

# **HMRC Main Estimate 2020-21**

Select Committee Memorandum

# 1. Overview

## 1.1 Objectives

HMRC is the UK's tax, payments and customs authority, and we have a vital purpose: we collect the money that pays for the UK's public services and help families and individuals with targeted financial support. We do this by being impartial and increasingly effective and efficient in our administration. We help the honest majority to get their tax right and make it hard for the dishonest minority to cheat the system.

Our key objectives set out in our [Single Departmental Plan](#) are to:

1. Collect revenues due and bear down on avoidance and evasion
2. Transform tax and payments for our customers
3. Design and deliver a professional, efficient and engaged organisation.

The Valuation Office Agency (VOA) is an executive agency of HM Revenue and Customs (HMRC). Its function is to give government the valuations and property advice needed to support taxation and benefits.

We are also helping the Government's response to the COVID-19 health emergency by implementing the new measures announced by the Chancellor in relation to COVID-19 pandemic.

The purpose of this Memorandum is to provide the Select Committee with an explanation of how the resources and cash sought in this Main Estimate will be applied to achieve HMRC's objectives.

## 1.2 Spending controls

HMRC's spending is broken down into several different spending totals, for which Parliament's approval is sought.

The key spending control totals for HMRC which Parliament votes are:

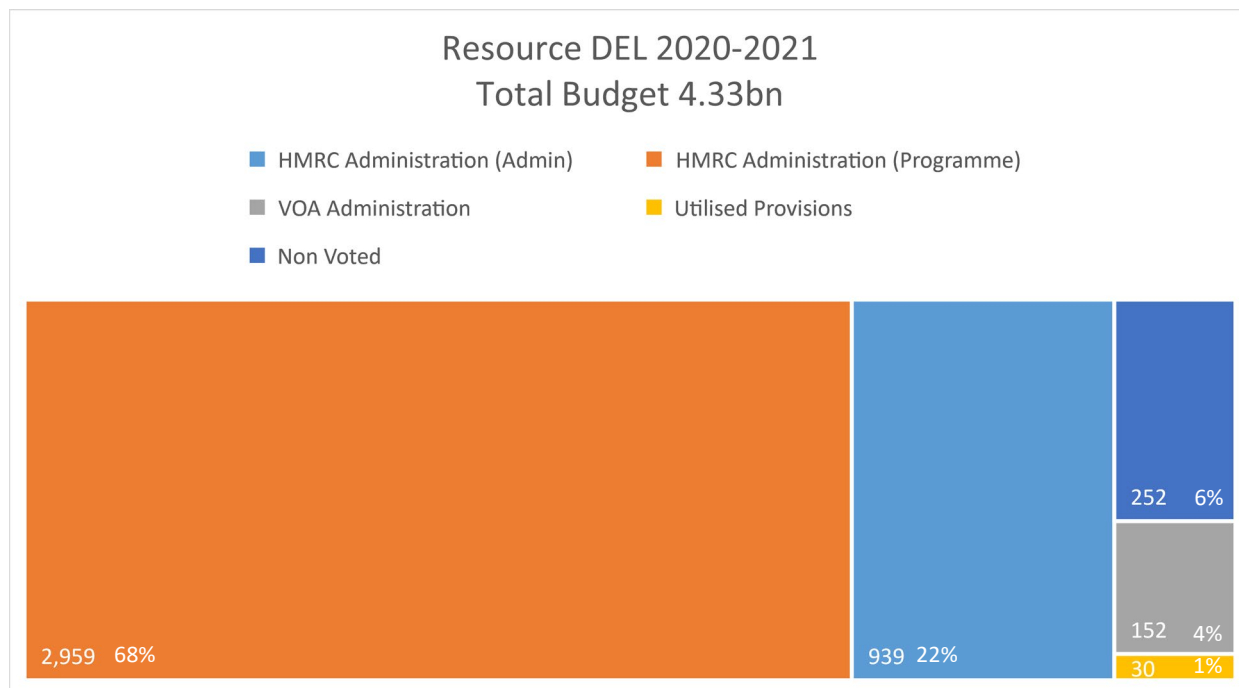
- Resource Departmental Expenditure Limit ("RDEL") - day to day running costs
- Capital Departmental Expenditure Limit ("CDEL") - investment in infrastructure
- Resource Annually Managed Expenditure ("RAME") - less predictable day to day spending: in HMRC's case mainly Tax Credits, COVID-19 response, Child Benefit, Tax Free Childcare, Lifetime ISA, other reliefs and entitlements.

