

# Meeting our challenges

Departmental Autumn Performance Report 2009



Departmental Autumn  
Performance Report 2009  
HM Revenue & Customs  
Presented to Parliament by the  
Financial Secretary to the Treasury  
by Command of Her Majesty.  
December 2009

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# HMRC Purpose, Vision and Way

In November 2008, we launched our Purpose, Vision and Way to make it clear to everyone what the Department is here to do, where it is going and how we will deal with customers and each other.

## Our Purpose

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

## Our Vision

- We will close the tax gap, our customers will feel that the tax system is simple for them and even-handed, and we will be seen as a highly professional and efficient organisation

## Our Way

- We understand our customers and their needs
- We make it easy for our customers to get things right
- We believe that most of our customers are honest and we treat everyone with respect
- We are passionate in helping those who need it and relentless in pursuing those who bend or break the rules
- We recognise that we have privileged access to information and we will protect it
- We behave professionally and with integrity
- We do our own jobs well and take pride in helping our colleagues to succeed
- We develop the skills and tools we need to do our jobs well
- We drive continuous improvement in everything we do

# Who we are

We are the UK's tax administration. We make sure that the money is available to fund the UK's public services, and we also help families and individuals with targeted financial support.

## Taxes we administer

HM Revenue & Customs (HMRC) is responsible for administering:

- Income Tax
- Corporation Tax
- Value Added Tax
- National Insurance Contributions
- Excise duties on alcohol, tobacco, fuels and gambling duties
- Customs duties
- Environmental taxes – Climate Change Levy, Aggregates Levy, Landfill Tax and Air Passenger Duty
- Insurance Premium Tax
- Capital Gains Tax
- Petroleum Revenue Tax
- Inheritance Tax
- Stamp Duty on property transactions and shares.

## Entitlements we pay

We are responsible for the payment of:

- Tax Credits – Child Tax Credit and Working Tax Credit
- Child Benefit
- Child Trust Fund endowments
- Health in Pregnancy Grant.

## Other responsibilities

We are also responsible for:

- enforcing the National Minimum Wage
- administering the collection of student loans on behalf of the Department for Business, Innovation and Skills (BIS)
- supervising money service businesses, trust or company service providers, accountancy service providers and dealers in high-value goods to ensure that they comply with the Money Laundering Regulations
- the creation of the Government Banking Service.

## Border responsibilities

During 2009, the UK Border Agency took on statutory responsibilities for protecting the UK's borders against illicit and harmful trade, including illegal import or export of drugs, counterfeit or illicit alcohol and tobacco, and other illicit goods.

HMRC retains responsibilities for policies and activities associated with collecting duties at the frontier and processing information about international trade.

# Chair's statement



As Chairman, my role is to lead the Board and use HMRC's relatively new governance structure to achieve even higher standards of professionalism across the Department. The Board and its sub committees provide a strong and constructive challenge to HMRC's Executive Committee. The Board wants to see that HMRC is doing everything in its power to collect the taxes due and pay out credits accurately and on time, as well as taking every opportunity to improve customers' experience. This, along with the HMRC Charter, will help to reduce complaints and referrals to HMRC's regulators. The Board also wants financial discipline to continue to improve and be assured that HMRC's commitment to data security remains strong.

The Board also provides strategic leadership and this year we are aiming to deliver a package of high-quality and well-understood strategies for HMRC as a whole and for the key lines of business and enabling functions. The strategies build on HMRC's Purpose, Vision and Way, the launch of which I mentioned in last year's Autumn Performance Report. I see these strategies as being used as a guide helping to resolve tough choices in HMRC's business planning processes.

This Autumn Performance Report has been prepared whilst HMRC awaits the results of a Capability Re-Review. The Re-Review is a full reassessment of HMRC in the areas of leadership, strategy and delivery with the Department needing to demonstrate progress made against key areas for action. The current economic climate makes the environment for delivering change and continuous improvement much more challenging than in 2007, when HMRC underwent the original Capability Review. There will be increased demands on HMRC's services and the changing needs of customers, despite substantial reductions in the resource available by 2011.

HMRC faces considerable challenges ahead. We will only meet these challenges if we both; continue to improve our performance, efficiency and productivity on a daily basis, by using PaceSetter ways of working; and also deliver innovation in our working practices such as the success of online Self Assessment.

The Board and Executive Committee recognise that the motivation and engagement of our people is central to building this culture of improvement and innovation. To finish on that note, I am very grateful for the ongoing hard work and dedication of HMRC colleagues during what has been a tough year to date.

A handwritten signature in black ink that reads "Mike Clasper". The signature is written in a cursive, slightly stylized font.

**Mike Clasper**  
Non-executive Chairman

# Chief Executive's review



Tough choices in a tough economic climate have continued to dominate much of our activity during the first part of the year and I am immensely proud of the way HMRC has risen to this challenge.

We have successfully implemented the biggest transformation to the way we collect tax in a quarter of a century with the introduction of the National Insurance and PAYE Service. While this change programme has had a mixed history and implementation was delayed, we have shown that we can deliver major change well and the Department is already benefiting from the lessons learned. Helping our business customers by giving them time to pay through the Business Payment Support Service meant that by 6 December this year, more than 242,000 agreements worth nearly £4.23 billion had been made and over 90% of what we expected to receive had been paid.

Putting customers at the heart of our services forms the basis of the new HMRC Charter, which sets out what our customers can expect from us and what we require of them. Collecting the right amount of tax is central to this expectation and is vital to ensuring that public services can continue running efficiently. Our commitment to reducing the tax gap is unwavering and over the last few months we have secured some historic agreements with countries such as Liechtenstein on the disclosure of offshore accounts.

Despite these challenges, we continue to make a real difference to people's lives through ensuring that we collect the taxes due and through the tax credits paid out to support six million families. The dedication and hard work of our people and partners was recognised by many external awarding bodies, throughout the year and most recently at the annual Civil Service Awards where HMRC scooped three of the 15 awards. Our Self Assessment campaign was named 'Marketing Strategy of the Year' at the National Business Awards, and our work to reduce CO<sub>2</sub> saw us win 'Best Public Sector Fleet' at the Energy Savings Trust's Fleet Hero Awards.

An external review team, supported by the Cabinet Office, recently re-assessed HMRC's capability and their report will be published in December. I welcome the findings, which recognise the progress made since HMRC's first Review in 2007, in particular our direction and pace over the last 12 months. The findings of this review are a positive endorsement of our achievements, our focus and our strategic planning for further improvement. But it also endorses our own assessment of the significant challenge still facing us in building leadership capability – a key enabler to improving employee engagement and embedding our strategy.

There are more tough choices to be made given the tighter resource position. Last week, we published for the first time a complete set of tax gap estimates and an estimate of the total gap. Details of these estimates, their limitations and methodologies used can be found in our publication Measuring Tax Gaps.

I am proud of the way our people have worked with other parts of Whitehall, private and third sector organisations and other world tax authorities to improve services. Their commitment to our objectives gives me confidence that we will rise to the challenges.

A handwritten signature in black ink, appearing to read 'Lesley Strathie'. The signature is fluid and cursive, with a long horizontal stroke at the end.

**Lesley Strathie**  
Chief Executive and Permanent Secretary

# What we do at a glance

HMRC touches the lives of millions of people every day. We make sure that money is available to fund the UK's public services, as well as helping families and individuals with targeted financial support. We ensure the correct tax is paid at the right time, whether it's the taxes we collect or the benefits we pay out.

## Health in pregnancy

We're supporting expectant mums with a new grant to help them stay healthy during pregnancy.



## Tax Credits

Nine out of ten families with children benefit from tax credits and we paid out in support an average of £77 million per day between July and September of this year. People who work but

earn low wages can qualify for Working Tax Credit. The payments people receive from HMRC are based on their personal circumstances and income from the tax year that ended on 5 April 2009.



## Tax Matters

HMRC is teaching the taxpayers of tomorrow how to better manage their financial affairs. We're also helping young people understand how paying tax helps society.



## Internal governance

We demonstrate a culture of professionalism and integrity throughout HMRC.



## Lightening the load

Since 2006 we've implemented or committed to measures that will save business £552 million per year.

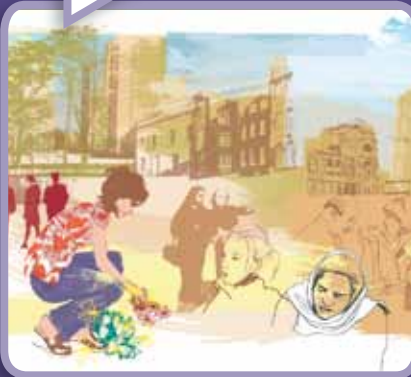


### Benefits

This year we paid out in support an average of £77 million per day in Child Benefit between July and September.

### HMRC Charter

We've set out rights and obligations of customers when they deal with us.



### Data security

Keeping customer information secure is at the heart of what we do.



### Tax for business

Almost all of the revenue we collect comes through businesses - either directly or from their employees. Our new 'Tax for Business' campaign aims to help small businesses and their agents deal with us more

efficiently. So far, more than 300,000 people have visited our website, which contains bite-sized online videos that explain the basics so they can get their tax right.

### Business Payment Support Service

We're helping business affected by the difficult economic conditions.



### PaceSetter

Across HMRC, PaceSetter is changing the way we work. It values, encourages and supports everyone to keep getting better at what they do.

# Our progress so far: HMRC's Strategic Objectives

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.

Objective 2: Improve customers' experience of HMRC and contribute to improving the UK business environment.

Objective 3: Improve our professionalism in dealing with: the security of our customers' information; our stakeholders; and our external impact.

Objective 4: Deliver an affordable and sustainable cost base providing value for money for the taxpayer.

Objective 5: Create a working environment which motivates and develops our people to give of their best and take pride in working for HMRC in order to contribute to the transformation of our business.

Objective 6: Transform the performance of the Department through the exploitation of information and technology services.

*“We are passionate in helping those who need it and relentless in pursuing those who bend or break the rules.”*

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

Around 180 million tax credits payments are made each year

## 6m families



### Tax Credits

We pay tax credits to 6 million families. That's 81% of families with children.

#### 1. Make it easier for individuals and Small and Medium sized Enterprises (SMEs) to do business with us

The ‘Tax for Business’ campaign launched earlier this year has specifically targeted small businesses and their agents to help them deal with us more efficiently. So far 300,000 people have visited the website which provides clear advice and help through bite-sized online videos, and explains the basics which helps them get their tax right. The website can be found at: [www.businesslink.gov.uk/taxhelp](http://www.businesslink.gov.uk/taxhelp). We are also using video on demand in partnership with Virgin TV and working with a wider partner group to provide relevant material to the business community. One in three of the customers who see our tax help material say it saved them a phone call to us and makes them less worried about tax. Our money laundering regulation teams have delivered pilot workshops for newly registered businesses, providing help and support. Feedback has been very positive and more workshops are planned throughout the year. Improvements to the Self Assessment online service have increased online filing significantly for both individuals and businesses – by up to 52% this year. In addition, we have improved notice of coding for PAYE customers, issued clearer web guidance and introduced Interactive

Voice Response (IVR) messaging which answers simple questions our customers ask.

#### 2. Match our resources to risk for large businesses

For the very largest businesses we have achieved a significant reduction in the number of cases involving smaller risks of non-compliance being opened since April 2007 and we are well on track to achieve a 32% reduction in new small risk cases taken up in 2009-10. We have also moved resources away from smaller risks for those large businesses dealt with in local compliance, increasing the yield per case and taking up less small yielding enquiries. The High Risk Corporates Programme (HRCP) continues to be a key element of resourcing to risk and so far this year additional yield of £1.36 billion has been recorded across all large business cases. All large businesses have customer relationship managers (CRMs) or customer co-ordinators, who direct resources through a nationally consistent risk review process. Recent customer survey results from our large business customers recognised the success of this approach, with over 85% of our customers with a CRM rating their CRM relationship as very or fairly good, with comments such as, “They’re always available to us, they know who we are and they

## 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.

actually want to know more about the business...” We hope to continue building on this success.

