit error and fraud in tax credits to no more than five per cent by March 2011.

5.27 In 2008-09 the Department restructured its approach to compliance to help claimants to understand better their obligations and meet them. The Department's compliance teams are continuing to examine high risk cases, including a specialist team on claims involving organised fraud. But it has also focused on interventions to meet the five per cent target.

5.28 In 2008-09, the Department began a programme of Targeted Education, Enabling and Leverage (TEEL), which uses a campaign based approach to write to and telephone claimants to prevent and correct error across a larger proportion of the population. It is also making more use of other data to corroborate information provided by claimants across a larger proportion of the claimant population, for example by matching tax credits data against child benefit records to identify young people who are no longer in full-time non-advanced education but still included in a tax credits award.

33 HMRC's compliance checks on tax credits awards

	2008-09	2007-08
Number of Checks		
Target/Profile	153,000[3]	150,000
Compliance checks	104,957[3]	157,468
Health checks	37,597[3]	–
Pre payment: post payment ratio for compliance checks	46%:54%	43%:57%
Estimated Yield		
Yield comprising:	£296m	£337m
Incorrect payments prevented[1]	£91m	£150m
Incorrect payments found[2]	£205m	£187mn
Checks resulting in change to award:		
Pre award	62%	65%
Post award	78%	78%

Source: HM Revenue & Customs

NOTES

1 The estimate of incorrect payments prevented is the additional amounts that would have been paid during the year had payment not been stopped.

2 The estimate of incorrect payments found is the value of payments made before HMRC took action.

3 In 2008-09 the Department carried out 142,554 compliance and health checks against a planned profile of 153,000. The Department no longer sets an annual target for the number of compliance checks to carried out.

21 All tax credit claims pass through automated verification checks and are risk assessed prior to payment. Where a claim triggers a specified risk rule or a combination of rules it is referred to compliance staff for checking. Risk scores are periodically revised depending on the evaluation of high risk cases such as undeclared income, undeclared partners or incorrect child care costs. HMRC also checks for cases that display features of organised fraud.

5.29 To achieve a reduction in claimant error, the Department needs to influence the behaviour of far greater numbers of claimants than its compliance checks allow. During 2008-09 it undertook further risk profiling to identify those claimant groups who are responsible for a disproportionate share of tax credit losses. It estimates, for example, that some 420,000 of claimants (six per cent) account for some £407 million (29 per cent) of all losses, and that a further 1.36 million (20 per cent) of claimants account for £576 million (40 per cent).

5.30 The Department is overlaying its existing compliance interventions with measures directed at these groups. Over the next two years, it plans to contact a wider group of one million claimants who fall in these disproportionate loss groups. It will write to claimants to seek confirmation of circumstances. Depending on the results of this initial contact, the Department may then move through a hierarchy of measures leading to full compliance enquiry or, in the case of serious non-compliance, to criminal investigation and prosecution.

5.31 The change in the focus of the Department's effort to achieve the planned reduction in error and fraud means that the impact of some activities is less easily measurable, for example communications and marketing campaigns to educate customers. The Department will undertake further work to analyse the expected yield from the range of compliance activities, including proxy measures for its TEEL activities, and develop its performance reporting to obtain timely feedback on the progress of all compliance activities.

5.32 The Department continues to impose a financial penalty when it concludes that there has been a deliberate attempt to over-claim, or the claimant has been negligent and provided the wrong information. In 2008-09 it introduced a new penalty regime which aligns the penalty with the seriousness of the underlying claimant behaviour, distinguishing the errors between genuine mistakes for which there is no penalty, failure to take reasonable care, and deliberate error.

Improving services to claimants

5.33 Claimants have not always understood their obligations to tell HMRC when their circumstances change and to report their actual income and circumstances at the end of each year as part of the renewal process. The Department's research, based on the initial years of the tax credits scheme, showed that some 50 to 60 per cent of overpayments were caused by delays in reporting changes of circumstances.

5.34 In November 2006 the Department established the Tax Credits Transformation Programme to assess and identify the root causes of these problems and define an action plan to address them. The aims of the Transformation Programme are to:

- create a tax credit service which is clearly understood and trusted by claimants and align that delivery with child benefit where it makes sense to do so; and
- ensure the right claimants receive the right money at the right time through a range of services and communications tailored to meet their individual needs and circumstances.

5.35 The first phase of the Transformation Programme involved identifying improvements in service and communication that could be achieved within the constraints of the current computer system. The main limitation of the system is that it does not allow the Department to tell claimants with certainty, when they report a change of circumstance, how it will affect their entitlement.

5.36 The Department undertook a review to identify the key characteristics of the tax credits scheme which have contributed to the main operational difficulties. It found that:

- the 'one size fits all' delivery model adopted on the introduction of tax credits paid little regard to claimants' domestic or financial circumstances or their level of literacy and numeracy. The onus was placed on claimants to ask for assistance in completing claims, with little support for claimants in meeting their obligations;
- communications with claimants did not adequately explain what tax credits are and the role of the claimant in ensuring that awards reflect their circumstances;
- when claimants contacted the Department, its call centre staff were unable to tell them what effect a change of circumstance would have on their awards, leading to uncertainty of outcome for the claimant; and
- claimants with children had to contact different helplines for child benefit and tax credits to submit personal information and to access services.

5.37 In the light of these findings the Department has established a target operating model which sets out the key design principles which underpin the transformation of tax credits. These principles include the delivery of a tailored customer service based on claimants' needs, clearer communications with claimants, greater visibility of outcome, and aligning the delivery of tax credits and child benefit.