Budgets are split between those voted by Parliament and those where appropriation is covered in other legislation (non-voted).

In addition, Parliament votes a net cash requirement, designed to cover the elements of the above budgets which require HMRC to pay out cash in-year.

### 1.3 Main areas of spending

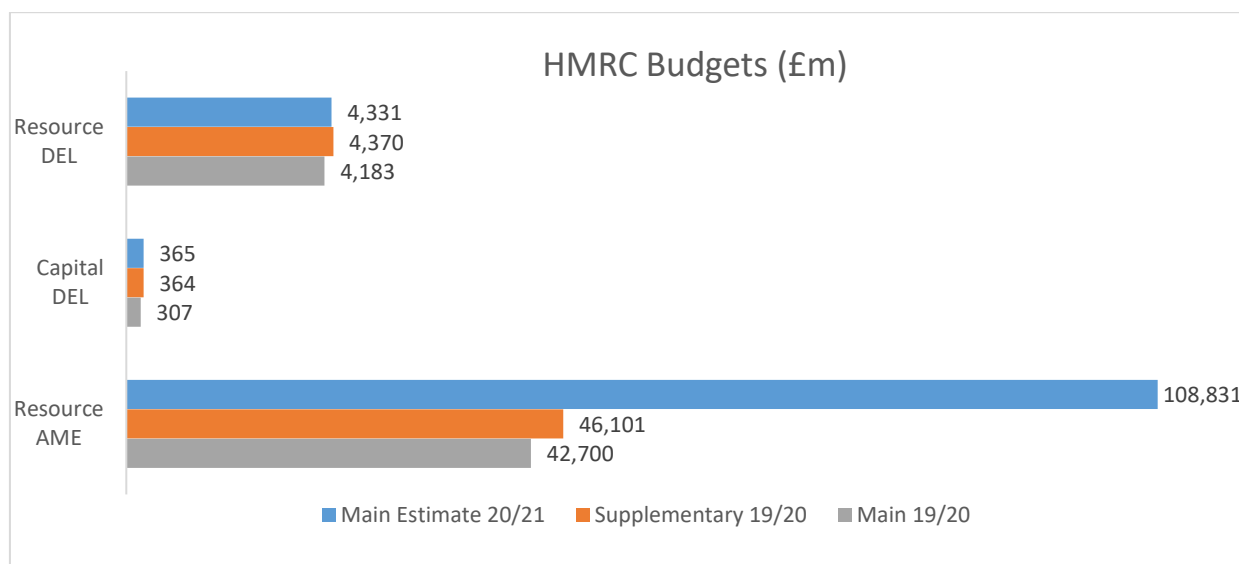
The graphic below shows the main components of HMRC’s proposed RDEL budget for the current year, after taking account of the latest Main Estimate.



### 1.4 Comparison of spending totals sought

	Spending total Amounts sought this year Main Estimate 2020-21		Difference (+/-), compared to Supplementary Estimate 2019- 20		Difference (+/-), compared to Main estimate 2019-20	
	£m		£m	%	£m	%
<b>Resource DEL</b>	4,331		-39	-1%	148	4%
<b>Capital DEL</b>	365		2	0%	59	19%
<b>Resource AME</b>	108,831		62,731	136%	66,131	155%

Data sourced from the submitted Main estimate (20/21), published [Supplementary Estimate \(19/20\)](#) and published [Main Estimates \(19/20\)](#).  
Note: Table may not appear to add up due to rounding



Data sourced from the submitted Main estimate (20/21), published [Supplementary Estimate \(19/20\)](#) and published [Main Estimates \(19/20\)](#).

### 1.5 Key drivers of spending changes since last year

The main causes of the changes in Resource DEL are:

- Since Spending Round 19 (SR19), the Government has made a number of changes to 2020-21 spending plans as set out in the Budget 20 measures. Further detail on this are show in section 1.9 and 2.11.
- Overall RDEL has fallen since the 2019-20 Supplementary Estimate. We are entering the year with a funding pressure which will require resolution through the provision of additional funding and/or cost reductions within the department.

The main cause of the changes in Capital DEL are:

- £1.8m reduction resulting from Budget Cover Transfers with OGDs since the 2019-20 Supplementary Estimate.
- £57m additional funding for EU Exit to deliver the deal since the 2019-20 Main Estimate.

