National Audit Office

An Overview of

HM Revenue & Customs

for the new Parliament 2023-24

November 2024

OVERVIEW

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1 Introduction to the National Audit Office

Welcome to our Overview of HM Revenue & Customs (HMRC), part of our series of Overviews for the New Parliament, covering government departments and cross-cutting issues.

The National Audit Office (NAO) is the UK's independent public spending watchdog and is responsible for scrutinising public spending for Parliament. We audit the financial accounts of all departments, executive agencies, arm's-length bodies, some companies and charities, and other public bodies. We also examine and report on the value for money of how public money has been spent.

The NAO is independent of government and the civil service. The NAO's wide remit and unique access rights enables us to investigate whether taxpayers' money is being spent in line with Parliament's intention and to respond to concerns where value for money may be at risk.

We support all Members of Parliament to hold government to account and we use our insights to help those who manage and govern public bodies to improve public services. In 2023, the NAO's work led to a positive financial impact through reduced costs, improved service delivery, or other benefits to citizens, of £1.59 billion.

We are funded by, and accountable to, Parliament. As an Officer of the House of Commons, I am committed to ensuring that we support you and your staff in your work as a Member of Parliament, and your scrutiny of public spending and performance.

Our dedicated Parliamentary team can offer you support and put you in touch with our experts on subjects of interest to you and your constituents. If you would like more information about our work, or to arrange a briefing with me or one of my teams, please contact our Parliamentary Relations team at parliament@nao.org.uk.

Gareth Davies

**COMPTROLLER & AUDITOR GENERAL
NATIONAL AUDIT OFFICE**

Gareth Davies was appointed Comptroller & Auditor General (C&AG) in June 2019. He was appointed by the Monarch, following the approval of the House of Commons.

The C&AG has statutory authority to examine and to report directly to Parliament on whether government departments and other public sector bodies have spent taxpayers' money in the way Parliament intended. The C&AG and his staff are totally independent of government.

Gareth is a Fellow of the Chartered Institute of Public Finance and Accountancy and a Fellow of the Institute of Chartered Accountants in England and Wales. He is a non-executive Board member of the INTOSAI Development Initiative (IDI), which supports Supreme Audit Institutions (SAIs) in developing countries to sustainably enhance their performance and capacity.

2 How the NAO can help you as a Member of Parliament

How we support Parliament

We produce reports:

- on the annual accounts of government departments and their agencies;
- on the economy, efficiency and effectiveness with which government has spent public money; and
- to establish the facts where there are concerns about public spending issues.

We do not question government policy objectives. We look at how government has spent money delivering those policies and if that money has been used in the best way to achieve the intended outcome.

What we can offer

Through our website or our Parliamentary Relations team, MPs, peers and staff can:

- request a personal briefing on areas of our work that are of interest to them;
- sign up to receive embargoed copies of our reports on subjects of interest;
- make general queries about public spending, or raise concerns with us about value for money; and
- request advice on understanding and scrutinising departments' annual reports and accounts.

Resources available on our website

- **Reports:** Reviews of public spending and how well government is delivering.
- **Insights:** Learning and best practice to help people across government and the wider public sector.
- **Overviews:** Factual overviews of government departments, sectors and services.
- **Work in progress:** Our schedule of future publications.
- **Briefings:** Background information and factual analysis to support Select Committees.

Keep up to date with our work

- Sign up to our latest report updates
- Follow us on X or LinkedIn

How to get in touch

- Via our Parliamentary email inbox: parliament@nao.org.uk.

Auditing the accounts of all government departments and public organisations, helping assure money is being spent the way Parliament intended

Reporting to Parliament on the value for money of how public money has been spent and what has been achieved

Sending you embargoed copies of our reports before they are available to the public

Providing briefings to you or a member of your team on our work

Providing advice and training on examining government departments' annual reports and accounts

Giving evidence to Select Committees

Our fortnightly newsletter with our latest reports and new work

You can write to us with any queries or concerns about the misuse of public money or behaviour in public bodies we audit

3 About this Overview

This report has been produced to provide an introduction to HM Revenue & Customs (HMRC) and the NAO's examination of its spending and performance. HMRC is the UK's tax and customs authority. It collects the money that pays for the UK's public services and manages some benefit payments, such as tax credits and child benefit.

This report is intended to support the Treasury Committee, committees working with the Department for Business and Trade and the Department for Work and Pensions, and Members across the House in their examination of HMRC.

It summarises the key relevant information and insights that can be gained from our examinations of HMRC and HMRC's annual report and accounts. In 2023-24, HMRC spent **£7.2 billion** to collect the tax revenue used to pay for the UK's public services and provide financial support to people through benefits and credits.

The report includes:

- the role and remit of the department;
- how the department is structured;
- where the department spends its money;
- key spending commitments and major programmes/developments;
- the department's key areas of work;
- key challenges facing the department this Parliament; and
- where to find more information about the department.

This report updates our previous report, *HM Revenue & Customs Departmental Overview*, published in 2019.

How we have prepared this report

This Departmental Overview primarily draws on publicly available sources, supplemented by information and findings from our reports where appropriate. It provides a factual overview for readers interested in understanding more about how HMRC collects and spends taxpayers' money.

We have cited these sources throughout the guide to enable readers to seek further information if required. Where analysis has been taken directly from our value-for-money or other reports, details of our audit approach can be found in the Appendix of each report, including any evaluative criteria and the evidence base used.

Other relevant publications

More information about our work on HMRC, as well as information about our other recent and upcoming reports can be found on the NAO website.

4 HM Revenue & Customs

This section provides a summary of HM Revenue & Customs' areas of responsibility, priorities and achievements based on analysis of its most recent Annual Report for 2023-24. In autumn 2024, the government announced that its three strategic priorities for HMRC would be closing the tax gap, modernising and reforming, and improving customer service.

Priority outcome		Activities in 2023-24
1	**Collect the right tax and pay out the right financial support**	• Record tax revenues of £843.4 billion in 2023-24. The increase in revenues is in part due to the freezing of the income tax thresholds which, when combined with inflation, can increase an individual's tax burden as a proportion of their real terms pay. • Tax debt was £43 billion at 31 March 2024, lower than the £68.5 billion peak during the pandemic but still significantly higher than the pre-pandemic balance. Out of HMRC's total receivables balance of £60.8 billion, it estimates £27.6 billion (45%) may be irrecoverable. • Protected £41.8 billion in tax by tackling avoidance, error and evasion, including nearly £13.7 billion through promoting compliance and preventing non-compliance. • 6.9 million families supported through Child Benefit, and 600,000 families supported through tax credits.
2	**Make it easy to get tax right and hard to bend or break the rules**	• 83.1% of customers satisfied or very satisfied with online services. • Average call wait times of 23 minutes, up from 16 minutes in 2022-23. • 70% of small businesses and 52% of individuals found dealing with HMRC on tax issues easy or very easy. • 58% of small businesses and 51% of individuals found getting information from HMRC on tax issues easy or very easy. • HMRC app gained 1.9 million new users in 2023-24.
3	**Maintain taxpayers' consent through fair treatment and protect society from harm**	• £7.6 million minimum wage pay arrears identified and 52,000 workers protected from being underpaid. • 430 new criminal cases and more than 10,200 civil investigations into suspected fraud. • 3,629 anti-money laundering interventions.
4	**Make HMRC a great place to work**	• 83% of HMRC employees feel that they are treated fairly at work, with an 8% turnover rate (including departmental transfers). • 12 regional centres now open, intended to promote innovation and collaboration.
5	**Support wider government economic aims through a resilient, agile tax administration system**	• 1.5 billion suspicious or malicious events blocked by HMRC's cyber security team every month. • By the end of 2023-24, HMRC had migrated 372 out of 545 critical services to cloud hosting to increase security and stability. • 100% of import declarations are now made through HMRC's new customs declaration service.