### 3. Tailor our activity to particular customer groups

We have actively targeted our approach and support to specific customer groups, for example the Prince’s Initiative for Mature Enterprise (PRIME) where help and advice is provided to over 50s starting a new business. We plan to attend 30 events, provide articles for PRIME’s website and include key information in their starter packs. In April we created the High Net Worth Unit to deal with the wealthiest individual taxpayers. We have conducted customer surveys to evaluate the experiences of individuals, businesses (SMEs) and agents when they deal with us and we are using this insight to tailor our services, advertisements and direct support. We have undertaken a number of targeted campaigns such as Reach out Renewals and Assisted Renewals, where we have provided help and support for vulnerable customer groups during the tax credit renewal cycle, and Helping Business Get It Right, in conjunction with BusinessLink. We have also introduced an After Care Service providing assistance for customers claiming tax credits for the first time.

### 4. Respond robustly to tax avoidance

A key part of our work to reduce the tax gap is changing tax legislation and processes to stop avoidance and other leakage of tax. We continue to investigate and

take legal action in avoidance cases where appropriate and this year won an important Court of Appeal avoidance case where the total amount of tax at stake in this case and similar cases was estimated at £1 billion. We have continued to use information from the tax avoidance disclosure regime to identify new avoidance schemes and this has helped the government act swiftly to close off avoidance opportunities. For example, on 21 October the government announced new legislation only days after receiving notice of an avoidance scheme which would have resulted in a loss to the public purse. In July we published two consultation documents on simplifying anti-avoidance legislation to help reduce administrative burdens for customers, reviewed all budget measures to minimise new avoidance risks and actively supported international efforts to tackle the issue.

### 5. Tackle deliberate non-compliance and fraud

We are continually sharpening our strategies and compliance checks against those who evade or defraud. Our new alcohol strategy has saved the taxpayer £20 million during 2009-10 by removing a repayment regime exploited by fraudsters. We have also acted very quickly to ‘zero rate’ emissions allowances, known as carbon credits, in response to the escalating threat of VAT fraud, and we are using sophisticated tools which collate data from a variety of sources to target potential evaders. As a result of targeting tobacco smuggling, between 2006-07 and 2007-08 we reduced the illicit market share for cigarettes from 14% to 10%. Following the G20

summit in April we have negotiated Tax Information Exchange Agreements with other countries including Anguilla, The Bahamas, Liechtenstein and Gibraltar, as well as agreeing new standards for information exchange with Luxembourg, Singapore, Belgium, Switzerland and Austria. The Liechtenstein Disclosure Facility (LDF) will ensure that offshore investments in Liechtenstein made by UK residents will be compliant with UK tax obligations by 2015. Taxpayers with assets in Liechtenstein will have to remove their assets from the country if they do not disclose them to HMRC or, exceptionally, face financial sanctions. The New Disclosure Opportunity (NDO) is aimed at anyone who owes UK tax on offshore accounts and assets. Before the NDO began we introduced a new approach to using information gathering powers, allowing us to obtain details of offshore accounts from 308 banks. New legislation to publish the names of individuals and companies who are deliberate tax defaulters was introduced as another practical initiative to tackle evasion head-on. Since April we have targeted 400,000 tax credit customers in high-risk groups with a range of measures aimed at tackling more deliberate non-compliance and fraud and we are improving the security of our repayments systems such as Income Tax Self Assessment. With the formal creation of the UK Border Agency (UKBA) this year, we have also established a HMRC/UKBA Partnership Committee to manage performance and the relationship between the two organisations. Finance Bill 2009 received Royal Assent on 21 July

2009 including provisions that modernise and align penalties for the late filing of returns and payments. Other provisions include simplified rules for interest on late payments and on overpayments of tax.

#### 6. Help our customers claim what they are entitled to

We are working closely with other government departments, local authorities and large employers to deliver joined up support for the take-up of tax credit and benefit entitlements. The Financial Support Steering group delivers cross-government material and information enabling our front-line advisers to point potentially eligible customers towards other existing benefits and entitlements. We are working in partnership with the Department for Work and Pensions (DWP) through our Joint Working Steering Group to ensure customers coming off benefits and into employment receive tax credit entitlements as quickly as possible and with employers to reach customers not currently claiming Working Tax Credits.

#### 7. Improve our management of debt while helping those in temporary difficulties

Our approach to debt collection is now increasingly based on prioritising debt pursuit actions on the basis of risk. This means designing and deploying debt collection strategies, such as segmenting debtors and tailoring our activity according to previous behaviour, the risks attached to the debt and the taxpayer's likely ability to pay. We have mounted risk-based

debt pursuit campaigns for packages of Self Assessed Income Tax debt, Corporation Tax and Employers' End of Year underpayments. From the autumn we have extended this new approach to tax credit debts being pursued by direct recovery instead of reductions to ongoing awards. It is important we can respond robustly to increased levels of debt due to the economic downturn and continue to improve this capability and we are doing so. At the end of October receipts from debt collection activity were almost £5 billion ahead of the same period for 2008-09. Subject to economic conditions, we might therefore expect to collect £6-8 billion more in debt receipts for 2009-10 in total. Through the Business Payment Support Service, introduced in November 2008, we have continued to help businesses and individuals who have been unable to meet deadlines for paying their tax bills by granting time to pay arrangements where appropriate. As of 6 December this year, we made more than 242,000 time to pay agreements worth nearly £4.23 billion, and over 90% of what we expected to receive has been paid. Not only does this provide help to customers in financial difficulty it also often means that debts are visible and well-managed.

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We will deliver annual savings of £540 million on administration burdens and have announced further initiatives to reduce it by an additional £12 million, well above our 10% minimum reduction target.



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On forms and returns we plan to reduce burdens by £342 million, reflecting progress on the £330 million savings we have already made.



# Our progress so far: HMRC's Strategic Objectives

## 2

Improve customers' experience of HMRC and contribute to improving the UK business environment.

Since 2006 we have implemented or committed to measures that will deliver annual administrative burden savings

**£552m**  
savings



### HMRC Charter

We launched the Charter earlier this autumn following extensive consultation with stakeholders.

#### 1. Make customers feel it has become simpler for them to do business with us

Our June quarterly customer survey has demonstrated further improvements in customers' experience of dealing with us. We successfully implemented a major new IT system for PAYE which provides a single view of customers' tax, employment and National Insurance information, allowing us to deal with most customers' queries more quickly and efficiently, making it feel simpler for parents, pensioners and businesses alike. We have established a presence in over 100 Children's Centres nationwide, allowing us to provide new and existing tax credit and Child Benefit customers with information and support to help them claim their entitlement. Working with regional BusinessLink centres, we are also running trials of improved support for new businesses and those about to start up, resulting in 97% of customers at the events having a better understanding of their basic obligations. We launched a new Pensioners' Helpsheets to assist completion of a frequently used form that has led to an increase in the number of correct returns from 74% to 91%. Our 'Tax for Business' campaign is helping small businesses and their agents with 300,000 people using new tools such as online videos which help explain how to get tax right. The Corporation Tax Bill and the

Taxation (International and Other Provisions) Bill were published in November 2009. These Bills are the sixth and seventh produced by the Tax Law Rewrite project which rewrites UK direct tax law to modernise it so that it is clearer and easier to use. These two Bills complete a 13-year task of rewriting the majority of direct tax legislation for individuals and businesses.

#### 2. Working with agents and employers

We have expanded our agent account managers working locally with tax agents and helped them identify errors and risks in their clients' records using newly developed 'pre-return toolkits.' The toolkits are currently being trialled and extended to other areas of risk in the coming months. We are also developing joint learning events for agents and our staff covering the new power and penalty regimes which involves around 2,000 participants in more than 20 locations. Quick and accurate recording of new business and the representation of an agent has also been a priority for us after we centralised both functions and since April have met a five working day target for Self Assessment authorisation. An improved CD-ROM on payroll operations for smaller employers and software for online end of year filing has also been issued. A 2009 August survey revealed 88% of users said it was as good as or better than previous versions and 68% said the

*“We want all our customers to feel that the tax system is simple for them and even-handed.”*

basic PAYE calculator saved them time on a monthly basis.

### 3. Continuing to build effective relationships with large businesses

Following a successful and positive consultation process with businesses and their advisers, new corporation tax rules for foreign profits were introduced by Finance Act 2009. In partnership with HM Treasury, we are now continuing to work constructively with business on the review of the rules which determine how profits realised in overseas subsidiaries are treated for tax purposes in the UK, with the aim of striking a better balance between revenue protection and the UK's competitiveness. Building on the 2006 Review of Links with Large Business, we are continuing to develop effective relationships with our 10,400 largest businesses. We have undertaken individual risk assessments for the top 2,000 businesses with our customer relationship managers, and are using risk profiling and project working for the rest. We are also making significant progress on reaching Advance Pricing Agreements (APA). APAs are written agreements between a business, HMRC and often another tax administrations and they set out how complex transfer pricing issues are resolved before a tax return is made. We have agreed seven APAs in the first half of the year, with a saving of UK tax of approximately £50 million from changes to the pricing of transactions proposed by the tax administrations of the other country involved. We currently have 41 open cases and we expect to exceed our 2009-10 target.

### 4. Provide a better service for all our customers

We continue to develop and improve our services, enabling customers to fulfil their tax obligations and receive the benefits to which they are entitled more accurately, quickly and confidently. As a result we have seen the number of complaints we receive fall across the Department, with levels to the end of October 18% lower than the same period last year. Improvements in the number of telephone calls handled by our contact centres during April to June rose by 25% compared to the previous year, leading to a sharp increase in satisfaction from tax credit customers who dealt with us. The success of the 2009 tax credits renewal programme was a result of close working between different parts of HMRC and careful planning. We issued renewal packs to 7.7 million households, finalised 7.3 million claims and handled almost 11 million calls to the tax credit helpline. We also provide a range of government services including VAT registration, customs transactions, agent authorisation and the management of [businesslink.gov.uk](http://businesslink.gov.uk). Independent surveys confirm there are real benefits for businesses from the content it hosts such as a free online UK Trade Tariff tool, only previously available by purchasing an expensive paper directory.

### 5. Launch the HMRC Charter

It is important that HMRC sets out the rights and obligations of customers when dealing with the Department and this is embedded in the Charter. We engaged our customers in the creation of the

Charter and completed the consultation in May, receiving over 2,000 responses from stakeholders. We tested the Charter with users and staff and it was officially launched in November. The Finance Act 2009 requires HMRC to review, maintain and report on the Charter. We created a Charter Advisory Committee, with external stakeholder representation. The Permanent Secretary for Tax will be responsible for the delivery of the Charter, with the Chief Executive holding overall accountability.

### 6. Reduce administrative burdens on business

At this year's Budget we reported that since 2006, we had implemented or committed to measures that will deliver annual administrative burden savings of £540 million, and have announced further initiatives that increase business savings to £552 million per annum, against the minimum target of £510 million (equivalent to 10%). On forms and returns we now plan to reduce burdens by £342 million per annum, reflecting progress on the £330 million savings already announced. Reductions on audits and inspections remain at £43 million per annum and we are doing more to reduce the time spent on compliance checks for customers who make few or no errors. Other initiatives include working with the EU to simplify customs regulations, modernising amusement machine licence duty with other gambling duties and new processes allowing HMRC to take more payments over the phone. If successful, we will look at opportunities to extend this payment method.

# Our progress so far: HMRC's Strategic Objectives

# 3

Improve our professionalism in dealing with: the security of our customers' information; our stakeholders; and our external impact.

We take the security of our customer information extremely seriously. A successful programme of training and internal publicity has heightened staff awareness and understanding of the key issues.

**20,000**  
staff attended our data security roadshows



## Data security

Keeping customer information secure is at the heart of what we do.