5.38 The immediate focus for the Programme has been to improve the service provided to claimants. During 2008-09, the Department piloted a range of service improvements, the majority of which it had implemented by April 2009. **Figure 34** provides a summary of these along with an analysis of the estimated number of claimants expected to benefit.

5.39 The Department has also developed and tested with claimants a set of key messages to improve claimants' understanding of tax credits at each stage in the 'tax credits customer journey'. In the last year it has launched a number of new communication products, including: a new claim pack; new change of circumstances communications, for example P60s and P45s; and new online tools to help claimants understand and find out more about tax credits.

5.40 The Transformation Programme also relies on analysing the different claimant groups and targeting them with tailored services and communications. It is also strengthening its processes for authenticating claimant identities by making better use of its own data and data from third parties. Its aim is to provide on screen advice for advisors which will show the assistance the claimant requires and identify those who need more help.

5.41 In addition to improving the quality of service and communications to the claimant groups targeted by these changes, the Department expects the Transformation Programme to deliver other benefits, including: reductions in the level of underpayments and overpayments equivalent to £23 million and £50 million a year respectively; further reductions in error and fraud totalling some £60 million a year; and efficiency savings in call centres and tax credit operations of some 40 full time equivalent staff years.

34 Service Improvements implemented in 2008

Service Improvement Modules (Implementation date)	Number of claimants benefiting from the service improvement
Claims	
Assisted Claims: to support those customers who need help claiming tax credits (December 2008)	700,000
Change in Circumstances	
Tax Credits/Child Benefit alignment: to allow claimants to report births once and for that information to be shared (December 2008)	350,000
Health Check: to contact customers proactively in order to ensure that the right information is received to keep their awards up to date (November 2008)	20,000
Proactive Questioning: to elicit additional information on changes of circumstances (September 2008)	890,000
Renewal	
Reach Out Renewal (post First Specified Date): to help those who failed to renew on time (August 2008)	125,000

Source: HM Revenue & Customs

Conclusions

5.42 Overpayments following adjustments to awards were £1.0 billion in 2007-08, just over four per cent of total payments and significantly below the levels of overpayment in the early years of the scheme. Underpayments increased to £0.8 billion in 2007-08 and now affect 1.3 million families. Changes to the scheme announced in the 2005 Pre-Budget Report account for the majority of the fall in overpayments, although the Department says it cannot disagregate the contribution of the policy changes and the improvements in its administration of the scheme. The Department should set clear evaluation strategies for all significant policy and operational changes prior to their implementation.

5.43 At 31 March 2009, £4.4 billion of overpayments remained to be collected, of which £2.1 billion has been passed to the Debt Management and Banking directorate for direct recovery. This debt has accumulated at a faster rate than the Department can collect it. The Department plans to introduce a campaign-based approach to the collection of overpayments arising from 2009 tax credits renewals. It should review its existing policy and procedure for collecting tax credits overpayments. In particular, subject to the limitations within the tax credit systems, the Department should examine the cost effectiveness of extending the offsetting of overpayments against ongoing awards to include any overpayments the claimant may have from a previous award.

5.44 By March 2009, the Department had written off £1.3 billion of overpayments and provided a further £2.3 billion for overpayments it expects not to be recovered. In previous years it has largely restricted write-offs to organised fraud cases and overpayments due to system errors. In 2008-09 it started an exercise to identify and quantify other classes of uncollectible debt which should be written off. It has so far identified £235 million of debt which is attributable to system weaknesses in the initial years of the scheme or which is uneconomic to collect. Further small overpayment debts remain in the system and, in principle, are due to be recovered but for which direct recovery is unlikely to be cost effective. The Department should examine the costs and benefits of recovering small overpayments.

5.45 At 31 March 2009, £907 million of debt was not being recovered, for example, where recovery was temporarily suspended due to a disputed overpayment. Some of this debt dates back to the initial years of the scheme, and the prospect of its recovery will inevitably diminish with age. As part of the review recommended at 5.43 above, the Department should also consider how it can keep debt that is not being actively recovered to an absolute minimum. It should also ensure that appropriate and timely debt recovery action is taken for all debts to minimise the risk of recovery being impaired through its failure to pursue the debt promptly.

5.46 The Department's latest estimate, based on finalised awards for 2007-08, is that error and fraud resulted in overpayments of between £1.58 billion and £1.84 billion (7.9 per cent to 9.2 per cent of the final award by value) being paid to claimants to which they were not entitled. This is an increase on the estimate of error and fraud in 2006-07 awards. In addition, the Department estimates that error led to underpayments of between £0.17 billion and £0.28 billion (0.8 per cent to 1.4 per cent of the final award by value). There is currently no evidence to demonstrate a lower estimate of error and fraud in the tax credit awards for 2008-09. The Comptroller and Auditor General has qualified his opinion on the regularity of the expenditure reported in the Trust Statement in respect of tax credits error and fraud.

5.47 In July 2008, the Department published a new strategy to reduce the level of customer error and at the same time announced a target to limit error and fraud to less than five per cent by March 2011. It has also restructured its approach to compliance to ensure a broader range of interventions and to focus on the outcome of planned interventions. If the Department is to achieve its target, however, it needs to influence the behaviour of a far greater numbers of claimants than its compliance checks allow. It is now overlaying its existing programme of compliance checks to reach one million claimants who account for a disproportionate share of tax credit losses. The Department needs to develop its performance reporting to obtain timely feedback on the progress of all compliance activities.

5.48 During 2008-09, the Department successfully piloted a range of service improvements, the majority of which it had implemented by April 2009. It also launched a number of new communication products to help improve claimants' understanding of tax credits. The Department plans to evaluate the service improvements at end of 2009-10 when it has more data on the outcome of the measures.

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