Source: HM Revenue & Customs, *Annual Report and Accounts 2023-24*

HM Treasury oversees tax and customs policy to deliver ministerial objectives and works with HM Revenue & Customs in a policy partnership covering the tax and customs system as a whole. It also sets HMRC's budget and objectives and, through the Exchequer Secretary, oversees HMRC.

The design and administration of the tax system

Responsibility for the tax system

Ministers

Ministers' decisions determine the overall architecture and operation of the tax system.

Proposes changes to individual taxes and the tax system →

Parliament

Parliament debates Budget and scrutinises the Finance Bill and can make changes before it is passed.

Treasury Select Committee and Lords Economic Affairs Committee scrutinise the Budget and Finance Bill.

Committee of Public Accounts scrutinises HM Revenue & Customs' and HM Treasury's use of resources (for example, their staff).

Provides advice to ministers on strategic tax policy and policy development ↑

HM Treasury

Overseas tax with aim of delivering ministerial and departmental objectives for the tax system.

As part of this, leads on the design of the tax system and monitors the value of money of the system.

← 'Policy partnership' for the tax system →

HM Revenue & Customs (HMRC)

Provides technical advice on the design of the tax system.

Leads on policy implementation.

Evaluates how effectively the tax system is working.

Run by HMRC ExCo.

HMRC's tax administration

HMRC Board

Advisory board comprised of non-executive directors and headed by HMRC. The board is advisory and does not have a role in operational decision-making, tax policy or individual taxpayer matters. Since 2024, the Exchequer Secretary to the Treasury has chaired the HMRC board.

Provides challenge and advice to HMRC ExCo →

Executive Committee (ExCo)

Run by the Permanent Secretary.

Borders and Trade

Supports UK international trade and the collection of taxes and duties on imports, working closely with the Home Office and Border Force.

Customer Service Group

Supports customers to pay the right tax and get the right benefits. Helps those who have built up debt to pay what they owe. In charge of HMRC's customer contact operations.

Customer Compliance Group

Ensures the right tax is paid and intervenes where there is a risk of that not happening. Responsible for tax related enforcement activities.

Customer Strategy and Tax Design

Develops and delivers policy reforms to the UK tax system, including on simplification and customer experience, to support government priorities. Works closely with HM Treasury through the policy partnership.

Key:

Entity

Action

→ Direction of relationship

Note

1 Core customer groups shown. Other groups (for example, the Change Delivery Group) support organisational change and other functions.

Source: National Audit Office analysis of HMRC data

6 Where HMRC spends its money

HMRC's running costs: In 2023-24, HMRC employed 65,853 members of staff at a cost of £3,551 million. Staff numbers decreased by 2.6% (from 67,621 in 2022-23) while total staff costs increased by 5.8% (from £3,356 million). The remainder of spending is driven by IT and telecoms systems, including modernisation work.

The 2024 autumn Budget included a 4.5% real-terms increase in HMRC's Departmental Expenditure Limit for 2025-26, increasing its planned funding to £6.7 billion.

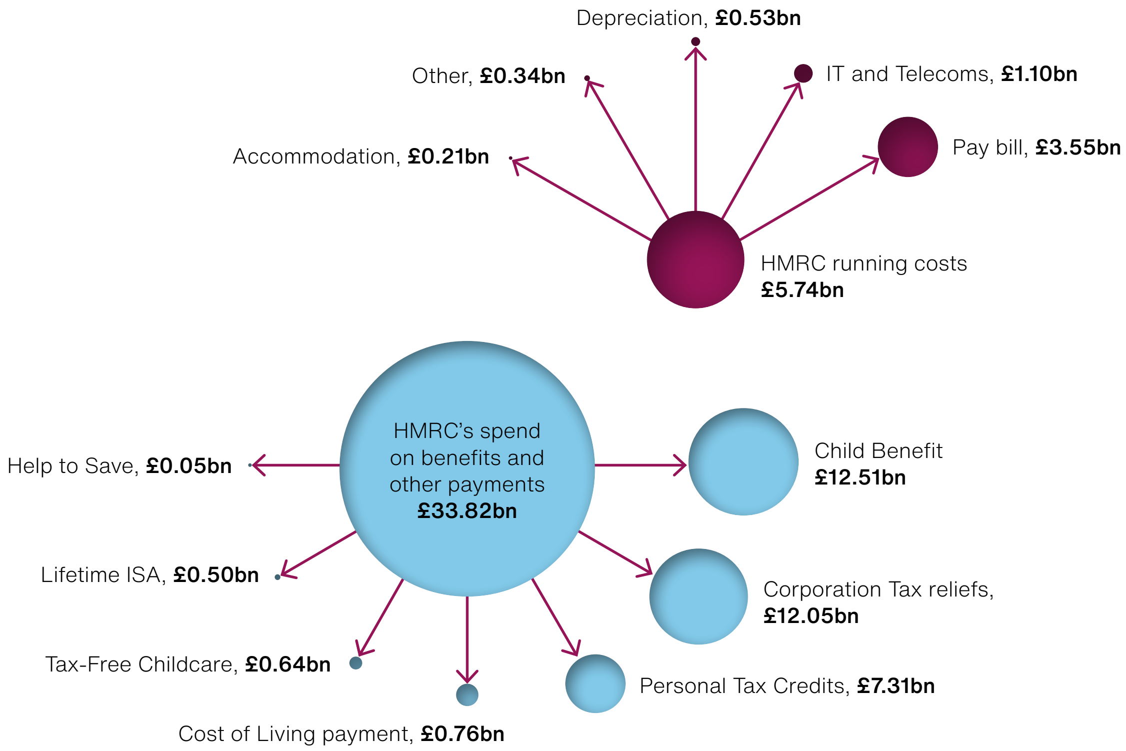
Benefits and payments: In addition to collecting taxes, HMRC administers some benefits and payments through the tax system. In 2023-24 HMRC paid £33.82 billion to HMRC's customers.

The main benefits were child benefit (£12.51 billion, to more than 6.9 million families) and personal tax credits (£7.31 billion). Total payments for tax credits have fallen in the past five years (from £18.33 billion in 2019-20) as payments are increasingly made under universal credit.

HMRC also makes payments for corporation tax reliefs. In total, these were £12.05 billion in 2023-24, the largest component of which was for research & development (R&D) reliefs (£4.9 billion relating to the R&D expenditure credit and £4.5 billion relating to the small and medium-sized enterprises scheme), with most of the rest (£2.6 billion) relating to the creative industries reliefs.

The C&AG has continued to qualify his opinion on HMRC's Annual Report and Accounts due to material levels of fraud and error in the R&D tax relief scheme as well as in the personal tax credit scheme. A new qualification was added in 2023-24 due to material levels of fraud and error in HMRC's child benefit expenditure. The qualifications are based on estimates, rather than known rates of error and fraud.

