

HMRC's compliance yield: How HMRC reports future revenue benefit – an update for 2018-19

Introduction

HM Revenue and Customs (HMRC) annually carries out a significant number of compliance interventions, legislative changes and educational activity which leads to the reporting of an annual amount of compliance yield arising from this work. Compliance yield is recorded under five classifications, these are:

- Cash Expected
- Revenue Loss Prevented
- Future Revenue Benefit
- Product and Process
- Accelerated Payments

Whilst these classifications are explained further in [HMRC's Annual Report and Accounts 2018-19](#), this technical paper focuses specifically on Future Revenue Benefit (FRB). FRB quantifies the effects of our compliance interventions on customers' future behaviour.

Since 2011, and in line with the Organisation for Economic Co-operation and Development (OECD) good practice, we have included FRB across all of HMRC's compliance work as this helps us reflect and understand the full impact of our compliance work, and informs how we resource to areas of highest risk.

In their 2014-15 Standard Report, the National Audit Office (NAO) said that there were inconsistencies between how we recorded FRB and Product and Process yield. FRB was reported in the year the compliance intervention concluded, whereas Product and Process yield is reported when the product or process change impacts Exchequer receipts.

A [technical paper](#) accompanied our [2015-16 Annual Report and Accounts](#) explaining how HMRC planned to change how it reports FRB and the impact of the change compared to the original method. This technical paper provides an update on that reporting approach for FRB.

Future Revenue Benefit

Many of our compliance interventions have an effect not just on the particular period that the return relates to, but future years too. For example, if we make

changes to the rate at which a business has claimed capital allowances or tax relief for interest payments, then the change will affect both the liabilities under investigation (cash expected) and future years' liabilities as well (Future Revenue Benefit).

FRB can only be recorded by caseworkers where there is sufficient evidence – there is detailed guidance in place which sets out the conditions that must be met to justify recording FRB and there are limits to the number of future years for which FRB can apply.

Based on our guidance, FRB can be claimed for 3 or 5 years where we have Customer Compliance Managers in place and FRB is appropriate to be claimed. For other cases it can be for up to 3 years.

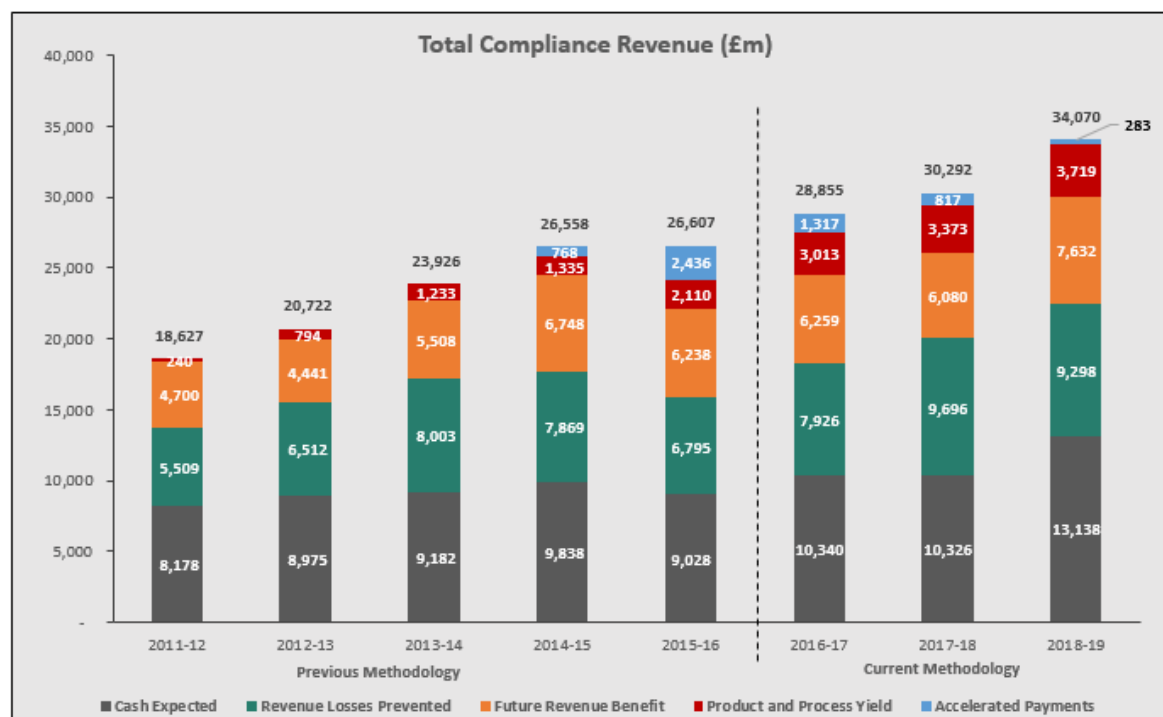
Total amounts of FRB generated between 2011-12 and 2018-19 are set out below in Figure 1.