The main cause of the changes in AME are:

- £52bn increase in voted expenditure for COVID-19 related expenditure. £42bn is allocated to the Job Retention Scheme, the remaining £10bn is for the Self-Employed Income Support Scheme in line with the published figures included in the OBR’s reference scenario. These measures are part of the Chancellor’s announcement to support Government with the COVID-19 response until the end of June.
- Increase of £10bn within Personal Tax Credits to reflect expected increase in working age benefits, in line with DWP’s central assumptions.

### 1.6 New policies and programmes; ambit changes

The following new lines have been added to the Ambit in relation to VOA revaluations and the COVID-19 response:

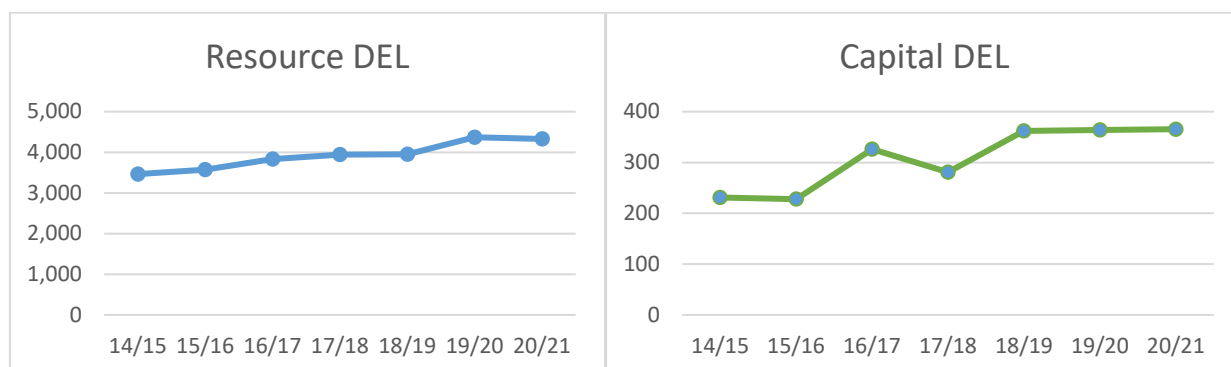
- “All activities, including ensuring that systems are maintained and updated as necessary, to enable the integrity of the lists for current use and preparing for any possible future revaluations”
- “Governmental response to the coronavirus Covid-19 pandemic”

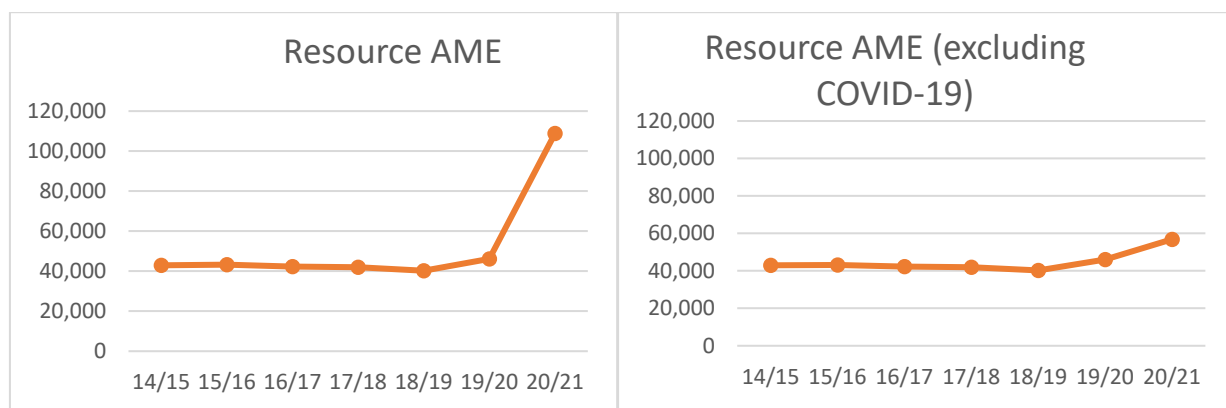
Other minor changes to the ambit are shown in the table below.

DEL:	Current Wording	Revised/New Wording	Reason
Expenditure arising from:	Exiting the European Union	EU Transition	The UK has now left the EU and the language has changed to reflect this.
Income arising from:	Recovery of law costs....	Recovery of costs associated with debt collection and other law costs...	This provides a broader description of the costs associated debt collection, where recovery of law costs is one element of the process.

### 1.7 Spending trends

The charts below show overall spending trends for the last six years and plans presented in Main Budget for 2020-21.