Analysis of HM Revenue & Customs' (HMRC's) expenditure on running costs and benefits and payments, 2023-24



Notes

1 HMRC running costs include £184 million net Valuation Office Agency expenditure (£242 million gross expenditure, £58 million income).

2 Pay bill refers to HMRC's expenditure on salaries and related costs.

3 Figures may not sum due to rounding.

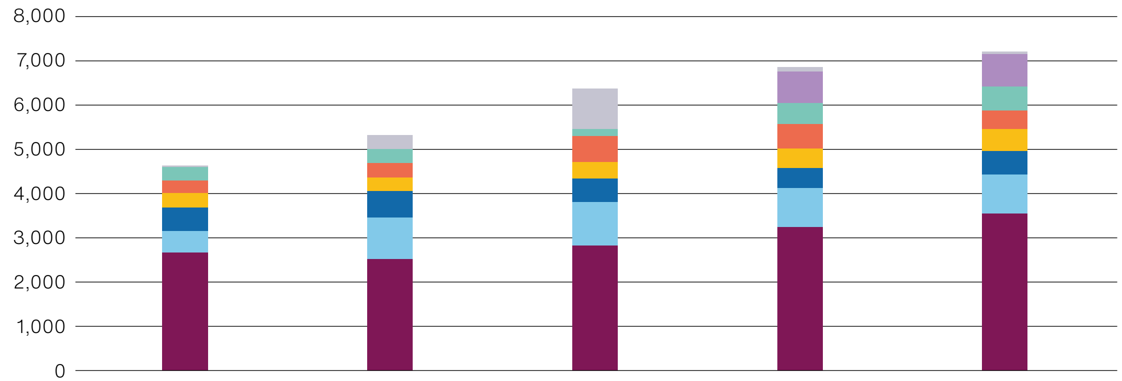
Source: HM Revenue & Customs, *Annual Report and Accounts 2023-24*

7 Spending patterns in HMRC

Over the past five years HMRC has taken on additional responsibilities that have increased its costs, including from needing to manage the implications of exiting the EU (from both a tax and customs perspective), service modernisation and the need to manage an increasing tax debt, as well as temporary costs arising from the need to deliver COVID-19 and cost of living support.

HM Revenue and Customs (HMRC)'s Departmental Spending from 2019-20 to 2023-24

HMRC's costs have increased over time in both core operations and other specific work (including EU Exit)



	2019-20	2020-21	2021-22	2022-23	2023-24
Core operations	2,674	2,536	2,850	3,259	3,562
EU Exit Transition	488	934	974	893	893
Other policy and compliance delivery	537	602	549	446	544
Avoidance and evasion delivery work	309	316	368	451	489
IT transformation and modernisation	318	316	568	539	413
Depreciation	296	311	174	478	533
Cost of living support to householders	0	0	0	718	760
COVID-19 support delivery	2	319	899	102	33
Total	**4,624**	**5,334**	**6,382**	**6,886**	**7,227**

Notes

1 Totals may not sum correctly due to rounding.

2 Core operations includes customer service, customer compliance and administration costs.

Source: National Audit Office analysis of HM Revenue & Customs, *Annual Report and Accounts for 2023 to 2024*, July 2024

8 Tax revenue

In 2023-24, HMRC reported £843.3 billion in revenue, an increase of £29.4 billion (3.5%) compared with 2022-23. In the same period, HMRC reported total tax repayments of £148.8 billion, an increase of £18.5 billion (14.2%) compared with 2022-23.

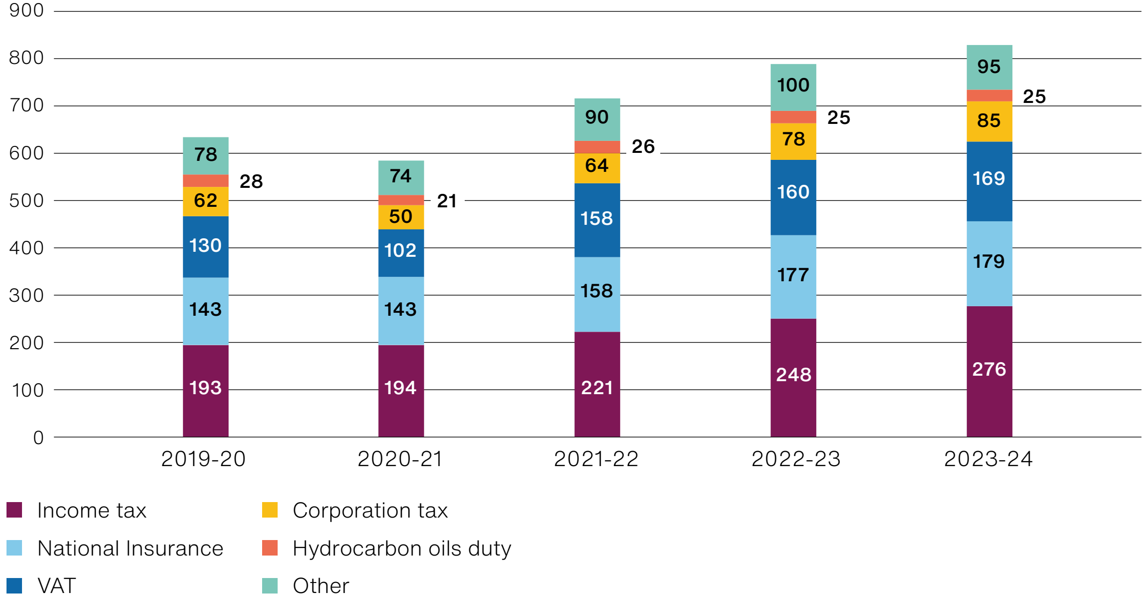
Income tax and national insurance contributions (NICs) represent the majority of tax revenues in all financial years shown here, making up 55% of the total in 2023-24. Total income tax for 2023-24 was £286.2 billion, an increase of £28.2 billion (9.9%) on 2022-23. This increase is, in part, caused by the fiscal drag effect created by having frozen tax thresholds. The vast majority of income tax (82.5%) comes from pay as you earn, followed by self-assessment (17.3%), while a small proportion (0.2%) comes from simple assessment.

Increases to corporation tax have been primarily driven by rate changes. Corporation tax increased from 19% to 23% in 2023-24. Changes in VAT income have in part been caused by events impacting economic activity, such as the COVID-19 pandemic.

The 2024 autumn Budget included a number of increases to some taxes, including national insurance, capital gains tax and inheritance tax, which will increase tax revenues in these areas.

Total revenue reported by HM Revenue & Customs (HMRC) broken down by tax stream, 2019-20 to 2023-24

Tax revenue has steadily risen, with the proportion of each tax stream remaining steady



Notes

1 'Other' Includes Stamp Taxes, Inheritance Tax, Alcohol and Tobacco, Insurance Premium Tax, Capital Gains Tax, student loan recoveries, environmental taxes and customs duties, and fines and penalties.

2 Values are in nominal terms to maintain consistency with HMRC's Annual Report and Accounts.

Source: HM Revenue & Customs, tax receipts and National Insurance tables, August 2024

9 The tax gap

What is the tax gap? The tax gap is the difference between the amount of tax that should be paid to HMRC and what is actually paid.