### 1. Developing the skills of our tax professionals

We are working to accredit our new tax qualifications. In September, through our work with the awarding body for our foundation level qualifications, the Association of Tax Technicians, the first of our new Tax Professional Qualifications were approved by the Qualifications and Curriculum Authority at Level 3. We have also appointed 85 internal and external candidates to the four-year Tax Professional Development Programme, which started in September. We have delivered three of our six Continuous Professional Development tax conferences and are introducing a process to accredit training products for staff working on criminal investigations. These products will improve the Department's ability to investigate tax fraud and other criminality.

### 2. Substantially reduce the number of data security incidents

We have continued making improvements in awareness of information security by holding eight roadshows at major HMRC sites, which more than 20,000 staff attended and learned how it was their personal responsibility to reduce incidents. We launched a new security zone on the intranet in August which enables staff to quickly locate security guidance and test their level of knowledge.

A total of 22,000 staff have used the site in its first two months. We have also increased levels of security professionalism through recruitment and training. During the first six months of this year we have been establishing how we achieve both targets – to report 85% of incidents within two days and to reduce incidents over three years. The security incident team have been consolidated into a single location in order to develop and improve our security policy, processes and communications activity.

### 3. Substantially reduce the cases of customer data misuse

The number of reported cases involving staff misuse of customers' personal data, including access to customer data on IT systems, for the first six months of 2009 is 109. This represents a reduction of 38% over the same period last year, is well ahead of the target of 15% for this year and is contributing to the target to reduce the number of reported cases by at least 75% between 2009 and 2012. Following a successful programme of awareness training and publicity, staff and managers within HMRC understand that prevention of customer data misuse is a high priority. All instances of suspected misuse are thoroughly investigated and are subject to appropriate disciplinary action.

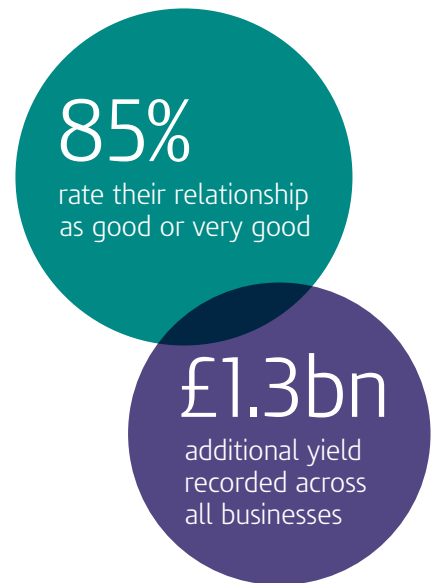
*“We will behave professionally and with integrity.”*

#### 4. Achieve the highest levels of social and community responsibility

We have been recognised for our work in this area with the award of platinum status in Business in the Community’s index of responsible organisations. The index recognises our work with customers, staff, local communities and the environment. Our community initiatives include the launch of ‘Tax Matters’, a new way of making tax education more interesting for young people, work with ‘PRIME’ to help mature people set up in business and a partnership with the National Mentoring Consortium to mentor black, Asian and minority ethnic (BAME) graduates. Seven members of staff won ‘Mentor of the Year’ awards for this programme. Our environmental projects include saving energy by using new software to power down computers and running an environment week in June to promote ‘green’ ways of working such as video and telephone conferencing as alternatives to travel. We have enforced our commitment to diversity by having a Board-level Diversity Champion for each of our eight diversity strands. New training has been introduced to increase staff awareness of diversity and inclusion, and the Equalities and Human Rights Commission has praised our progress on race awareness.

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We have customer relationship managers and co-ordinators working with all large businesses. Feedback has been extremely positive.



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We are helping individuals and businesses through economic downturn. Our Business Payments Support Service is granting time to pay arrangements for businesses and individuals who haven’t been able to meet their payment deadlines.



# Our progress so far: HMRC's Strategic Objectives

## 4

Deliver an affordable and sustainable cost base providing value for money for the taxpayer.

Our Departmental Transformation Programme and planned staff reductions delivered substantial savings between 1 April and 30 September.

**£100m**  
in VfM savings



### PaceSetter

Productivity has increased by 30% in PaceSetter areas. Customer service and value for money have also risen.

### 1. Achieve real-term Value for Money savings

Between 1 April and 30 September 2009 we have made Value for Money savings of up to £100 million achieved primarily through our Departmental Transformation Programme (DTP) and planned staff reductions in both operational and corporate service areas. DTP includes the Carter programme to drive take-up of online services, PaceSetter to drive forward our performance and Estates Consolidation to reduce our overall estate. In addition, we continue to make savings from business as usual activities including procurement, and the Method of Payment Reform Programme which is changing the way we pay benefits and credits to our customers. We have also carried out a benchmarking study with Australia and South Africa, to compare eight areas of operational performance within a common framework, and the work will be used to continue to drive costs down. The Government Banking Programme has the objective of moving public sector banking arrangements from the Bank of England to Royal Bank of Scotland Group and Citibank, following the Bank's decision to exit retail banking. There were three projects of which one, Consolidation of Inward Cheques and Forms, completed successfully in April this year. HMRC Banking Change

has delivered all but one of its milestones and is on track to complete delivery by the end of November. The remaining project, GBS transition, will migrate around 750 public bodies to the new arrangements and is scheduled to complete no later than October 2010. To date, around 10% of customers are live on the new electronic banking systems.

### 2. Continue to reduce our property estate

We have closed 16 offices completely and cut our space in 27 others so far this year. We have also disposed of nine non-office properties. Together, these have reduced the estate by 41,065m<sup>2</sup> and contributed £17.3 million towards annual running cost savings. A further 79 full or part closures are due to be completed by 31 March 2010. These will remove an additional 100,000m<sup>2</sup> from the estate worth £23 million per annum and our vacation plans for 2010-11 are already well advanced.

### 3. Continue to improve the efficiency of our routine processes

We continue to use PaceSetter ways of working to achieve better business performance across the Department. PaceSetter tools are being used to map and analyse complex processes across different business areas. HMRC is mapping the process from when a National

*“We will be seen as a highly professional and efficient organisation.”*

Insurance customer contacts the Department to the point of resolution. They identified a number of areas for improvement and are now prioritising these to help leaders and their teams visually manage how well they are doing. We have also introduced a Continuous Improvement Change Control Process (CCP) in Benefits and Credits to implement improvement ideas identified by frontline staff in a structured and efficient way, maximising the customer service benefits for tax credit and Child Benefit customers.

#### 4. Use management information and professional techniques to achieve better value for money from our suppliers

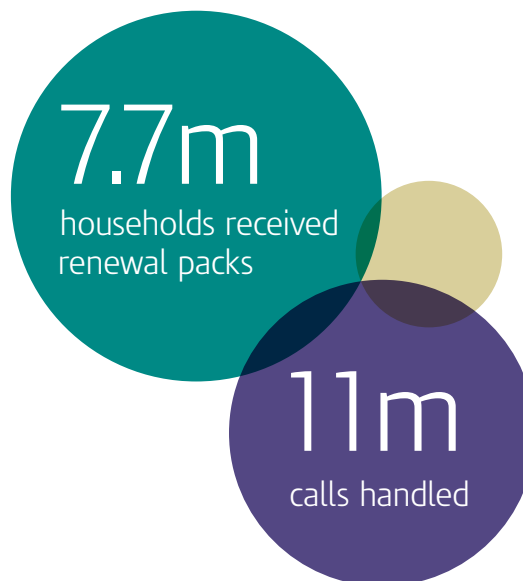
Our primary focus has been on reducing the cost of outgoing post, which is a significant expenditure. We ran a workshop with senior managers in this area and our two main suppliers – Fujitsu and Royal Mail – and a range of cost-saving options were agreed. These should deliver additional postal savings of £8 million this year, and a further £15 million next year, without affecting business performance. This will include working with Fujitsu and ASPIRE to revise the way we issue Tax Credit Award Notices, including using smaller envelopes, which will reduce postal costs by £1 million this year and £4 million in future years.

#### 5. Increase the effectiveness and efficiency of our central and support functions

A major review of our back office central and support functions was introduced earlier this year to find efficiency savings and redirect the funding into more frontline services. This review is working towards making its savings target of £15 million across several areas of Corporate Services. Further work is being taken forward to bring about sizeable reductions in headcount while maintaining the standard of service expected from these areas.

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The success of our 2009 tax credits renewal programme was down to careful planning and close working between different parts of HMRC.



# Our progress so far: HMRC's Strategic Objectives

## 5

Create a working environment which motivates and develops our people to give of their best and take pride in working for HMRC in order to contribute to the transformation of our business.

### 1. Provide clear direction

Following publication of our Vision and Strategic Objectives, we started work on a new strategy for HMRC earlier this year to guide our planning over the longer term and ensure we make maximum progress towards the achievement of our Vision. This integrated set of strategies comprises an over-arching HMRC Customer Strategy, and strategies for all parts of our business. The strategy sets the context for 2010-11 planning, the next spending review and associated planning rounds over the next three to five years.

These strategies have been created so they align themselves with our strategic objectives, with different strategies for different business areas assessed to make sure they complement each other and lead to the development of a single customer strategy. This describes how we will work with each of our customer groups and our objectives and approach for each of them, which we have established from our departmental customer segmentation model for all customers and lines of business. The strategy has been presented to the Board and Ministers, and is due to be published next year.

### 2. Provide clarity of training and learning for managers and colleagues through management skills pathways

HMRC is developing its Leadership

and Management Pathway. This tells managers about the availability of essential products for them as their role changes or becomes more complex. The Pathway includes leadership development at certain stages in their careers and will incorporate interventions offered through HMRC's PaceSetter and Talent Programmes. This will align with the central Civil Service Leadership Framework with our products and services gradually offered to other government departments. Similarly we will use products and services offered by other departments where appropriate. We are also focusing our training on business and professional skills. We have already delivered 189,500 days training this year with a further 30,094 days planned for the rest of the year. This includes equipping over 500 managers to more effectively manage change, and the UK's biggest computer-based training package to support the successful implementation of our new PAYE service. A total of 276 people from across the Department were awarded the Level 4 introductory diploma in Leadership and Management, accredited by the Chartered Management Institute and we have another 130 people going through this programme at the moment.

### 3. Improve communications

We are continuing to embed the newly launched HMRC

Communications Approach which simplifies and targets communications for maximum business benefit, as well as supporting change in the Department and professionalising the communications community. Following the success of our annual stakeholder event earlier in the year we have analysed the feedback and are redeveloping our corporate strategy for stakeholder engagement. As part of our language and tone campaign, we have trained more than 1,000 staff in how to communicate clearly and simply with customers and each other. New business customers and small businesses have also benefited from more targeted and straightforward products such as our 'Tax Help' videos. The press office continues to maximise media coverage of our success stories such as the offshore tax disclosure agreement signed with Liechtenstein in August. Internally, HMRC's intranet site was rated the joint best across central government by the Intranet Benchmarking Forum.

### 4. Getting the right number of people in the right places with the right skills

We are strongly committed to moving people through redeployment within the organisation or to other government departments. Local implementation teams are identifying redeployment opportunities and can authorise staff moves which involve less than 10 people. From April to

*“We do our own jobs well and take pride in helping our colleagues to succeed.”*

September this year, 634 people left on voluntary early release schemes, taking our total number of staff to less than 82,000. Limited funds have been made available for an early retirement scheme targeting staff in locations where we needed to vacate buildings or rationalise work areas. During the same period, 254 people have moved to other government departments. The majority have moved to DWP and in August we loaned 45 people in our Newton Abbot office to Jobcentre Plus for an initial 12 month period. We have introduced a new remote and mobile working policy for our people which offers greater flexibility to get the right people in the right roles. In Customer Operations new recruits were appointed to allow for the introduction of new working patterns such as evening work. Fixed-term appointments were also confirmed as permanent posts. Our Business Skills Training Team trained more than 1,600 recruits to process Self Assessment forms and post to help the smooth introduction of the new PAYE service. They also trained 200 recruits to support the opening of our new contact centre in Lillyhall, Cumbria.