Changes to our FRB reporting methodology

From 2011-12 to 2015-16 we reported FRB in the year in which we completed each compliance intervention. At the beginning of the Spending Review 2015 period (2016-17 to 2019-20), and responding to the NAO's recommendation, we started recording FRB for the future year(s) in which it has an impact on Exchequer receipts rather than the year in which we completed the compliance intervention.

For illustrative purposes the total compliance yield results of our previous methodology (up to and including 2015-16) and current methodology (2016-17 onwards), are shown in Figure 1 below.

Figure 1 – Previous and current FRB reporting methodologies (£m)



For comparative purposes, the rows in Figure 2 show the total FRB generated by the previous reporting method and the columns show how FRB impacts on the Exchequer in each year under the current reporting methodology. Under the previous reporting methodology we generated £9,468m FRB from compliance interventions that completed in 2018-19 and under the current reporting methodology, we generated £7,632m FRB that impacted the Exchequer in 2018-19.

Figure 2 – Estimated year of impact of FRB generated between 2011-12 and 2018-19 (£m)

Year of Activity	£'m	Year of Impact													Total
		2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	
2011-12	197	1,458	1,837	887	229	69	23								4,700
2012-13		294	1,459	1,645	765	197	59	20							4,441
2013-14			328	1,791	2,052	967	265	79	28						5,508
2014-15				348	2,273	2,535	1,192	269	108	22	0				6,748
2015-16					400	2,137	2,349	1,061	192	86	13				6,238
2016-17						354	1,733	1,985	970	265	88	24			5,419
2017-18							458	1,857	2,076	1,163	417	127	40		6,138
2018-19								2,362	2,812	1,743	1,188	983	379		9,468
Total	197	1,752	3,624	4,671	5,719	6,259	6,080	7,632	6,186	3,280	1,707	1,134	419		

During 2018-19 we have improved the quality and coverage of our FRB data and reporting systems. As a result, our understanding of when FRB from our interventions impacts the Exchequer has been updated. This is evident in the 2018-19 row of Figure 2, which shows a markedly different profile to previous years. For years up to and including 2017-18, limited data was available on a case-by-case basis to directly show when FRB amounts would impact on the Exchequer.

We therefore used an assumption-based model to allocate aggregate-level FRB to an expected year of impact. This model was based on expected behavioural change for different customer segments and Heads of Duty. During 2018-19 our compliance officers have been able to directly input FRB by year of impact for each case onto our case management systems, allowing a more accurate reflection of impact on the Exchequer.

This improvement to our data has had no impact on the total FRB that we score, only the timing of the year in which we score it and Figure 3 below shows how the allocation of FRB to a year of impact on the Exchequer has changed as a result.

The above mentioned changes to reporting of FRB have also impacted on estimated compliance yield splits by customer segments in HMRC's Annual Report and Accounts 2018-19¹.

Figure 3 – Difference in profiles: How FRB is allocated from year of settlement to year of impact on the Exchequer following data improvements.

	In year	Year 1	Year 2	Year 3	Year 4	Year 5
Up to 2017-18	7%	30%	34%	19%	7%	2%
2018-19	25%	30%	18%	13%	10%	4%

¹ In addition, we made a number of modelling changes to improve these estimates further, enhancing the allocation of yield to each segment.