Why is there a tax gap? Several reasons. Some taxpayers make errors in calculating the tax that they owe, while others do not take enough care when they submit their returns. Legal interpretation, evasion, avoidance and criminal attacks on the tax system also result in a tax gap. It is impossible for HMRC to collect every penny of tax that is owed – for example, it cannot always collect outstanding tax from businesses that become insolvent.

How does HMRC estimate the tax gap? HMRC uses a range of data and analytical techniques to produce and revise annual estimates. The estimates are based on the information available, but there are many sources of uncertainty and potential error. The tax gap estimates only cover the taxes administered by HMRC, so exclude taxes and duties administered elsewhere.

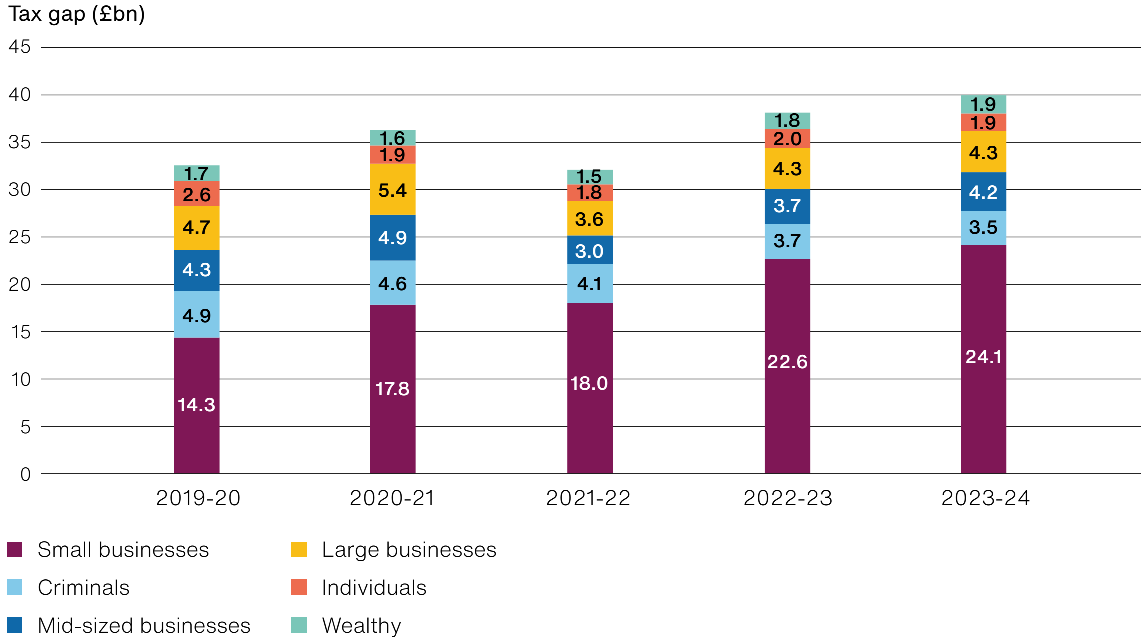
The estimates also exclude error and fraud in tax credits. More details about HMRC's tax gap methodology are available online.

How is HMRC tackling the tax gap? HMRC's 'promote, prevent, respond' strategy places an increased emphasis on reducing opportunities for non-compliance before it occurs. Of the £39.9 billion tax gap, the largest proportion (60%) is attributed to small businesses. HMRC seeks to tackle the causes of the tax gap by increasing compliance checks and reducing error, by making it easier for individuals to pay tax through digital services.

The government has committed to closing the tax gap and announced a package of measures aimed at raising £6.5 billion additional tax revenue per year by 2029-30 in the 2024 autumn Budget. This includes additional compliance and debt management staff, increased work to address fraud and error, and increasing the interest charged on overdue tax debt.

Tax gap reported by HM Revenue & Customs (HMRC), 2019-20 to 2022-23, segmented by customer group

Small businesses now make up 60% of the tax gap, up from 44% in 2018-19



Notes

1 The data for the tax gap lag a year behind the financial year, the 2022-23 figures are the most up-to-date available.

2 HMRC defines individuals as 'wealthy' if they have incomes of £200,000 or more, or assets equal to or above £2 million in any of the last three years

Source: National Audit Office analysis of Measuring tax gap online tables, 2024

10 HMRC's compliance work

'Compliance yield' is the estimate of revenues that would otherwise have been lost if not for HMRC's compliance activity and the impact of policy changes to address non-compliance.

HMRC's compliance work aims to make sure customers get their tax right from the start by modernising the tax system to reduce customer error and carelessness. This has resulted in an increased share of 'upstream' (or preventative) yield. See figure below for an explanation of the upstream categories. The percentage of yield that is upstream is now 34%, up from 22% in 2018-19. The majority of that is operational yield (24%), with product and process yield fluctuating as changes are made to legislation and HMRC processes.

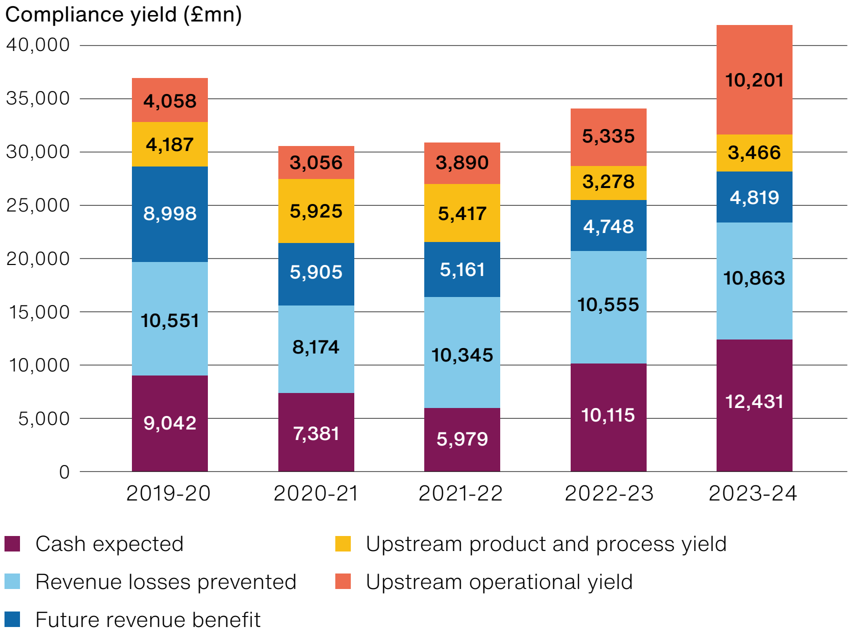
In 2023-24, HMRC recovered a compliance yield of £41.8 billion, against a target of £40.5 billion. This has risen from £34 billion in 2022-23. On average in 2023-24, for every £1 spent on HMRC's compliance workforce it returned £22 in compliance yield.

Types of compliance activity undertaken by HMRC

Compliance activity	Description
Upstream operational yield	Estimated impact of operational activities undertaken to promote compliance and prevent non-compliance before it occurs. Does not include yield from legislative or process changes.
Upstream product and process yield	Estimated annual impact on net tax receipts of legislative changes to close tax loopholes and changes to HMRC's processes which reduce opportunities to avoid or evade tax.
Future revenue benefit	Estimated effect of HMRC's past compliance work on customers' compliance in the current tax year.
Revenue losses prevented	Revenue that HMRC prevented from being lost to the Exchequer (for example, by stopping fraudulent repayment claims and disrupting criminal activity).
Cash expected	Additional revenue due when HMRC identifies past non-compliance, with a reduction to any revenue that HMRC knows will not be collected (for example, in some instances when a business becomes insolvent).

