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**Chair of the UK Statistics Authority, Sir Andrew Dilnot CBE**

Will Moy  
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6 August 2014

Dear Will,

**ESTIMATES OF TAX COMPLIANCE YIELD**

Thank you for your email to Ed Humpherson of 15 May in which you asked for the Authority's view on statements made by the Chancellor of the Exchequer regarding the amount of tax recovered through HM Revenue and Custom's (HMRC) compliance work under the current administration compared with that of the last Government. I apologise for the delay in responding to you, but I wanted to check the matter carefully before doing so, allowing time for my office to speak directly with officials at HMRC and also to await the publication of the HMRC and National Audit Office (NAO) reports mentioned below so that we could review these as well.

Since your email, both HMRC<sup>1</sup> and the NAO<sup>2</sup> have, in separate reports, addressed the issue you raised. Both state that due to changes in HMRC's methodology for estimating compliance yields which took effect from 2011-12 it would be inappropriate to compare compliance yield outturns measured from 2011-12 directly with those that went before. I note that the NAO found that the new methodology for estimating tax compliance yield is sound and internal processes for assuring the robustness of the measure are well-developed and effective.

During their audit, the NAO found that HMRC made an error in its calculation for the compliance yield baseline. As a result, HMRC reported that it had achieved additional revenue in excess of targets by £1.9 billion and £2 billion in 2011-12 and 2012-13 respectively<sup>3</sup>. HMRC now accept that this apparent over-performance was actually attributable to the baseline error.<sup>4</sup>

In its 2013-14 Annual Report and Accounts HMRC committed to review the caveats that it uses in order to draw attention to the methodological changes that took place in 2011-12 and make clear that there is a break in the time series showing tax compliance yield. I welcome

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<sup>1</sup> HMRC Annual Report and Accounts 2013-14, July 2014, available at: [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/330670/HMRC-annual-report-2013-14.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/330670/HMRC-annual-report-2013-14.pdf)

<sup>2</sup> NAO, HMRC 2013-14 Accounts: Report by the Comptroller and Auditor General, July 2014, available at: <http://www.nao.org.uk/wp-content/uploads/2014/07/Her-majestys-revenue-and-customs-accounts-2014.pdf>

<sup>3</sup> NAO, HMRC 2013-14 Accounts: Report by the Comptroller and Auditor General, July 2014, paragraph 15.

<sup>4</sup> HMRC Annual Report and Accounts 2013-14, July 2014, page 13.

this commitment along with HMRC's agreement to have future tax compliance data externally scrutinised by the NAO.<sup>5</sup>

Given the complexity of these estimates, it would be helpful if future tax compliance figures were released as official statistics. This would enable further independent assessment and help to build confidence in the validity of the measures. Compliance with the Code of Practice for official statistics would necessitate a published explanation of the break in the time-series of compliance yield, as well as explaining the strengths and limitations of the previous and current methods, and why some detailed breakdowns are unavailable.

HMRC acknowledge that its briefing to Ministers was based on its assessment at the time, and that some of the public announcements made about performance improvements were therefore incorrect.

I am copying this reply to Amyas Morse, Comptroller and Auditor General, Lin Homer, Permanent Secretary at HMRC, Jonathan Athow, Director of Knowledge, Analysis and Intelligence at HMRC, and Ed Humpherson, the Statistics Authority's Head of Assessment.

Yours sincerely,

A handwritten signature in black ink that reads "Andrew Dilnot". The signature is written in a cursive, slightly slanted style.

**Sir Andrew Dilnot CBE**

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<sup>5</sup> NAO, HMRC 2013-14 Accounts: Report by the Comptroller and Auditor General, July 2014, paragraph 2.30.