### 5. Extend PaceSetter ways of working to new parts of the business

PaceSetter ways of working have continued to be developed and extended across the business, with 55 leaders attending ‘Leading in a PaceSetter Way’ sessions and delivery of 12 PaceSetter Academies for Practitioners. In areas where PaceSetter is operational, the business has seen productivity increases of at least 30% and overall improvements in customer service and value for money for the

taxpayer. It has also seen increased staff engagement and leadership capability. The Top Three Layers Programme, which helps senior leaders understand the PaceSetter principles and behaviours, continues to be delivered in priority areas of the Department and a Top Two Layers Programme is being developed for our most senior people. A series of ‘Leading the Way’ events have also been held for leaders to raise awareness of PaceSetter and demonstrate how it can help HMRC manage its business. The ‘Preparing for PaceSetter’ pack and DVD is now ready and will support the sessions currently under trial and development. Two customer relationship managers have been appointed and are aligned to the priority business areas as an initial point of contact, providing PaceSetter guidance.

### 6. Improve our performance management process

We are using PaceSetter to create the structure and discipline needed to help us improve performance. Performance Hubs are a visual way of representing data which is essential to the success of the business and aligned to our wider strategic framework. Implemented at all levels within HMRC, they create a clear line of sight from our strategic objectives to what is expected of people in the frontline and signify a major turning point in how we manage our business. They have helped to organise large amounts of performance information into a set of visuals which are easy to understand. This has provided our most senior leaders with the right information, at the right time for them to make the right decisions. So far leadership performance hubs

have been delivered to our directors general and depending on the specific business area, hubs at the next level have been delivered or are under construction. We are also reviewing our performance management system to develop a clear and well structured process which recognises and rewards performance.

### 7. Define and embed HMRC culture through our leadership development programmes

Developing confident managers is about making sure our managers and leaders get the right level of support so they can act with confidence, help others make the most of their skills and reach their full potential. It is part of our commitment to making us better at what we do. By the end of September this year, a total of 1,098 participants were moving through the Developing Confident Managers (DCM) programme with initial findings revealing it is already having a positive impact on behaviour. Leadership is one of the most important challenges that HMRC faces and we need to ensure our leaders have the capability skills and support to succeed.

# Our progress so far: HMRC's Strategic Objectives

## 6

Transform the performance of the Department through the exploitation of information and technology services.

52% increase  
online filing



### Tax for business

We're working with small businesses and their agents to help them deal with us more efficiently.

#### 1. Improve our compliance activity through better use of information and intelligence

A new system enabling us to work better with members of the risk and intelligence community has been introduced which helps target our resources to areas of greatest risk and highest returns. We have continued the roll-out of our new data matching tool, Connect and are now using it in five profiling centres. Recent delays in the delivery of the IT solution have caused us concern but we are working with our IT partners to overcome this difficulty. To lessen the impact of the delays, we are pressing ahead with business delivery by using an interim solution which provides some of the key elements of Connect. This will put us in a better position to gain quickly the anticipated quality improvements once the IT solution is delivered. We are also developing solutions to help sort data more effectively and efficiently through the Evidence Exploitation Project. This will allow our staff to focus more on civil and criminal operational activities. Work is also ongoing to build systems which will support anti-fraud operations and ongoing criminal casework. In the financial year 2008-09 we made payments from our annual resource allocation totalling £281,111 to recompense

non-departmental individuals for information which supported our targets in these areas.

#### 2. Improve the resilience of IT and information systems

We are heavily dependent on being able to access and use secure information at the right time, so we are continuing efforts to reduce the number of hours lost due to IT being unavailable. The current forecast indicates an improvement by approximately 2% on the 2008-09 hours lost due to IT being unavailable, which equates to 32,000 business hours. Continuous reviews of the quality of local power supplies have also increased the resilience of HMRC sites. So far this year we have upgraded 26,000 of the Department's slowest-running computers, moved critical services to new more secure data centres and speeded up the delivery of IT change requests for people using HMRC's IT and their managers.

#### 3. Support an increase in the number of customers filing their tax return online

In a major review of HMRC's online services, Lord Carter of Coles said the Department should aspire to achieving universal electronic delivery of business tax and individual tax returns from IT literate groups by 2012. Following

*“We make it easy for our customers to get things right.”*

the changes made to the Self Assessment (SA) return in 2008 and the introduction of differential filing dates for returns filed online and on paper, the January 2009 filing peak saw 5.8 million (69%) SA returns delivered online. This trend has continued through the current year and at November the number of SA returns filed online was up another 16% on the same point in 2008. HMRC has received external recognition for its SA service, winning such awards as The Guardian Government Computer Awards for Delivering Efficiency and the National Business Awards for the SA marketing campaign. April 2009 saw changes made to the online PAYE system to allow in-year forms such as P45s to be filed online. In November 2009 new online VAT and corporation tax (CT) services were introduced. These services have been delivered well in advance of the dates by which VAT and CT returns will be required to be filed online. These changes are key to delivery of Lord Carter's recommendations and we continue to see an upward trend in electronic submissions of VAT and CT returns in advance of it becoming a requirement to file these online.

#### 4. Improve the customer experience of contact centres by using an automated handling service for certain types of calls

We are making good progress towards the industry standard target of answering at least 90% of call attempts by April 2011. There has been a significant improvement in performance – with 73% of call attempts answered in the first half of 2009-10 compared to 48% in

2008-09. We have also eliminated a significant amount of unnecessary contact with an 11% drop in callers contacting HMRC year on year and better management of our major contact peaks – the number of call attempts are also down 31% year on year. Automatic menu options and announcements on our helplines provide basic information and point customers seeking information to our significantly improved website. 8% of all calls are now being dealt with via these messages, so customers no longer need to speak to an adviser. We have improved the Self Assessment online form which has reduced the error rate from 5% to 1%. Demand for our face-to-face service continues to fall which indicates the success of our online services and as result we are extending our successful reduced opening hours pilots so the number of staff in our face-to-face network reflects customer demand.

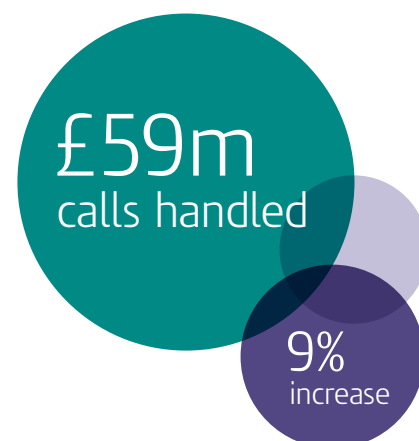
#### 5. Review how we deliver IT services and implement ways to reduce the cost of maintaining and developing IT systems

We are working with our IT suppliers to look at how we can improve the service and delivery of IT services. Specifically we are seeking to streamline system design and delivery and reduce costs through the provision of standardised products. Pricing arrangements agreed with our IT partners have been revised and a new rate structure is expected to deliver a 12% saving compared to last year's expenditure. The findings of the review will feed into the HMRC IT Strategy, which is being finalised towards the end of 2009. We have also made efficiency

savings by introducing a new energy-saving system putting PCs automatically into lower power mode when users log off. Computers will be woken up during the night to receive system updates before being put back into low power again. This will reduce carbon emissions in line with government targets and cut the Department's energy bills. Current savings equate to £2,040 per day or £744,000 annually.

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HMRC is making good progress towards the industry standard target for call answering. We are also managing our major contact peaks better and are working to reduce unnecessary contact.



# Getting Value for Money

HMRC reported that it had successfully delivered, and exceeded all of its 2004 Spending Review (SR04) efficiency targets for the period 2005-06 to 2007-08, including the achievement of £663 million efficiency savings against a target of £507 million. The 2007 Comprehensive Spending Review (CSR07) settlement represented a 5% year-on-year real terms reduction in HMRC's underlying funding over the period 2008-09 to 2010-11. This committed us to achieving Value for Money (VfM) savings of £674 million by 31 March 2011, which contributed to the Government's cross-government VfM target of £30 billion.

In addition, the 2008 Pre-Budget Report announced that the Government's overall VfM target for 2010-11 would increase from £30 billion to £35 billion, releasing an extra £5 billion of recoverable savings in that year. We have been exploring opportunities to deliver more efficiency savings. It is increasingly important, particularly in the current economic climate, that we are able to deliver the best possible value for the taxpayer and that we keep looking to find further efficiencies wherever possible.

As announced at the 2009 Budget, our VfM savings target for CSR07 has been increased from £674 million to £754 million, including £80 million recyclable savings to frontline activities, as our contribution toward the £35 billion VfM savings target.

## VfM savings to date

We reported that we achieved over £200 million VfM savings in 2008-09. This did not include any of the over-achievement from the SR04 period. We are on track to deliver our CSR07 VfM savings target, by driving down ongoing business costs whilst delivering our objectives of improving the extent to which individuals and businesses pay the tax due and receive the credits and benefits to which they are entitled, and improve customers' experience of engaging with us. An internal audit is being undertaken to review our processes and validate the VfM gains, assessed against HM Treasury's VfM criteria. The Treasury has also asked the NAO to carry out an ongoing assessment of the VfM savings reported by Departments during the CSR07

period, and the NAO is expected to start its review of HMRC in December 2009.

## 2009-10

Building on the 2008-09 VfM savings, we are planning to achieve over £200 million savings in 2009-10. Of these, £135 million will be gained through our Departmental Transformation Programme. This involves the following main programmes – Carter (incentivising the move to online services), PAYE improvements (this moves PAYE data from multiple databases to the National Insurance database, providing a single comprehensive view of employee employment data), Compliance and Enforcement (to improve risk analysis and target responses more effectively), PaceSetter (to develop the capability of our managers and leaders to drive forward business performance), and Estates Consolidation (implementation of our strategy on strategic site location, and the reduction of the overall estate). We will achieve the balance of savings from other initiatives and activities through, for example, prioritising and re-engineering working practices to ensure performance levels are maintained while staffing levels and making efficiencies in IT services, other central and corporate services, travel costs, financial charges and procurement of other bought-in goods and services (significant amounts of HMRC spend are channelled through collaborative arrangements with other organisations, and such deals are considered in all sourcing strategies). Between 1 April and 30 September 2009 we have

realised, subject to audit review and validation checks, VfM savings of almost £100 million.

### Future savings in CSR07

As part of the Department's wider substantive efficiency programme, we expect over the remainder of 2009-10 and in 2010-11 to realise further VfM savings to achieve our overall CSR07 target. Savings will continue to be made through our DTP programmes and business as usual initiatives as noted above.

### Management of VfM programme

To ensure VfM savings are identified and delivered we have appointed a Director of Efficiency and VfM, who is supported by a small, dedicated team. An Efficiency Steering Group, chaired by the Chief Finance Officer, provides direction and advice to the overall programme.

### Relocations

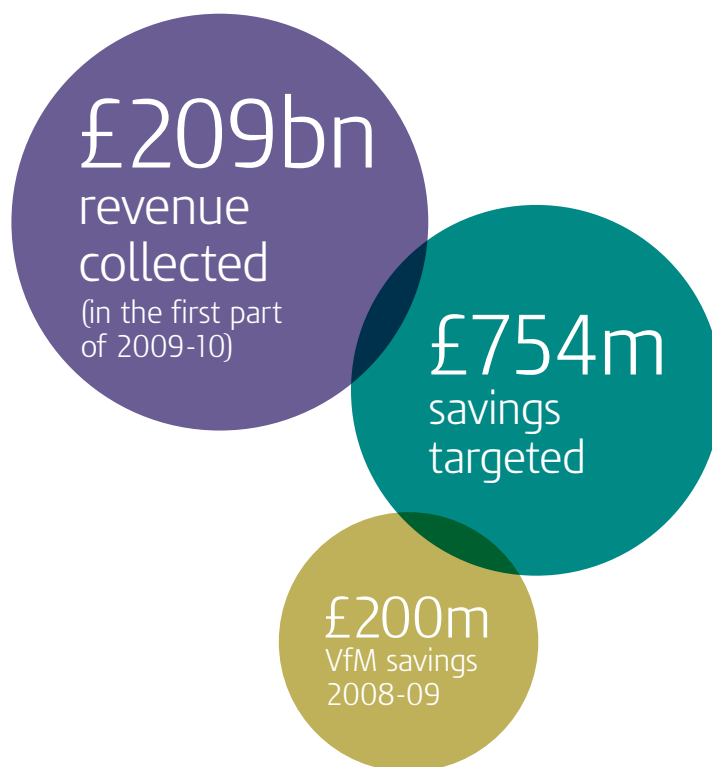
In addition to its Efficiency and Value for Money targets, HMRC also has a target to relocate 4,250 posts away from London and the South East by April 2010. By 31 March 2008 we had achieved a relocation of 2,492 posts, exceeding the phase 1 target of 1,950. A further 671 have since been relocated making a total of 3,163 posts to 30 June 2009. These posts have moved from London and the South East to over 40 different locations across the UK including Birmingham, Cardiff, East Kilbride, Leeds, and Manchester.