HM Revenue and Customs (HMRC) compliance yield from 2019-20 to 2023-24

Compliance yield is now climbing again after a dip during the pandemic



Note

1 'Accelerated Payments' were included as a separate category for 2019-20 (£113 million) and 2020-21 (£8 million) but have been excluded here. These are disputed amounts of tax that people using tax avoidance schemes are required to pay upfront within 90 days. Since 2021-22 these have been included in 'Cash expected' and 'Upstream product and process yield'.

Source: HM Revenue & Customs, *Annual Report and Accounts 2023 to 2024*, July 2024

11 Tax reliefs

A tax relief is a government intervention to reduce the tax burdens on individuals and businesses by reducing the amount of tax due.

Structural tax reliefs, like the personal allowance, are crucial parts of the tax system. Non-structural reliefs arise when the government opts to collect a reduced amount of tax for social or economic purposes.

In 2023-24, the cost of tax reliefs was forecast at £555 billion, of which £348 billion relates to structural reliefs and £207 billion to non-structural reliefs. The sum of tax reliefs has increased year on year between 2019-20 and 2023-24, largely due to tax liabilities increasing, resulting in additional relief being utilised by taxpayers.

Income tax reliefs cost the most in 2023-24. £124 billion of structural income tax reliefs come from the personal allowance, which most individual taxpayers receive. £27.7 billion of non-structural reliefs for income tax come from reliefs on registered pension schemes.

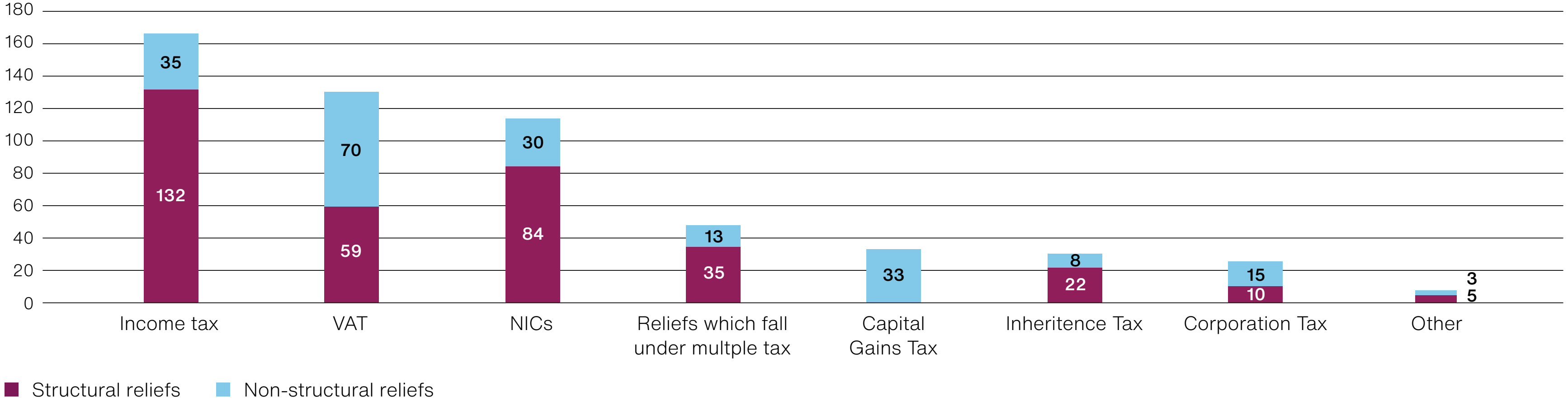
Reliefs that fall under multiple tax types relate primarily to Income Tax, corporation tax (CT) and capital gains tax. Some reliefs can result in payments to taxpayers, for example HMRC reported CT reliefs of around £15 billion in 2023-24.

The C&AG has reported that there is a material level of fraud and error in the CT R&D reliefs, at a total estimate of £1,127 million and £1,337 million in 2020-21 and 2021-22, respectively. The projected estimates for 2022 23 and 2023-24 are £1,051 million and £601 million, respectively.

Section 11:
Tax reliefs *continued*

HM Revenue & Customs (HMRC) tax reliefs by type for 2023-24

The majority of reliefs are 'structural' reliefs such as the personal allowance



Breakdown of HM Revenue and Customs (HMRC) tax reliefs, 2023-24

Tax Type	Income Tax	VAT	NICs	Reliefs falling under multiple tax types	Capital Gains Tax	Inheritance Tax	Corporation Tax	Other	Total (£mn)
Tax expenditures (£bn)	35	70	30	13	33	8	15	3	207
Structural reliefs (£bn)	132	59	84	35	0	22	10	5	348
Total (£bn)	167	133	114	48	33	30	25	4	555

Note

1 Figures may not sum due to rounding.

Source: National Audit Office analysis of HMRC data

12 Customer services

HMRC's performance on correspondence improved, and digital services performance remained consistent in 2023-24, but performance on its telephone lines decreased. Overall, 78.6% of customers across all channels said they were satisfied after contacting HMRC, against a target of 80%. HMRC is seeking to improve customer service performance by encouraging more customers to use digital services with the aim of operating more efficiently and making services easier for customers. In our 2024 report, *Customer Service*, the C&AG concluded that "while many of HMRC's digital services work well, they have not made enough of a difference to customers, some of whom have been caught in a declining spiral of service pressures and cuts ... HMRC must allow more time for these services to bed in and understand the difference they make before adjusting staffing levels." The new government has committed to improving HMRC's customer services and supporting ongoing digital transformation.

HM Revenue & Customs' (HMRC's) performance for seven key customer service measures, 2021-22 to 2023-24[1]

HMRC did not meet any of its customer service targets in 2023-24

Measure	2021-22	2022-23	2023-24	Target for 2022-23 and 2023-24[2]
Net Easy (ease of dealing with HMRC)[3]	65.5	59.8	59.2	70.0
Customer satisfaction[4]	82.0%	79.2%	78.6%	80.0%
Telephony adviser attempts handled[5]	77.3%	71.1%	66.4%	85.0%
Customer correspondence cleared within 15 working days of receipt[6]	45.5%	72.7%	76.3%	80.0%
Customer correspondence cleared within 40 working days of receipt[6]	64.1%	89.4%	88.9%	95.0%
Webchat adviser attempts handled[7,8]	92.9%	94.7%	95.9%	–
Once and Done (whether a customer achieved all they wanted during the contact)[8,9]	–	84.4%	84.0%	–

Notes

1 This figure covers those measures listed as priorities in HMRC's published quarterly performance updates, plus the 40 working day customer correspondence measure which HM Treasury set a target for.

2 HMRC had the same annual targets for 2022-23 and 2023-24. For 2021-22, it assessed its performance against quarterly performance expectations rather than annual targets.

3 An exit survey based on a self-selecting sample of customers of telephone, webchat and digital services. The survey question is: "How easy was it for you to do what you needed to do today?" The scores represent the total of positive responses minus the total of negative responses. The score that can be achieved ranges from -100 to 100.