Data sourced from the submitted Main Estimate, published [Supplementary Estimates 2019-20](#), published [Annual Report and Accounts 2018-19 \(p.236\)](#)

Resource DEL has remained broadly stable, FY 2020-21 spending plans are slightly lower than the 2019/20 Supplementary Estimate due to reduced funding for EU transition. We expect to return for additional funding to support the delivery of our EU activities at the Supplementary Estimates.

HMRC’s recurring Resource AME spend has been steady since FY 2015-16. The 2020-21 spending plans have risen due to the one-off expenditure related to COVID-19 shown in section 2.29. Additionally Personal Tax Credits have increased by £10bn, contributing to this overall AME change.

### 1.8 Administration costs and efficiency plans

Administration Resource DEL is 3.8% lower in the 2020-21 Main Estimate compared to the 2019/20 Supplementary Estimate. HMRC will enter the year with a funding pressure which will require resolution through cost reduction and/or the provision of additional funding.

Our Spending Review 2015 settlement provided additional funding to transform HMRC, making it quicker and easier for customers to report and pay their taxes online; and to tackle avoidance, evasion and non-compliance. We are forecasting to deliver £693m against the target of £717m over the SR15 period. HMRC is currently building new internal efficiency targets for 20/21.

	Spending total	Difference (+/-) compared to		Difference (+/-) compared to	
	Amounts sought this year Main Estimate 2020-21	Supplementary Estimate 2019-20		Main Estimate 2019-20	
	£m	£m	%	£m	%
<b>Administration costs</b>	997.5	-39.7	-3.8%	28.5	2.9%

Data sourced from the submitted Main Budget (20/21), published [Supplementary Estimate \(19/20\)](#) and published [Main Estimates \(19/20\)](#).

## 1.9 Funding: Spending Round and Budgets

The levels of DEL funding for HMRC for 2020-21 is based on plans published in the 2019 Spending Round. Since then, the Government has made a number of changes to 2020-21 spending plans as set out in the Budget 2020 measures. Details of funding changes are set out in the table below.

Event (£m)	Prog	Admin	RDEL total	CDEL
Settlement letter 19	2,949.4	877.0	3,826.4	283.4
depreciation rollover	271.6	107.8	379.4	-
SR19 total	3,221.1	984.8	4,205.9	283.4
Breathing Space	2.1	0.4	2.5	10.0
Loan Charge Response	32.9	5.8	38.7	7.7
Expansion of Campaigns and Projects	13.8	2.4	16.2	7.6
Debt Management Staff Investment	10.7	1.9	12.6	6.6
Collections Management	3.2	0.6	3.8	11.3
Private Sector Funding for Tax and Tax Credits	4.3	0.8	5.0	-
Extending Making Tax Digital	29.3		29.3	35.8
VOA Business Transformation Systems	7.3	1.3	8.6	2.9
BUDGET 20 measures total	103.5	13.1	116.6	81.9
grand total	3,333.7	997.5	4,331.1	365.5
BCTs	9.1	-0.4	8.7	0.2

Data sourced from Budget 20 letter

## 1.10 Other funding announcements

The funding set out in section 2.29 will provide the economy with financial assistance under the new measures announced by the Chancellor in relation to COVID-19 (notably the Self-Employed Income Support Scheme, and the Job Retention Scheme).

## 2. Spending detail

### 2.1 Explanations of changes in DEL

Subheads	Description	Resource				Capital				Narrative
		This year (Main Estimates budget sought)	Last year (2019-20) Supplementary Estimate budget approved)	Change from last year		This year (Main Estimates budget sought)	Last year (2019- 20) Supplementary Estimate budget approved)	Change from last year		
		£ million				£ million				
A	HMRC Administration	3,897.5	3,892.0	5.6	0%	358.0	356.70	1.3	0%	2.11
B	VOA Administration	151.6	165.2	-13.6	-8%	7.5	7.00	0.5	7%	2.12
C	Utilised Provisions	30.0	30.0	0.0	0%					2.13
	<b>sub total (voted)</b>	4,079.1	4,087.2	-8.0	0%	365.5	363.7	1.8	0%	
D	National Insurance Fund	252.0	283.3	-31.3	0%					2.14
	<b>sub total (non-voted)</b>	252.0	283.3	-31.3	-11%					
	<b>total voted and non- voted</b>	<b>4,331.1</b>	<b>4,370.5</b>	<b>-39.3</b>	<b>-1%</b>	<b>365.5</b>	<b>363.7</b>	<b>1.8</b>	<b>0%</b>	

Data sourced from the submitted Main estimate (20/21), published [Supplementary Estimate \(19/20\)](#) and published [Main Estimates \(19/20\)](#).