Lines of business currently have plans to relocate a further 443

posts. As we have achieved substantial efficiency reductions in London and the South East the second phase of Lyons has been very challenging. The Department is considering what further capacity it has to move posts from London and the South East beyond 2010-11.

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We have been looking at ways of delivering greater efficiency savings, to ensure HMRC delivers the best possible value for the taxpayer.



# Departmental Strategic Objectives: Achievements and Key Statistics

We are making progress toward achieving our Departmental Strategic Objectives and continue to maintain/improve performance in the Customer Survey results.

Against this background, we can also highlight some performance achievements in the first part of 2009-10:

- collected over £209 billion in revenue
- delivered the biggest change to PAYE system in 20 years with launch of the new PAYE Service and Work Management System (MPPC) – changing the way over 30,000 users do their jobs
- delivered the largest learning intervention in the UK this year and possibly the largest in corporate history with the new PAYE and MPPC training
- delivered 14 full or partial vacations of HMRC locations resulting in savings of £8.6 million
- achieved platinum level status in the Business in the Community Corporate Responsibility Index
- launched Health in Pregnancy Grant.

## HMRC has two 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. This DSO contributes to Public Service Agreement (PSA)<sup>9</sup> – Halve the number of children in poverty by 2010-11, on the way to eradicating child poverty by 2020.

**DSO 2** – Improve customers' experience of HMRC and contribute to improving the UK business environment. This DSO contributes to PSA 6 – Deliver the conditions for business success in the UK.

**The accountability for DSO 3** – reduce the risk of the illicit import and export of material which might harm the UK's physical and social well-being – was transferred to the UK Border Agency on 5 August 2009 following Royal Assent of the Border, Citizenship and Immigration Act on 21 July 2009.

Included in the DSO table are the following amendments to previously reported indicators as mentioned in the Spring Departmental Report 2009:

**Indicator 1.1** – inclusion of a target of £7 billion reduction in losses over the period 2008-09 to 2010-11. This replaces the original wording of the DSO indicator, 'increase tax and National Insurance contributions actually received relative to the amounts that should be received, achieving over 2008-09 to 2010-11 at least the levels set out in the Public Service Agreement targets for 2007-08.'

**Indicator 1.4** – previously reported under DSO 1.2.

**Indicator 1.5** – a new strategic Tax Credits indicator that merges the old DSO 1.3 and 1.4 indicators.

**Indicator 2.1** – an indicator that is supported by the previously reported DSO 2.4-2.7 indicators, which are removed from the top line list.

**Indicator 2.2** – a new single strategic and stretching administrative burdens target that merges the old DSO 2.2 and 2.3 indicators.

In addition, from Spring 2010, HMRC will be reporting three new indicators that help focus delivery of DSO 1 in line with HMRC's Vision: a measure on the proportion of individuals and businesses that pay their tax; a measure on the proportion of debt that is collected within 30 and 90 days and a transitory indicator to track performance of border revenue against the targets specified in the Home Office/HMRC partnership agreement.

## DSO 1: Improve the extent to which individuals and businesses pay the amount of tax due and receive the credits and payments to which they are entitled:

This DSO has the following outcomes:

- maintaining and extending our compliant base by:
  - supporting customers to make fewer errors;
  - securing our systems against fraud and avoidance; and
  - tackling evasion and criminal attacks on the system
- improving the management of receipts and payments processes; and
- ensuring that people, with or without children, take up the support to which they are entitled as well as to ensure that the right amount of entitlement is received at the right time.

## DSO 1 (continued)

### Overall summary – indicators not yet assessed<sup>1</sup>

(new indicators 2, 3 and 6 will be reported for the first time in Spring 2010)

Indicator	Baseline	Latest assessment	Target	
1	Reduce losses by £7bn over the CSR07 period. This will require HMRC to close the annual tax gap by at least an additional £4bn in 2010-11.	This indicator will be measured by estimating the change in aggregate losses in each year by summing, for indirect taxes, changes in the VAT tax gap and % illicit market share compared to 2007-08. For direct taxes and NIC, as a proxy for the reduction in losses, it will be measured by direct yield compared with yield in 2007-08; improvements in voluntary compliance; and evaluation of compliance-related legislation. HMRC do not yet have a final outturn figure for 2008-09 although current information indicates that progress towards achieving £7bn in 08-09 was mixed. There are a number of positive indicators, including an £800m increase in overall compliance yield to £12bn. The VAT tax gap, however, increased by £2.8bn in 2008-09 over half of which was due to an increase in debt as cashflow slowed during the recession. Total payments against tax debt in 2009-10 to the end of October are up by almost £5bn compared to the same period in 2008-9. This will include a proportion of the 2008-09 VAT debt. We are closely examining the other factors that may be driving the increase in the VAT tax gap and are, in particular, increasing our focus on the hidden economy and evasion. For direct taxes, compliance yield was broadly flat but there are some factors (eg the impact of legislative changes) which cannot yet be assessed. 2008-09 tax gap for excises will not be available until the end of 2010.	Not available	£7bn Reduction in losses over the period 2008-09 to 2010-11
	- 2007-08	Provisional 08-09 estimate		
4	Reduce the level of tax credit error and fraud to 5% by 2010-11.	Because this is an absolute measure (5% of the finalised entitlement for 2010-11) no baseline is needed. The latest data - for 2007-08 - published in July 2009 shows a central estimate for the level of error and fraud of 8.6%. This was not unexpected: we believe we may also see a slight increase for 2008-09 when data becomes available next summer. Our new Error and Fraud Strategy formally commenced in April 2009. This considerably increases the range and number of interventions that HMRC makes with tax-credits customers. The strategy segments tax credit claimants and focuses on those groups of claimants who together represent the disproportionately largest incorrect payments due to customers' error or their fraudulent activity. It includes activities to increase customers' understanding of tax credits to remove error from awards; to remove both error and fraud from awards earlier in the lifetime of awards (and ideally before awards are put into payment); and to make best use of data held by HMRC, DWP and other government departments better to tackle error and fraud.	8.6%	5%
		2007-08	2010-11	
5	Sustain the levels of Child Benefit and Child Tax Credit at current levels and to increase the take up of Working Tax Credit by 2010-11.	Progress against the target to increase WTC take up will be measured against the 2006-07 baseline of 57%. A sub-set of this target was announced in Budget 2009 to increase the number of WTC only claimants, by 100,000 by March 2011. The latest take up figures available are for 2006-07. Our next measurement point will be Spring 2010.		
	81% CTC <sup>2</sup> 96% CB 57% WTC 2006-07			

<sup>1</sup> the DSO 1 outcome indicators have associated time lags before they can be assessed. DSO 1.1 is calculated using independent survey data some of which has a considerable time lag (up to 2 years). DSOs 1.4 and 1.5 have similar time lags.

<sup>2</sup> For indicator 5, CTC and CB take-up rates are given equal (50%) weighting in determining whether overall take-up has been maintained.

## DSO 2: Improve customers' experiences of HMRC and improve the UK business environment:

This DSO has the following outcomes:

- understanding our customers and their needs; and
- making it easy for our customers to get things right.

**Overall summary – Strong progress, improvement against both indicators (as assessed against the reported baseline in APR 2008).**

Indicator	Baseline	Latest assessment	Target
1	Improve the customer experience that the tax system is simple and even-handed across all customer groups, by at least three percentage points (or up to 90% for any group) by 2011.	This indicator is measured by large scale quarterly HMRC customer surveys of individuals, SME businesses and agents introduced for CSR07. The baseline score of 72.8 <sup>1</sup> is taken from the results of the first two customer surveys conducted in March and June 2008 covering service delivered during the first six months of the year. The latest assessment is based on the combined results of the two customer surveys conducted in June and September 2009.	
	0 June 2008	+2.4 <sup>2</sup> September 2009	+3 2010-11
2	Reduce the administrative burden which the UK tax administration imposes on UK businesses by at least 10% by 2010-11.	This target is a 10% reduction by 2010-11 and represents a monetary reduction of £510m per annum from a baseline of £5.1bn. The latest assessment is that we have achieved £552m per annum of administrative burden reductions from the total administrative burden baseline.	
	- 2005-06	£552m September 2009	£510m 2010-11

<sup>1</sup> All survey results used to calculate the customer experience score have been calculated to 1 decimal place.

<sup>2</sup> Margins of Error – The overall DSO 2.1 score is a composite, made up of 12 separate survey results (4 results for each of Individuals, SME Businesses and Agents). Margins of error are calculated for each of the 12 survey results rather than the overall DSO 2.1 score. Margins of error for the survey results feeding into the September 2009 DSO 2.1 score range between +/- 1.2 percentage points and +/- 1.9 percentage points.

# SR04 reporting

**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.**

This table provides an update on performance against the outstanding SR04 targets.

	Target	Baseline	Final outturn	Target
1	By 2007-08, reduce the scale of VAT losses to no more than 11% of the theoretical liability.	<b>Not met<sup>3</sup></b>		
		15.2% <sup>1</sup> 2002-03	11.9% <sup>1</sup> 2007-08	11% 2007-08
2	By 2007-08:	<b>Partly met</b>		
2.1	<i>- reduce the illicit market share for cigarettes to no more than 13%</i>	16% 2002-03	10% 2007-08	13% 2007-08
2.2	<i>- reduce the illicit market share for spirits by at least a half</i>	7% 2002-03	5% 2007-08	3% 2007-08
2.3	<i>- hold the illicit market share for oils in England, Scotland and Wales at no more than 4.4% over the period <sup>2</sup></i>	11% 2001-02	3% 2007-08	4% 2007-08
3	By 2007-08, reduce underpayment of direct tax and National Insurance contributions due by at least £3.5bn a year.	<b>Met</b>		
		-	£3.6bn 2007-08	£3.5bn 2007-08

<sup>1</sup> The latest assessment of these baseline figures was published in 'Measuring Tax Gaps (MTG) 2009', available from [www.hmrc.gov.uk](http://www.hmrc.gov.uk). The VTTL model and the top-down VAT gap derived from it are broad measures, subject to a degree of uncertainty. They are based on an analysis of survey and other data, and include a number of assumptions and adjustments which add both random and systematic variation to the estimates. More about this is published in MITG 2008. These figures exclude VAT losses arising from excise losses.

<sup>2</sup> Latest estimates and revised methodology published in Measuring Indirect Tax Gap Report with figures rounded to the nearest 1% or £50m. Baseline calculated using revised methodology. Original target, to hold GB illicit market at no more than 2%, was based on previously published methodology and baseline. Implied target reflects new baseline following revision of oils tax gap methodology, resulting in a target to reduce the tax gap by 60% by 2005-06 and to hold it at no more than this level to one decimal point. Implied target is 4.4% and latest assessment is 3%.