4 A survey-based measure of the percentage of HMRC customers who responded that they were either 'satisfied' or 'very satisfied' with the service. This is based on a self-selecting sample of customers of telephone, webchat and digital services.

5 The proportion of callers who got through to an adviser after hearing automated messages and choosing the option to speak to an adviser.

6 Correspondence (including post in the post and iForms) requiring a response to the customer cleared within 15 and 40 working days divided by total correspondence requiring a response to the customer. The day of receipt is counted as day zero. iForms can be filled in and filed online.

7 The proportion of customers taking up a webchat offer that successfully got through to a webchat adviser.

8 HMRC identified 'webchat adviser attempts handled' and 'Once and Done' as priority measures for 2022-23 and 2023-24, but targets were not set.

9 A survey-based measure of the percentage of customers who responded 'yes' when asked whether they were able to achieve what they needed to on the day they interacted with HMRC. This is based on a self-selecting sample of customers of telephone, webchat and digital services. This measure was new for 2022-23.

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

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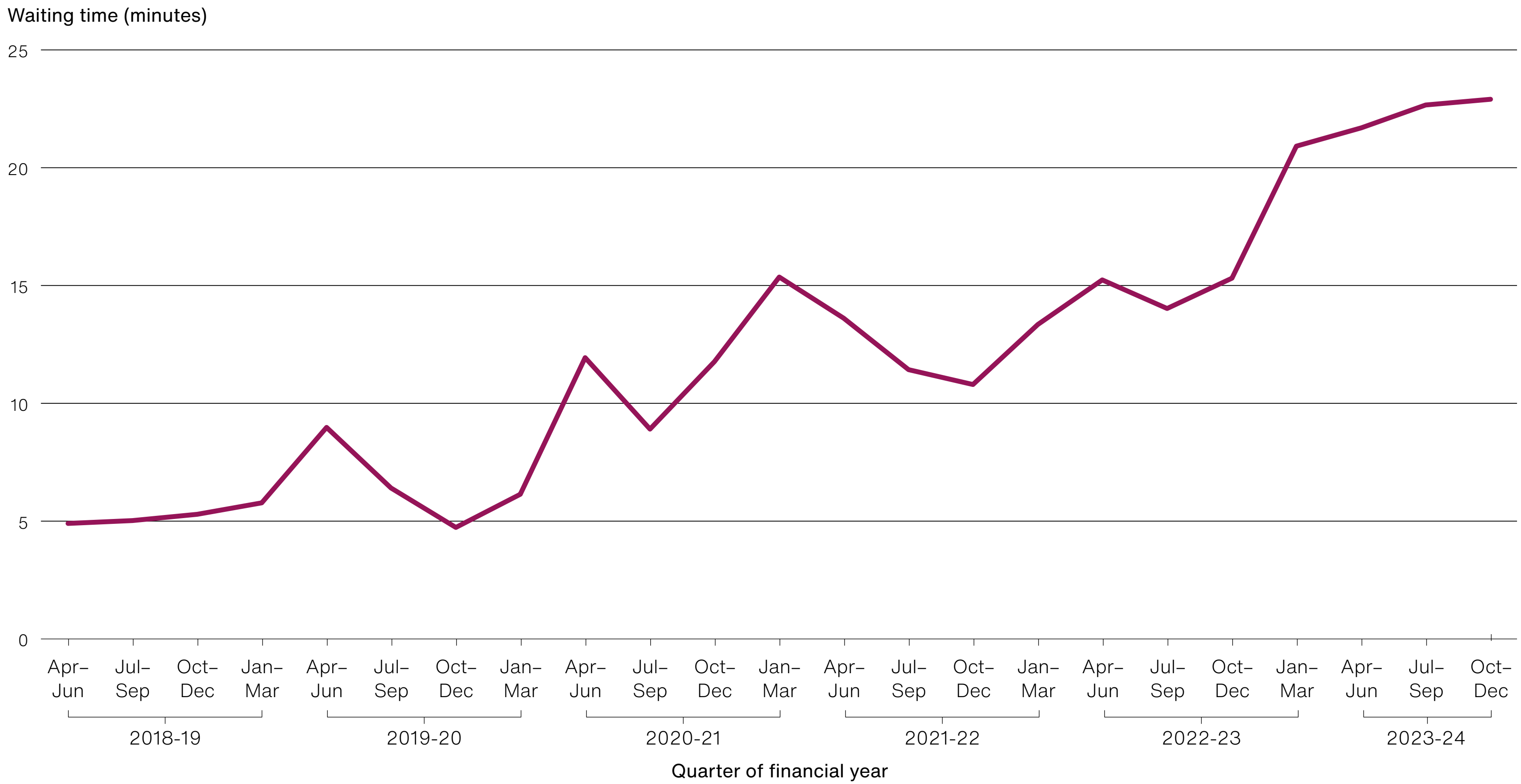
Section 12:
Customer services *continued*

Average waiting times for answered calls between April to June 2018 and October to December 2023

Call waiting times have increased from around 5 minutes in 2018-19 to over 22 minutes in 2023-24. This is due in part to more customers having increasingly complex tax affairs which cannot be dealt with using digital services



Note

1 Data only for calls that are answered by an adviser and excludes the time taken for customers to listen to any automated messages before entering the queue for an adviser.

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

13 Customs and the border

A border is more than a line on the map – it is a combination of physical and virtual controls, which can take place away from the physical border.

HMRC has policy and operational responsibility for collecting tax, duties and excise on the movement of goods across the border and for processing customs declarations. Border Force undertakes enforcement work at the border for HMRC, on behalf of the Chancellor of the Exchequer. HMRC also works with many other government departments with border responsibilities.

The introduction of customs controls on goods arriving from the European Union (EU)

The United Kingdom's (UK's) decision to leave the European Union (EU) customs union and single market means that the UK is required to apply import controls on goods arriving in Great Britain (GB) from the EU in the same way as it does on goods arriving from the rest of the world.

HMRC has introduced customs controls on goods arriving into GB from the EU in stages.

- On **1 January 2021** it introduced full customs declarations for excise and controlled goods, and delayed customs declarations on non-controlled goods.
- On **1 January 2022** it introduced full customs controls on goods (except for goods coming from Ireland).
- On **31 January 2024** it introduced full customs controls on goods arriving from Ireland.

Key facts

41.7 million

The number of customs declarations for trade in goods between GB and the EU in 2023

£4.5 billion

The amount of customs duties HMRC collected on the movement of goods into the UK from EU and non-EU countries during the year ending March 2024

48.8 million

The number of customs declarations for trade in goods between the UK and non-EU countries in 2023

£7.5 billion

HMRC's 2019 estimate of the total annual cost to UK businesses of completing customs declarations on trade between the EU and the UK, which it is yet to update

HMRC introduced full customs controls in January 2022 with minimal disruption so far to the flow of goods across the border. No major contingencies were invoked, and inland border facilities had sufficient capacity, although there were some minor instances of disruption. However, the introduction of new controls has created additional costs and burdens for traders, including making import and export declarations. Some traders have also had to invest in in additional staff, training and software to enable them to interact with new systems and processes or, alternatively, to hire intermediaries to help with the administrative burdens. There are some remaining import controls still to be implemented, including safety and security (S&S) checks.