## 2.11 HMRC Administration (Section A)

This section covers all running costs and capital investment provided to HMRC to deliver our objectives of maximising revenues due and bearing down on avoidance and evasion, transforming tax and payments for our customers and designing and delivering a professional, efficient and engaged organisation.

Budget 2020 has set out a number of measures that will be funded from the HMRC Administration line:

### Extending Making Tax Digital and Penalty Reforms

- The SR19 budget has been increased by £29.25m in RDEL and £35.75m in CDEL to provide for the Making Tax Digital programme and Penalty Reforms
- Further additional funding for 2020-21 and future years is contingent on a decision by ministers on the future policy direction for Making Tax Digital.

### Loan Charge Response

- The SR19 budget has been increased by £38.67m in RDEL and £7.73m in CDEL to provide for the loan charge response.

### Expansion to Campaigns and Projects

- B20 measure to expand upon SR19 budgets and resourcing
- The SR19 budget has been increased by £16.2m in RDEL and £7.63m in CDEL to provide for this measure

Funding for this measure has been provided in the expectation that it will deliver the OBR certified benefits of at least £1,125m over the 5 years from 2020-21 to 2024-25.

Also reflected in section A is budget cover transfers between HMRC and other governments departments, further detail are shown in the table below

Budget Transfers (£000)	
Incoming:	Total Net
MHCLG	10
DEFRA	30
MOD	20
FCO	2,369
ONS	30
DWP	24,057
BEIS	50
DFID	6,010
<b>Total Incoming</b>	<b>32,576</b>

Budget Transfers (£000)	
Outgoing:	Total Net
HO	-725
MOJ	-11,587
CO	-1,317
HMT	-412
CPS	-9,640
<b>Total Outgoing</b>	<b>-23,681</b>
<b>Total Net</b>	<b>8,895</b>

## 2.12 VOA (Section B)

There was a £13.6m (8%) movement within VOA administration because of a £19m transfer from VOA to HMRC (Section A) and lower revaluation costs in 2020-21. The transfer of funds corresponds with the transfer of VOA's IT function into HMRC's with the aim of achieving greater purchasing power, reducing cost to the Exchequer overall in the longer term, and increasing technical skill.

## 2.13 Utilised Provisions (Section C)

This section covers the provision requirements for HMRC. When provisions are utilised, the cost is moved from AME to DEL as an equal and opposite transaction. Provisions are inherently unpredictable in terms of the timing and value of settlements. HMRC have an established process in place to regularly review and monitor provisions. Provisions in HMRC primarily relate to settling legal claims against the department.

## 2.14 National Insurance Fund (Section D)

This section covers the budget for administration of the funds and the collection of National Insurance contributions. HMRC is responsible for the administration of the National Insurance Funds of Great Britain and Northern Ireland.

HMRC has worked hard to develop a plan to operate within existing funding. This has led to a movement of £31.3m to align with our 2020/21 allocation.

## 2.2 Explanations of changes in Voted Resource AME

Subheads	Description	Resource				See para
		This year (Main Estimates budget sought)	Last year (2019-20 Supplementary Estimate budget approved)	Change from last year	%	
		£ million				
E	Child Benefit	11,786.9	11,581.8	205.2	2%	2.21
F	Tax Free Childcare	709.3	283.2	426.1	150%	2.22
G	Providing payments in lieu of tax relief to certain bodies	140.1	114.5	25.6	22%	2.23
H	Lifetime ISA	420.0	278.0	142.0	51%	2.24
I	HMRC Administration	30.0	51.0	(21.0)	(41%)	2.25
J	VOA - Payments of rates to LAs on behalf of certain bodies (POLAR)	93.5	93.5	-	0%	2.26
K	VOA – Administration	2.0	2.0	-	0%	2.27
L	Utilised Provisions	(30.02)	(32.2)	2.2	(7%)	2.28
M	Covid-19	52,000.0	-	52,000.0		2.29
	<b>sub total (voted)</b>	<b>65,151.8</b>	<b>12,371.7</b>	<b>52,780.0</b>	<b>427%</b>	
N	Personal Tax Credit	31,448.7	21,498.0	9,950.7	32%	2.31
O	Other Reliefs and Allowances	12,231.0	12,231.0	(0.1)	(0%)	2.32
	<b>sub total (non voted)</b>	<b>43,679.6</b>	<b>33,729.0</b>	<b>9,950.6</b>	<b>23%</b>	
	<b>total voted and non voted</b>	<b>108,831.4</b>	<b>46,100.7</b>	<b>62,730.7</b>	<b>58%</b>	

Data sourced from the submitted Main Budget (20/21), published [Supplementary Estimate \(19/20\)](#) and published [Main Estimates \(19/20\)](#).