<sup>3</sup> Although the point estimate of the VAT Gap for 2007-08 is 11.9%, against a target of 11%, it must be remembered that this is a broad measure, with a degree of uncertainty involved. HMRC believes the result to be close to or within the margins of error for the measure, so the shortfall is not thought to be significant. More details on uncertainty in the VAT Gap were published in 'Measuring Tax Gaps (MTG) 2009'.

*Target 2.1: By 2007-08, reduce the illicit market share for cigarettes to no more than 10%.*

We have continued to exert downward pressure on the illicit cigarette market to the extent that we have exceeded the target for reduction of the illicit market share for cigarettes. The estimate, for 2007-08, which was published at PBR and announced in the Pre-Budget Report itself, is 10%.

*Target 2.2: By 2007-08, reduce the illicit market share for spirits, by at least a half.*

The estimated illicit market share has been reduced in 2007-08. However, as anticipated in last year's Autumn Performance Report, the target has not been met. To help reduce the illicit market share further, at Budget 2009 we published the 'Renewal of the Tackling Alcohol Fraud Strategy'.

*Target 2.3: By 2007-08, hold the illicit market share for oils in England, Scotland and Wales at no more than 4.4% over the period.*

We have exceeded our target for 2007-08. This is a good result however, we cannot afford to be complacent as more recently economic conditions could have incentivised fraud.

# Statistical tables

**Table 1: Cost of collection**

(pence per £ collected)

	2005-06	2006-07	2007-08	2008-09
Income Tax	1.27 <sup>1</sup>	1.25 <sup>2</sup>	1.16 <sup>3</sup>	1.24 <sup>4</sup>
Corporation Tax	0.71	0.79	0.73	0.76 <sup>5</sup>
Petroleum Revenue Tax	0.13	0.12	0.10	0.11
Capital Gains Tax	0.92	0.85	0.85	0.56
Inheritance Tax	1.01	0.85	0.64	0.99
Stamp Taxes	0.20	0.13	0.12	0.21 <sup>6</sup>
National Insurance Contributions (NIC)	0.42	0.35	0.37	0.35
VAT	0.55	0.60	0.56	0.62
Insurance Premium Tax	0.14	0.26	0.35	0.09 <sup>7</sup>
Hydrocarbon oils	0.16	0.19	0.16	0.13
Alcohol	0.54	0.67	0.69	0.58
Tobacco	1.83	2.26	2.16	2.14
Gambling Taxes	0.29	0.34	0.23	0.29
Environmental Taxes	0.26	0.34	0.31	0.21
Air Passenger Duty	0.05	0.09	0.06	0.04
International Trade	6.07	5.88	6.15	6.61
Overall cost (pence per £ collected)	1.11	1.13	1.05	1.10 <sup>8</sup>
Tax credits (pence per £ paid)	2.78	3.42	2.89	2.46
<b>Child Benefit and Child Trust Fund</b>	<b>1.17<sup>9</sup></b>	<b>1.07</b>	<b>0.88<sup>10</sup></b>	<b>0.69<sup>11</sup></b>

<sup>1</sup> Includes the combined ratios for Income Tax PAYE and Income Tax SA – separately the ratios are IT PAYE 0.79 and IT SA 3.43 also: The 2005-06 IT SA and PAYE ratios have been restated to take account of a refinement in methodology from that used last year to produce these ratios.

<sup>2</sup> Includes the combined ratios for Income Tax PAYE and Income Tax SA – separately the ratios are IT PAYE 0.74 and IT SA 4.57.

<sup>3</sup> Includes the combined ratios for Income Tax PAYE and Income Tax SA – separately the ratios are IT PAYE 0.74 and IT SA 3.59.

<sup>4</sup> Includes the combined ratios for Income Tax PAYE and Income Tax SA - separately the ratios are IT PAYE 0.73 and IT SA 4.46. The increase in the cost of collection is due to our costs increasing whilst receipts were down by £2bn in the same period.

<sup>5</sup> Corporation Tax cost of collection increased by 0.02 pence per pound collected in 2008-09 compared to 2007-08 due to an increase in expenditure and a decrease in receipts.

<sup>6</sup> Stamp Duties cost of increased by 0.09 pence per pound collected in 2008-09 compared to 2007-08 due to a decrease in expenditure and a decrease in receipts.

<sup>7</sup> The reduction in the cost of collection is due to a reduction in the number of staff being deployed in this area of work which has resulted in a reduction in receipts.

<sup>8</sup> HMRC's overall cost of collection increased by 0.05 pence per pound collected in 2008-09 compared to 2007-08 due to an increase in expenditure and a decrease in receipts.

<sup>9</sup> The 2005-06 ratio was affected by the one off additional cost of processing the backlog of Child Trust Fund applications for children born between September 2002 and March 2005.

<sup>10</sup> Includes the combined ratios for Child Benefit and Child Trust Fund - separately the ratios are Child Benefit 0.87 and Child Trust Fund 1.33.

<sup>11</sup> Includes the combined ratios for Child Benefit and Child Trust Fund - separately the ratios are Child Benefit 0.66 and Child Trust Fund 2.47.

## Table (2a)-(2j): Tax gap estimates

The 'tax gap' is the difference between theoretical tax liabilities and actual tax receipts. Development of a rigorous analysis of the tax gap is an essential part of the compliance strategy for HMRC. This analysis is used to understand the compliance issues facing the Department and thus to develop strategic initiatives. This section contains HMRC's latest tax gap estimates for VAT, excise duties and some areas of direct taxes.

Such estimates are very difficult to produce and are necessarily subject to large margins of error, itself difficult to calculate, because many of the activities that underlie tax gaps are deliberately shrouded in secrecy. Therefore the estimates can never be precise but rather are indicators of potential levels and trends that can be used to assess what actions to take and the impact of existing strategies.

In general, two approaches can be employed to assess the scale of tax gaps:

**top-down method:** First an estimate of the total tax liability is constructed from data sources independent from the tax system. This is then compared with actual receipts;

**bottom-up method:** Estimates are produced directly from departmental data sources, such as surveys, the results of interventions and administrative systems.

In principle, the top-down approach is better as it is independent of both HMRC and taxpayers. It should also cover all elements of tax gaps.

However, the top-down approach requires suitable data to construct independent estimates of tax liabilities. This is not always possible.

In contrast, the bottom-up method is less comprehensive because a distinct part of tax gaps arises from activities that are deliberately concealed, and so are not always fully covered by HMRC data sources.

HMRC uses top-down methods to estimate the tax gap figures for VAT and excise duties and bottom-up methods for the direct tax figures presented here. As a result of the different approaches the figures for indirect and direct taxes and duties are not directly comparable. For direct taxes the estimates of under-declared liabilities come from the results of HMRC compliance activities, notably random enquiry programmes. Random enquiry programmes measure the extent to which returns are correctly completed. They will not reflect the full extent of non-compliance as the programmes will not identify all incorrect returns or necessarily the full scale of under-declaration. The direct taxes tables also include estimates of non-payment (in cases where a liability has been established) and compliance yield. In each of these tables the net total identified tax gap is calculated as under-declared liabilities due to incorrect returns plus non-payment less compliance yield. The total tax liabilities figures in these tables relate to those taxpayers covered by each table.

The tables relate to the latest available estimates. The direct tax figures are less timely because they

depend on the availability of results of random enquiries. It can take several years from the issue of a return before results are ready for most of the sample.

The figures presented here are subject to revisions as more data becomes available and methodologies are refined. On 9 December HMRC published for the first time a complete set of tax gap estimates and an estimate of the total tax gap. Details of these estimates, their limitations and the methodologies used can be found in *Measuring Tax Gaps – 2009* available from HMRC's internet site [www.hmrc.gov.uk](http://www.hmrc.gov.uk). In future these estimates will also be reported within the Annual Performance Report.

An overview of the government approach and HMRC's actions to close the tax gap can be found in 'Protecting Tax Revenues 2009', also available from HMRC's internet site [www.hmrc.gov.uk](http://www.hmrc.gov.uk).

## Indirect Taxes

### VAT

The results show a fall in the percentage gap between 2003-04 and 2004-05, but then a rise in 2005-06 with subsequent falls in 2006-07 and 2007-08. There is a rise in the gap of 3% between 2007-08 and 2008-09. The recent downturn in the economy has led to a significant increase in VAT debts, as insolvencies rise and businesses experience cash flow pressures. It is estimated that £1.7 billion of the £2.8 billion increase in the gap between 2007-08 and 2008-09 can be attributed to this increased debt.

# Statistical tables

## Excise duties

The cigarettes revenue gap has shown a downward trend since 2003-04. This is because consumption has fallen faster than receipts of excise duty. There has been no clear trend in the hand rolled tobacco (HRT) illicit market share.

The spirits revenue gap fell in 2004-05 and has fluctuated at around 6% since then, showing no obvious trend.

The Great Britain diesel revenue gap shows a downward trend throughout the period shown. This is because GB receipts of duty on diesel have risen faster than consumption. The size of the non-UK duty paid petrol market in GB is too small (less than 1%) to be estimated reliably and therefore not shown. The Northern Ireland non-UK duty paid market share for diesel and for petrol both show downward trends over the period.

## Direct Taxes

### Individuals Self Assessment

These estimates come from the Self Assessment (SA) Random Enquiry Programme for individuals who receive an SA return. In this context, 'individuals' means individuals who are self-employed, and partnerships (with up to four partners), as well as those who are employees or may only have investment income. The taxes included are Income Tax, Capital Gains Tax and Class 4 National Insurance Contributions.

Over the period 1999-00 to 2003-04, estimated identified tax gaps for SA taxpayers increased from 10% to 16% of liabilities

before declining slightly to 15% for 2004-05. The trend reflects a rise in the proportion of self-employed taxpayers found to have substantially understated their tax liability, as identified by the random enquiry programme. Furthermore, over the period 1999-00 to 2002-03 there was an increase in the share of overall SA liabilities relating to the self-employed which results in the rise in non-compliance among the self-employed having a greater effect on the proportion for the overall SA return population.

### Small and medium-sized employers

These estimates come from the Employer Compliance Random Enquiry Programme. They relate to Income Tax and National Insurance Contributions (NICs) collected through Pay As You Earn (PAYE) due on earnings and other income from employment. They will also include tax due on occupational pensions taxed through PAYE. The estimates are for 'small and medium-sized employers' which are those with up to 500 employees, except where the employer is part of a complex group.

The table shows that the identified tax gap for Income Tax and NICs for small and medium-sized employers was an estimated 0.8% of liabilities in 2003-04, declining slightly to 0.7% in 2004-05.

### Small and medium-sized companies

These come from the Corporation Tax Self Assessment Random Enquiry Programme. This programme covers 'small and medium-sized companies', which in

this context means those companies not dealt with by HMRC's Large Business Service (LBS) and also excludes the 10,000 or so largest and most complex companies dealt with outside the LBS.

The identified tax gap for small and medium-sized companies as a proportion of the total relevant tax liabilities varied between 15% and 18% between 2001 and 2003. The equivalent figure for 2004 is lower at 9%. However due to a substantial margin of sampling error in these figures it is not possible to determine with certainty whether or not this reduction represents a fall in the underlying level of under-declaration of liabilities. Allowing for confidence intervals around the estimates suggests that the trend is broadly stable.

Table 2

Table (2a): Net VAT theoretical tax liability (VTTL), VAT receipts and revenue gap

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Net VTTL (£bn)	75.5	78.7	82.5	86.2	89.5	93.5	94.2
Net VAT receipts (£bn) <sup>1</sup>	63.7	69.1	72.8	73.0	77.6	81.9	79.8
Revenue gap (£bn)	11.9	9.5	9.8	13.3	11.9	11.5	14.4
<b>VAT gap (%)<sup>2</sup></b>	<b>15.7%</b>	<b>12.1%</b>	<b>11.8%</b>	<b>15.4%</b>	<b>13.3%</b>	<b>12.3%</b>	<b>15.3%</b>

<sup>1</sup> Net VAT receipts are expressed net of payments and repayments.

<sup>2</sup> A proportion of the VTTL estimate for the final year is based on a forecast.