14 Income tax and the devolution of powers – Scotland

Scotland

The Scotland Act 2016 granted the Scottish Parliament power to determine the tax band and rates (excluding personal allowance) paid by Scottish taxpayers on all non-savings, non-dividend income.

Starting in 2024-25 there are six tax bands in Scotland, compared to three in the rest of the UK. Scottish taxpayers paying the starter rate pay a marginally lower rate of tax compared with those in the rest of the UK, while taxpayers earning more than £26,562 start to pay a marginally higher rate. For 2024-25 a new 'advanced rate' between £75,001 and £125,140 was introduced at 45% and the top rate (for those earning more than £125,140) was increased by 1% to 48%. The provisional estimate of revenue raised in 2023-24 from Scottish income tax is **£17.3 billion**. The income tax outturn for 2022-23 was **£15.2 billion** (£0.2 billion higher than originally estimated).

The NAO most recently published a report in January 2024 on the *Administration of Scottish income tax 2022-23*. We concluded the following:

- The Scottish income tax revenue outturn for 2021-22 (£13,724 million) is fairly stated.
- HMRC has adequate regulations and procedures to secure an effective check on the assessment, collection and proper allocation of revenue, and ensure they are being duly carried out.
- The administration costs amount repaid by the Scottish Government for the year ended 31 March 2023 (£0.6 million) is fairly stated.

HMRC assesses the risk of non-compliance in relation to Scottish income tax as negligible. However, compliance activity typically applies to tax liabilities from two years previous, so the compliance risk from further divergence in tax policy from 2023-24 is unlikely to be apparent through compliance cases until at least 2025-26.

In addition to administering income tax in Scotland and Wales, HMRC also works with the devolved administrations to support one another in administering the taxes for which they each have responsibility, and to understand the tax, tax credits and National Insurance implications of policies to ensure that all liabilities are understood during the policy-making process.

There were 2.87 million Scottish taxpayers in 2022-23

Sources: HM Revenue & Customs, *Annual Report and Accounts 2023-24*, July 2024, and National Audit Office, *Administration of Scottish income tax 2022-23*, January 2024

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15 Income tax and the devolution of powers – Wales

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Wales

The Wales Act 2014 gave the Welsh Parliament power to determine the rates (excluding personal allowance) paid by Welsh taxpayers on all non-saving and non-dividend income.

The provisional estimate of revenue raised in 2023-24 from Welsh income tax is £2.9 billion. The income tax outturn for 2022-23 was £2.6 billion (equal to the original estimate).

From April 2019, the UK government has reduced the income tax rate paid by Welsh taxpayers by 10 percentage points for UK basic, higher and additional income tax. The Welsh Parliament has the power to apply Welsh rates. The sum of the reduced UK rates and the Welsh income tax rates determines the overall rate of tax paid by Welsh taxpayers. For the 2022-23 tax year, the Welsh Parliament set the income tax rates at 10% across all bands, effectively matching the UK rates at 20% (basic rate), 40% (higher rate) and 45% (additional rate).

The NAO published a report in January 2024 on the *Administration of Welsh rates of income tax 2022-23*. We concluded that:

- The Welsh income tax revenue outturn for 2021-22 (£2,384 million) is fairly stated.
- HMRC has adequate regulations and procedures to secure an effective check on the assessment, collection and proper allocation of revenue, and that they are being duly carried out.
- The administration costs amount repaid by the Welsh Government for the year ended 31 March 2023 (£0.4 million) is fairly stated.

HMRC assesses that the risk of non-compliance in relation to Welsh income tax remains low due to no divergence of tax rates. HMRC calculated a compliance yield of £120 million relating to all compliance risks in Wales for 2021-22.

There were 1.5 million taxpayers in Wales in 2022-23

Sources: HM Revenue & Customs, *Annual Report and Accounts 2023-24*, July 2024, and National Audit Office, *Administration of Welsh rates of income tax 2022-23*, January 2024

16 Economic crime and enforcement

HMRC has a role in tackling economic crime, delivered through its function as a tax authority, law enforcement agency and anti-money laundering supervisor.

Most of HMRC's work to tackle tax fraud makes use of its civil powers. In some serious cases of tax fraud, HMRC can use the approach set out in its Code of Practice, which states that, in exchange for individuals admitting their dishonesty, paying all their tax and significant financial penalties, they won't face a criminal investigation, which otherwise could be the case.

HMRC can conduct a criminal investigation in any case where this is thought to be warranted. Typically, criminal (and associated specialist) powers are used in circumstances where there's a need to send a strong deterrent message; where the conduct involved is such that only a criminal sanction is appropriate; and where mainstream civil tax interventions won't work. HMRC is not responsible for deciding if a case will be criminally prosecuted. This decision is made by the independent prosecution authorities.

HMRC has similar criminal investigation powers to other UK law enforcement agencies, but the use of these powers is limited to HMRC-related offences. These powers are subject to the same safeguards and requirements as the wider law enforcement community, including oversight via the Independent Office for Police Conduct, Investigatory Powers Commissioner's Office, Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services and the National Audit Office. HMRC engages with other law enforcement agencies when tackling serious organised crime.

Investigations initiated by HM Revenue and Customs (HMRC), 2019-20 to 2023-24

Criminal investigations and prosecutions have recently started increasing again after a downwards trend in previous years

	Civil investigations	Criminal investigations	Prosecutions	HMRC success rate in court
2019-20	–	864	691	88%
2020-21	–	456	163	96%
2021-22	–	495	236	92%
2022-23	12,500	396	240	91%
2023-24	10,200	430	344	88%

Notes

1 HMRC's success rate in court refers to the amount of tax dispute cases in which the First-Tier Tribunal court ruled in HMRC's favour.

2 The number of civil investigations undertaken by HMRC from 2019-20 to 2021-22 is unavailable due to this data not being published.

Source: HMRC annual report and accounts, 2019-20 to 2023-24 and National Audit Office, *Managing tax compliance following the pandemic*, December 2022

17 Key major programmes and developments

Single Customs Platform

The programme builds on HMRC's previous programme to replace HMRC's ageing customs handling of import and export freight (CHIEF) system with a new service (the customs declaration service or CDS). The current work seeks to improve CDS, including system stability and resilience. Plans are being developed to continue investment in CDS into the next spending review period.

HMRC originally intended that all users would be making customs declarations through CDS by January 2019. However, the project was delayed primarily due to the implications of EU Exit. Full migration of all export declarations was completed in 2024, and HMRC expects to fully decommission CHIEF by March 2025.

Northern Ireland Programme and Trader Support Service

The programme is intended to complete the delivery of HMRC's commitments for Northern Ireland relating to EU Exit. Our May 2024 report *The UK border: Implementing an effective trade border* set out the changes to Northern Ireland trade arrangements that will be made between 2023 and 2025 as specified in the Windsor Framework, including those for which HMRC has responsibility.

The trader support service (TSS) submits customs and safety and security declarations on behalf of businesses moving goods between Great Britain and Northern Ireland. The TSS contract for the 2020-2024 period cost an estimated £531 million and procurement is underway for its delivery beyond 2025.

Technology Sourcing Programme

This is HMRC's IT transformation and modernisation programme, which delivered an initial interim operating model in March 2023. Its projects total lifetime costs are £6.85 billion, and it is scheduled for delivery by the end of 2025.