Table (2b): Cigarettes: Illicit market share and associated revenue gap

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
<b>Illicit market share</b>						
Upper estimate	19%	21%	19%	19%	18%	15%
Lower estimate	13%	15%	11%	10%	10%	4%
Mid-point of range <sup>1</sup>	16%	18%	15%	15%	14%	10%
<b>Associated revenue gap (£m)<sup>2</sup></b>						
Upper estimate	2,500	3,000	2,600	2,500	2,300	1,900
Lower estimate	1,600	1,900	1,400	1,200	1,100	500

<sup>1</sup> The mid-point of the range is used for the purposes of monitoring progress against PSA 2.2. However the true value is equally likely to lie at any point within the range.

<sup>2</sup> Includes duty and VAT.

Figures are independently rounded to the nearest £10 million or 1%.

Table (2c): Hand Rolled Tobacco: Illicit market share and associated revenue gap

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
<b>Illicit market share</b>						
Upper estimate	62%	60%	64%	63%	59%	52%
Lower estimate	48%	45%	54%	52%	47%	41%
Mid-point of range <sup>1</sup>	55%	53%	59%	57%	53%	47%
<b>Associated revenue gap (£m)<sup>2</sup></b>						
Upper estimate	890	840	980	940	900	750
Lower estimate	560	520	700	650	610	500

<sup>1</sup> The mid-point of the range is used for the purposes of monitoring progress against PSA 2.2. However the true value is equally likely to lie at any point within the range.

<sup>2</sup> Includes duty and VAT.

Figures are independently rounded to the nearest £10m or 1%.

# Statistical tables

Table (2d): Spirits: Illicit market share and associated revenue gap

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
<b>Illicit market share</b>						
Upper range estimate	14%	15%	7%	10%	12%	9%
Lower range estimate	-	-	-	-	-	-
Mid-point of range <sup>1</sup>	7%	8%	4%	5%	6%	5%
<b>Associated revenue gap (£m)<sup>2</sup></b>						
Upper estimate	500	600	250	400	450	350
Lower estimate	-	-	-	-	-	-

- Indicates estimates of negligible levels of fraud.

<sup>1</sup> The mid-point of the range is used for the purposes of monitoring progress against PSA 2.2. However the true value is equally likely to lie at any point within the range.

<sup>2</sup> Includes duty and VAT although this will overstate the revenue gap to the extent that VAT is collected on sales of illicit alcohol through normal retail outlets.

Figures are independently rounded to the nearest £50m or 1%.

Table (2e): GB Diesel: Illicit market share and associated revenue gap<sup>1</sup>

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08 <sup>2</sup>
<b>Illicit market share</b>						
Upper confidence interval	15%	15%	13%	11%	10%	8%
Central estimate	10%	9%	8%	6%	5%	3%
Lower confidence interval	4%	4%	2%	0%	0%	0%
<b>Associated revenue gap (£m)<sup>3</sup></b>						
Upper confidence interval	1,950	2,000	1,950	1,750	1,600	1,450
Central estimate	1,250	1,250	1,100	900	750	600
Lower confidence interval	550	500	250	50	0	0

<sup>1</sup> The confidence intervals shown are 95% statistical confidence intervals. They do not take account of systematic errors that might cause the estimates to be consistently too high or too low.

<sup>2</sup> Figures for 2007-08 are provisional, as not all components of the total consumption estimate are available at this time.

<sup>3</sup> Estimates include duty and VAT.

Figures are independently rounded to the nearest £50m or 1%.

Table (2f): NI Diesel: Non-UK Duty Paid market share and associated revenue gap<sup>1</sup>

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08 <sup>2</sup>
<b>Non-UK Duty Paid market share</b>						
Upper confidence interval	56%	55%	47%	45%	44%	38%
Central estimate	53%	50%	41%	41%	40%	34%
Lower confidence interval	46%	45%	37%	36%	36%	31%
<b>Associated revenue gap (£m)<sup>3</sup></b>						
Upper confidence interval	220	230	200	220	220	210
Central estimate	200	210	180	200	200	190
Lower confidence interval	180	190	160	180	180	170

<sup>1</sup> The confidence intervals shown are 95% statistical confidence intervals. They do not take account of systematic errors that might cause the estimates to be consistently too high or too low.

<sup>2</sup> Figures for 2007-08 are provisional, as not all components of the total consumption estimate are available at this time.

<sup>3</sup> Estimates include duty and VAT.

Figures are independently rounded to the nearest £10m or 1%.

Table (2g): NI Petrol: Non-UK Duty Paid market share and associated revenue gap<sup>1</sup>

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08 <sup>2</sup>
<b>Non-UK Duty Paid market share</b>						
Upper confidence interval	22%	22%	20%	24%	24%	23%
Central estimate	18%	18%	14%	14%	14%	15%
Lower confidence interval	11%	11%	9%	6%	6%	6%
<b>Associated revenue gap (£m)<sup>3</sup></b>						
Upper confidence interval	80	80	70	80	80	80
Central estimate	60	60	50	50	50	50
Lower confidence interval	40	40	30	20	20	20

<sup>1</sup> The confidence intervals shown are 95% statistical confidence intervals. They do not take account of systematic errors that might cause the estimates to be consistently too high or too low.

<sup>2</sup> Figures for 2006-07 are provisional, as not all components of the total consumption estimate are available at this time.

<sup>3</sup> Estimates include duty and VAT.

Figures are independently rounded to the nearest £10m or 1%.

# Statistical tables

Table (2h): Identified tax gap for individuals in Self Assessment (£bn)<sup>1</sup>

	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05
Under-declared liabilities due to incorrect returns	2.3	2.7	3.0	3.6	3.9	3.8
Compliance yield <sup>2</sup>	0.4	0.4	0.4	0.4	0.4	0.4
Non-payment <sup>3</sup>	0.1	0.1	0.1	0.1	0.1	0.1
<b>Net total identified tax gap</b>	<b>2.0</b>	<b>2.4</b>	<b>2.7</b>	<b>3.3</b>	<b>3.6</b>	<b>3.5</b>
<b>Total tax liabilities</b>	<b>19.3</b>	<b>19.8</b>	<b>19.3</b>	<b>20.7</b>	<b>22.3</b>	<b>23.2</b>
<b>Proportion of liabilities (%)</b>	<b>10%</b>	<b>12%</b>	<b>14%</b>	<b>16%</b>	<b>16%</b>	<b>15%</b>

<sup>1</sup> Figures rounded to the nearest £0.1bn. As a result, components may not appear to sum.

<sup>2</sup> By period of settlement of enquiry.

<sup>3</sup> Estimates of write-offs and remissions of tax for periods of approximately a year ending in October each year, converted to financial year figures.

Table (2i): Identified tax gap for small and medium-sized employers (£bn)<sup>1</sup>

	2003-04	2004-05	2005-06	2006-07
Under-declared liabilities due to incorrect returns	0.6	0.7	0.7	0.7
Compliance yield <sup>2</sup>	0.2	0.3	0.3	0.4
Non-payment <sup>3</sup>	0.2	0.3	0.3	0.3
<b>Net total identified tax gap</b>	<b>0.6</b>	<b>0.7</b>	<b>0.7</b>	<b>0.6</b>
<b>Total tax liabilities</b>	<b>68.2</b>	<b>78.8</b>	<b>76.7</b>	<b>82.1</b>
<b>Proportion of liabilities (%)</b>	<b>0.8%</b>	<b>0.9%</b>	<b>0.9%</b>	<b>0.7%</b>

<sup>1</sup> Figures rounded to the nearest £0.1bn. As a result, components may not appear to sum.

<sup>2</sup> By period of settlement of enquiry.

<sup>3</sup> Estimates of write-offs and remissions of tax for periods of approximately a year ending in October each year, converted to tax year figures.

Table (2j): Identified tax gap for small and medium-sized companies (£bn)<sup>1</sup>

	2001	2002	2003	2004	2005
Under-declared liabilities due to incorrect returns	2.2	2.6	2.3	1.6	4
Compliance yield <sup>2</sup>	0.4	0.4	0.4	0.4	4
Non-payment <sup>3</sup>	0.0	0.0	0.1	0.1	4
<b>Net total identified tax gap</b>	<b>1.8</b>	<b>2.2</b>	<b>2.0</b>	<b>1.3</b>	<b>4</b>
<b>Total tax liabilities</b>	<b>11.9</b>	<b>12.8</b>	<b>13.1</b>	<b>14.1</b>	<b>4</b>
<b>Proportion of liabilities (%)</b>	<b>15%</b>	<b>18%</b>	<b>15%</b>	<b>9%</b>	<b>4</b>

<sup>1</sup> Figures rounded to the nearest £0.1bn. As a result, components may not appear to sum.

<sup>2</sup> By period of settlement of enquiry. Financial year figures.

<sup>3</sup> Estimates of write-offs and remissions of tax for periods of approximately a year ending in October each year, converted to calendar year figures.

<sup>4</sup> Figures not yet available.

Table 3: Yield: staff cost ratio

	2005-06	2006-07	2007-08	2008-09
Local Compliance <sup>1</sup>	-	7:1	8:1	10:1
Large Business Service	48:1	44:1	60:1	62:1
Specialist Investigations <sup>2</sup>	-	-	-	23:1
Business International <sup>3</sup>	128:1	179:1	218:1	181:1
Excise, Customs, Stamps and Money	13:1	19:1	6:1	7:1
Charity Assets and Residency <sup>4</sup>	-	24:1	36:1	39:1 <sup>5</sup>

<sup>1</sup> Yield includes all Direct Taxes, VAT, Excise and International Trade. Costs consist of all staff related costs (ie salary, superannuation and ERNIC) for all staff in the directorate.

<sup>2</sup> The formation of HMRC means it is not possible to obtain costs for some directorates for 2005-06 that are comparable with later years.

<sup>3</sup> Business International staff cost is calculated using all staff related costs for those staff working directly on interventions.

<sup>4</sup> Charity Assets and Residency business includes Trusts, Charities, Inheritance Tax, Savings and Pension and Residency Issues. Yield: Cost ratios were not reported in 2005-06.

<sup>5</sup> Due to transfer of CPTT work from SI to CAR mid-year, 2008-09 Yield cost does NOT include this work.

# Statistical tables

**Table 4: Tackling non-compliance**

Results of work tackling non-compliance (£m)

Summary of additional liability <sup>1</sup>		2005-06	2006-07	2007-08	2008-09
Local Compliance	Corporation Tax enquiries	757.6	833.7	771.2	792.5
	Self Assessment Business enquiries	308.0	415.3	384.8	359.3
	Self Assessment Non Business enquiries <sup>2</sup>	268.1	667.4	220.3	238.4
	VAT Interventions	1,280.1	1,296.4	1,845.1	2401.2 <sup>3</sup>
	Excise Interventions	58.2	87.8	85.8	58.9
	Employer Compliance	367.7	401.7	324.7	311.3
	Construction Industry Reviews	0.0	56.0	57.2	65.6
	International Trade Interventions	120.9	90.7	141.7	142.6
	Capital Gains Tax enquiries <sup>4</sup>	0.0	0.0	59.7	57.3
	Hidden economy	49.9	52.3	76.1	106.5
	Broader coverage	103.9	584.4	332.5	493.8
	TEEL <sup>5</sup>	-	-	-	32.0
Large Business Service	Corporation Tax enquiries	2,196.0	2,728.0	3,916.0	3,712.1
	VAT Interventions	1,142.0	828.0	770.0	837.3
	Employer Compliance	62.2	104.9	110.5	83.7
	Petroleum Revenue Tax	23.7	6.0	35.0	189.3
	Excise Interventions	42.9	92.0	47.8	33.2
	International Trade Interventions	87.9	156.0	46.9	32.0
	Environmental Interventions	25.8	17.7	37.6	15.9
Specialist Investigations <sup>6</sup>	Civil Interventions	-	-	1,166.40	1,041.4
	SI Excise Yield <sup>7</sup>				243.6
Business International <sup>8</sup>	Corporation Tax Interventions	64.7	91.3	152.1	115.2
Excise, Customs, Stamps and Money	Stamps Tax	6.3	10.9	4.6	25.0 <sup>9</sup>
Charity Assets and Residency	Income Tax and Inheritance Tax	385.2	253.7	356.1	314.0
	CPTT <sup>10</sup>			306.5	373.0

<sup>1</sup> Direct Taxes include interest and penalties.