Single Customer Account (SCA)

The SCA programme was launched following the 2021 Spring Budget to create a single digital experience for taxpayers.

The SCA is scheduled for delivery by 2026, with an estimated whole-life cost of £126 million and benefits of £43 million.

Please note that the most recent Government Major Projects Portfolio data are from July 2023. As a result, reported dates and figures may have changed. In the 2023 report, HMRC estimated total lifetime project costs of £15 billion and in-year costs of £2 billion (both include non-government costs).

Section 17:
Key major programmes and developments *continued*

Single Trade Window (STW)

The STW programme was intended to bring together the government's processes and systems for collection, assurance and use of border data, allowing businesses to meet their border obligations by submitting all information once, and in one place. In 2024 HMRC estimated that over the 10 years to 2031-32 the STW would cost £349 million and deliver quantifiable benefits of £2.77 billion. The planned delivery date was 2027.

Our May 2024 report *The UK border: Implementing an effective trade border* found that the government's plans to improve the functioning of the border rely heavily on the STW. In November 2024, the government announced it was reviewing its future plans for the border, including the role of the STW programme, with delivery of the programme paused in 2025-26. It plans to provide an update on the programme in the Spring 2025 spending review.

Making Tax Digital (MTD)

Launched in 2015, MTD has been HMRC's flagship digital transformation programme, which aims to reduce the tax gap by requiring businesses and individuals to keep digital records, use software that works with MTD, and submit quarterly updates, bringing the tax system closer to real-time. The aim of the programme was to increase tax revenue through reducing the level of error in the tax system for business taxpayers. It was originally estimated to cost £226 million.

Our June 2023 report *Progress with Making Tax Digital* found the cost of the programme had increased by 400%. HMRC's most recent forecast estimates the total cost will be £1.27 billion. It expects to complete implementation of MTD for income tax self assessment in 2028. HMRC forecasts MTD will bring in £6.38 billion in additional tax revenue over 15 years from 2019-20 to 2033-34. In the 2024 autumn Budget, the government confirmed that self-employed individuals and landlords with qualifying income over £50,000 will have to use MTD for Income Tax from April 2026, and those with qualifying income over £30,000 from April 2027. It also announced its intention to roll out MTD for Income Tax to self-employed individuals and landlords with qualifying income over £20,000 by the end of the current Parliament (which runs until 2029).

18 What to look out for

Increased focus on compliance

In 2023-24, HMRC introduced tougher consequences for promoters of tax avoidance; increased its pursual of illicit financial transactions; and introduced longer prison terms for egregious tax fraud.

The 2024 autumn Budget included a commitment to closing the tax gap, and plans to take stronger action on the most egregious tax fraud, including by expanding HMRC's criminal investigation work and legislating to prevent abuse in non-compliant umbrella companies. HMRC will also recruit 180 new staff to better tackle fraud and error in child benefit and tax-free childcare.

Look out for: HMRC will recruit 5,000 more staff to support its compliance work, building on the 4,200 staff recruited in recent years.

Focus on tax debt

In 2023-24, HMRC secured an additional £303 million in funding to help it reduce the tax debt balance over the next five years. This funding will enable HMRC to acquire new data, which will enable it to apply a more tailored approach to tax debt collection in the future by providing better insights into a person or company's ability to pay; fund the use of debt collection agencies; and increase the number of staff in its debt management function. By the end of 2023-24, the total debt balance was £44.6 billion, down from £45.9 billion the previous year, out of its total tax receivable balance of £60.8 billion. HMRC estimates that 45% of the total receivables balance (£27.6 billion), which includes debt, is potentially irrecoverable.

Look out for: An increase of 1,800 debt management staff to ensure more of the tax that is owed is paid and that more taxpayers pay outstanding tax due.

Customer service levels

HMRC has faced significant challenges in providing good customer service, in particular on its telephone helplines. In May 2024, HM Treasury announced £51 million in additional funding to improve helpline services. This followed HMRC's decision to reverse the planned closure of several helplines, including the self assessment helpline, in March 2024. HMRC stated it would use this additional funding to employ around 1,500 additional temporary staff to bring its customer services performance back to target levels in the second half of 2024-25.

Look out for: As part of its digital-first strategy, HMRC plans to further enhance its online services enabling more customers to self-serve online, while continuing to help customers who need additional support.

Transforming the UK Border

HMRC has supported traders to migrate to the customs declaration service, which enables them to make import declarations (since 2023-24) and export declarations (from 2024-25) while moving goods into and out of the UK. HMRC will invest in new IT systems to support the movement of goods and is working with other government departments to enforce export controls and trade sanctions.

Look out for: HMRC estimates that the decommissioning of legacy IT systems for customs will deliver up to £30 million of savings per year.

Modernising IT and data systems

The government has announced wide-ranging investment in HMRC's IT and data systems to improve productivity and taxpayers' experience of engaging with the tax system. This includes pre-populating self-assessment tax returns with child benefit data; digitalisation of Individual Savings Accounts (ISAs); modernising voluntary self assessment pre-payment via the HMRC app; digitising inheritance iax; modernising debt management IT systems; and investing to acquire credit reference agency data for HMRC.

Look out for: New digital functionalities and improved IT systems.

19 More information about our work on HMRC

HMRC Customer Services

May 2024

This report examines the extent to which HMRC is well placed to provide the services that customers need, covering trends in customer service performance, progress in achieving its strategic goals on increasing the use of digital services, and HMRC's plans for 2024-25.

The report concludes that HMRC's telephone and correspondence services have been falling below expected levels, and that HMRC has failed to achieve planned efficiencies. It states that HMRC's digital services work well but have not made enough of a difference to customer demand.

The UK Border: Implementing an effective trade border

May 2024

This report examines the impact and cost of new arrangements at the UK border.

The report concludes the full import controls were still not in place more than three years after leaving the EU, and that the government may not be able to apply new controls consistently as they are phased in. While new operating models should reduce costs to traders, delays have led to uncertainty and risk. It concludes that the new border strategy has no clear timetable and poses a considerable challenge.

Drivers of cost in the tax system

Winter 2024/25

This report will cover what it costs HMRC to administer the tax system, and the administrative and financial burdens placed on taxpayers. It will also establish what progress has been made in reducing costs and improving efficiency.

Progress with Making Tax Digital

June 2023

This report examines HMRC's progress in implementing its Making Tax Digital programme between 2017 and 2022. The report states that, while HMRC's vision for Making Tax Digital has the potential to increase efficiency and effectiveness in the tax system, the timeframe for its implementation was unrealistic, and delays undermined credibility while increasing cost. It concludes that HMRC has not demonstrated that the programme offers value for money and should robustly assess how far the programme is improving services.

Tackling tax evasion in the high street and online retail

September 2024

This report examines whether HMRC, with Companies House and the Insolvency Service, is well placed to tackle tax evasion in high-street and online retail. The report concludes that HMRC has lacked an effective strategic response to growing levels of tax evasion among small business. While there are good examples of localised campaigns targeting some retailers, HMRC has missed opportunities to tackle others. HMRC's overall approach gives too little emphasis to widely used methods of evasion such as electronic sales suppression and phoenixism, despite identifying they were large and potentially growing. It now needs to work with the rest of government and other stakeholders to find the most cost-effective way to reduce evasion.

Our previous work on HMRC can be found here. Information about the NAO's upcoming work can be found here.