<sup>2</sup> SA Non-business in 2006-07 included large and exceptional yield resulting from decisions reached in High Court cases.

<sup>3</sup> LC VAT for 2008-09 includes assessments issued to unregistrable entities and a notional £40 for each new business contact. These were not included in previous years.

<sup>4</sup> Capital Gains Tax enquiry yield separately identified from 2007-08. In previous years it was included within SA non-business.

<sup>5</sup> TEEL (Targeted Education, Enabling and Leverage) not separately reported until 2008-09. Includes Direct and Indirect Taxes.

<sup>6</sup> Figures for SI before 2007-08 are not available on a comparable basis as a result of a number of re-organisations and changes in the reporting of yield claimed in other parts of the Department.

<sup>7</sup> New team established in 2008-09.

<sup>8</sup> The team responsible for this yield transferred from CT and VAT into Business International in April 2009.

<sup>9</sup> Includes all Stamp Taxes, (i.e. SD Land Tax, SD Reserve Tax and SD) Historic figures only show SDLT as no figures available for the other two.

<sup>10</sup> Historic Complex Personal Tax Team (CPTT) yield included in the Local Compliance figures.

**Table 5: Excise fraud**

**Tobacco**

<b>Revenue loss</b>	<b>2002-03</b>	<b>2003-04</b>	<b>2004-05</b>	<b>2005-06</b>	<b>2006-07</b>	<b>2007-08</b>	<b>2008-09</b>
Total fraud and smuggling	2.2-3.4bn	2.4-3.8bn	2.1-3.6bn	1.8-3.5bn	1.7-3.1bn	1.0-2.7bn	See footnote 1
Fraud and smuggling - Hand Rolling Tobacco (HRT)	0.6-0.9bn	0.5-0.8bn	0.7-1.0bn	0.6-0.9bn	0.6-0.9bn	0.5-0.8bn	See footnote 1
Fraud and smuggling - cigarettes	1.6-2.5bn	1.9-3.0bn	£1.4-2.6bn	1.2-2.5bn	1.1-2.3bn	0.5-1.9bn	See footnote 1
Cigarette illicit market share	13%-19%	15%-21%	11%-19%	10%-19%	10%-18%	4%-15%	See footnote 1
Total legal cross-border shopping of which:	1.4-1.5bn	1.5bn	1.1-1.2bn	1.1-1.2bn	1.0-1.1bn	1.0-1.1bn	See footnote 1
HRT	0.2-0.3bn	0.2bn	0.1-0.2bn	0.1-0.2bn	0.1-0.2bn	0.1-0.2bn	See footnote 1
Cigarettes	1.2bn	1.3bn	1.0bn	1.0bn	0.9bn	0.9bn	See footnote 1
<b>Cigarettes</b>							
Total consumed of which:	70.5-75.0bn	71.5-77.0bn	65.5-72.0bn	61.0-67.5bn	58.5-64.0bn	53.0-60.0bn	See footnote 1
UK duty paid	54.5bn	54.0bn	52.5bn	49.5bn	48.0bn	46.5bn	See footnote 1
Legally shopped	6.5bn	7.0bn	5.5bn	5.0bn	4.5bn	4.5bn	See footnote 1
Cigarettes successfully smuggled	9.0-14.0bn	10.5-16.0bn	7.0-13.5bn	6.0-13.0bn	5.5-11.0bn	2.0-9.5bn	See footnote 1
Total seized of which:	1.9bn	1.8bn	2.0bn	2.0bn	1.9bn	1.8bn	1.8bn
Overseas seizures	641m	728m	1,008m	837m	580m	726m	855m
Air seizures	263m	207m	243m	343m	367m	478m	244m
Inland seizures	186m	201m	130m	177m	256m	98m	180m
Maritime seizures	787m	621m	588m	673m	686m	491m	557m
Cross channel passenger seizures	21m	22m	22m	18m	17m	15m	11m
Number of cross channel seizures	5,506	5,632	5,217	4,377	4,236	3,676	2,836
HRT illicit market share	48%-62%	45%-60%	54%-64%	52%-63%	47%-59%	41%-52%	See footnote 1
HRT seized	258 tonnes	185 tonnes	166 tonnes	160 tonnes	228 tonnes	194 tonnes	258 tonnes

(continued)

# Statistical tables

## Tobacco (continued)

Other outputs/results	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Tobacco gangs disrupted	87	69	68	46	26	NA	NA
Number of people sentenced	331	429	204	262	299	290	191 <sup>3</sup>
Average sentence	17 months	14 months	23 months	17 months	27 months	18 months	21 months
Benefits determined by the court	146.61m	181.25m	24.2m	21.4m	18.8m	NA	NA
Confiscation orders	2.3m	9.45m	5.2m	6.1m	3.18m	6.78m <sup>4</sup>	2.4m <sup>5</sup>
Vehicles seized	8,616	6,848	6,093	6,256	6,293	5,697	5,618

## Scanner Detections

Cigarettes	399.5m	394m	295m	295m	311.9m	243.9m	261.4m
HRT	30.8 tonnes	18.2 tonnes	18.6 tonnes	10.9 tonnes	15.9 tonnes	7.9 tonnes	19.7 tonnes
Cannabis	14.9 tonnes	10 tonnes	22.3 tonnes	7.2 tonnes	8.5 tonnes	7.4 tonnes	10.2 tonnes
Heroin	413.5kg	408kg	163.5kg	0	41kg	60kg	100kg
Cocaine	579kg	122kg	28kg	15kg	83.8kg	114kg	48kg
Ecstasy/amphetamines	0kg	1,170kg	371kg	709kg	0kg	427kg	893kg
Clandestines	1,193	494	361	210	94	123	210

## Alcohol

Revenue not collected	2002-03 £0m-£1000m	2003-04 £0m-£1050m	2004-05 £0m-£650m	2005-06 £0m-£750m	2006-07 £0m-£750m	2007-08 £0m-£650m	2008-09 See footnote 1
Total spirits fraud/ smuggling	£0m-£500m	£0m-£600m	£0m-£250m	£0m-£400m	£0m-£450m	£0m-£350m	See footnote 1
Spirits cross-border shopping	£150m	£150m	£150m	£150m	£100m	£100m	See footnote 1
Beer cross-border shopping	£50m	£50m	<£50m	<£50m	<£50m	<£50m	See footnote 1
Wine cross-border shopping	£300m	£250m	£250m	£200m	£150m	£150m	See footnote 1
<b>Illicit market share</b>							
Spirits	0%-14%	0%-15%	0%-7%	0%-10%	0%-12%	0%-9%	See footnote 1
Gangs disrupted	2	24	4	2	0	N/A	N/A
<b>Seizures</b>							
Spirits (litres)	922,423	407,858	303,252	237,904	384,078	557,909	368,354
Beer (litres)	2,952,528	2,773,385	2,179,932	2,522,253	1,915,173	4,763,006	5,780,117
Wine (litres)	653,657	1,134,567	629,034	292,945	303,048	1,128,117	1,304,518
<b>Criminal prosecutions<sup>2</sup></b>							
Spirits - number of people prosecuted	9	24	7	9	5	see below	
Number of convictions	7	21	0	9	5		
Mixed cases - number of people prosecuted	99	62	1	0	0		
Number of convictions	91	34	0	0	0		
<b>Alcohol - number of people prosecuted</b>						<b>14</b>	<b>19</b>
<b>Number of convictions</b>						<b>8</b>	<b>14</b>

# Statistical tables

## Oils

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
<b>Revenue Loss-GB</b>							
Total diesel (non-UK duty paid)	£1600m	£1600m	£1450m	£1250m	£1150m	£1050m	See footnote 1
Illicit diesel (fraud and smuggling)	£1250m	£1250m	£1100m	£900m	£750m	£600m	See footnote 1
Cross border shopping diesel	£350m	£350m	£350m	£400m	£400m	£450m	See footnote 1
Total petrol (non-UK duty paid)	£550m	£200m	£100m	-	£150m	-	See footnote 1
<b>Revenue Loss-NI</b>							
Total	£270m	£270m	£230m	£240m	£250m	£240m	See footnote 1
Total diesel (non-UK duty paid)	£200m	£210m	£180m	£200m	£200m	£190m	See footnote 1
Total diesel (non-UK duty paid)	£60m	£60m	£50m	£40m	£50m	£50m	See footnote 1
<b>Market Share - GB</b>							
Diesel (non-UK duty paid)	10%	9%	7%	6%	5%	3%	See footnote 1
Petrol (non-UK duty paid)	3%	1%	1%	-	1%	-	See footnote 1
<b>Market Share - NI</b>							
Diesel (non-UK duty paid)	53%	50%	41%	41%	40%	34%	See footnote 1
Petrol (non-UK duty paid)	18%	18%	13%	13%	14%	15%	See footnote 1

## Oils

Total oils seized	4.03m litres	2.48m litres	2.50m litres	1.51m litres	1.17m litres	1.35m litres	1.57m litres
Volume seized - GB	2.44m litres	0.96m litres	0.72m litres	0.43m litres	0.33m litres	0.53m litres	0.48m litres
Volume seized - NI	1.59m litres	1.52m litres	1.78m litres	1.08m litres	0.84m litres	0.82m litres	1.09m litres

Laundering plants	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Total disrupted	46	31	26	37	34	13	6
GB	25	18	8	21	16	5	1
NI	21	13	18	16	18	8	5

#### Mixing plants

Total disrupted	7	4	See footnote 1	See footnote 1	See footnote 1	See footnote 1	See footnote 1
GB	4	1	See footnote 1	See footnote 1	See footnote 1	See footnote 1	See footnote 1
NI	3	3	See footnote 1	See footnote 1	See footnote 1	See footnote 1	See footnote 1

#### Challenges

Total	29,302	84,700	108,773	119,733	112,391	108,992	98,419
Commercial	See footnote 1	60,022	80,137	80,564	80,220	95,948	90,672
Non-commercial	See footnote 1	24,678	28,636	39,169	32,171	13,044	7,747

#### Detections

Total	3,960	3,753	3,760	3,747	4,143	4,141	3,934
Commercial	1,801	2,043	2,228	2,002	2,231	3,154	3,110
Non-commercial	2,159	1,710	1,532	1,745	1,912	987	824

#### Assessments

Fraud detected and identified	£13.2m	£11.5m	£7.0m	£3.1m	£2.5m	£3.6m	£2.7m
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#### Prosecution figures GB

Number of convictions	8	17	12	17	13	4	3
Average sentence	14 months	14 months	15 months	16 months	28 months	48 months	40 months
Confiscation orders	£374,000	£167,387	£125,350	£272,311	£1.48m	£0	£810,000

#### Prosecution figures NI

Number of convictions	3	4	nil	4	4	3	2
Average sentence	8 months	7 months	nil	2 months	6 months	6 months	nil <sup>6</sup>
Confiscation orders	£250,000	nil	nil	nil	-	nil	nil
Vehicles seized in NI	1,576	901	812	956	1,199	844	482

#### Additional notes

<sup>1</sup> Figures not yet available as they are based on survey results which do not become available until 18 months after reporting period has finished.

<sup>2</sup> Measure suggested by Criminal Investigation as unable to split data between spirits and other alcohol.

<sup>3</sup> Figures provided by Revenue and Customs Prosecution Office (RCPO).

<sup>4</sup> Value of confiscation orders reported to Asset Forfeiture Division (35 orders).

<sup>5</sup> 97 orders.

<sup>6</sup> There was one suspended sentence of 30 months.

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