HMRC's AME budgets consist of Child Benefit, Personal Tax Credits and Corporation Tax Reliefs. These budgets are derived from forecasts endorsed by the Office for Budget Responsibility (OBR) and adjusted for measures relating to the COVID-19 response. An additional estimate line (Line M) has been added for payments specific to the COVID-19 response.

There has been an increase of (£52.8bn) Voted AME, which represents a 427% increase on the Supplementary estimate, consisting of the following:

### 2.21 Child Benefit (Section E)

A £205.2m increase in Child Benefit (2% increase on 2019-20 Supplementary estimate) due to updated Child Benefit rates in line with CPI inflation in 2020-21 and the impacts of COVID-19.

### 2.22 Tax Free Child Care (Section F)

A £426.1m increase (150% increase on 2019-20 Supplementary estimate) in Tax Free Childcare reflected anticipated scheme uptake rates and savers investment behaviour. This will be updated at the Supplementary Estimates to take into account the impact of COVID-19 on scheme uptake rates.

### 2.23 Payments in Lieu of Tax Relief to Certain Bodies (Section G)

A £25.6m net increase (22% increase on Supplementary estimate). The new figure of £140m consists of:

- £79m for Stakeholder Pensions
- £63m for Gift Aid Relief on Micro Donations
- The remainder is for VOC training and Mortgage interest

### 2.24 Lifetime ISA (Section H)

A £142m increase (51% increase on 2019-20 Supplementary estimate) reflecting the OBR approved forecasts which is based on recent scheme uptake rates and levels of investment.

### 2.25 HMRC Administration (Section I)

A £21m decrease in new provisions (41% decrease on 2019-20 Supplementary estimate) moves the budget back to the 2019-20 Main Estimate level. The Supplementary 2019-20 was adjusted in preparation for the Building Our Future Locations (BOFL) programme and additional early departure costs.

Provisions are inherently unpredictable in terms of the timing and value of settlements. HMRC have an established process in place to regularly review and monitor provisions.

### 2.26 Payment of rates to LAs on behalf of certain bodies - VOA (Section J)

No change from 2019-20 Supplementary budget. POLAR has been more volatile in recent years, this is down to several organisations reducing their presence in London as a result of the EU exit alongside a number of high-profile estate moves.

## 2.27 VOA Administration (Section K)

No change

## 2.28 Utilised Provisions (Section L)

A £2.2m increase (7%) to HMRC's AME specific Utilised provisions charge moving the budget back to 2019-20 Main Estimate levels.

The estimate of £30m is based on historical data. This gets reviewed ahead of the Supplementary Estimate when business areas have a clearer picture of the provisions they will utilise before year end.

## 2.29 COVID-19 (Section M)

As part of the Government's economic response to the Coronavirus outbreak (CV-19), the Chancellor has announced a number of support schemes for Small and Medium Enterprises (SME's), businesses and their workers who have been furloughed and Self-Employed individuals and Partners. HMRC has been asked to deliver these policies and where appropriate, make payments/grants to those taxpayers affected.

This new section of vote AME has been allocated £52bn, this is made up of the following schemes:

### **The Coronavirus Job Retention Scheme (CJRS) £42bn:**

- This is a temporary scheme open to all UK employers for at least 3 months, with the option to be extended by an additional month. The scheme started in April 2020 with initial claims eligibility backdated to March 1st 2020. It is designed to support employers whose operations have been severely affected by CV-19.
- Employers can claim for 80% of furloughed employees' (employees on a leave of absence) usual monthly wage costs, up to £2,500 a month, plus the associated Employer National Insurance contributions and minimum automatic enrolment employer pension contributions on that wage.
- HMRC will administer this via a grant and will be required to build and deliver an IT solution (a simple online form via an online portal) in time for the first grants to be paid in the April pay period.

**Support for self-employed through the Self-employment Income Support Scheme (SEISS) £10bn:**

- The SEISS will support self-employed individuals (including members of partnerships) who have lost income due to CV-19. Individuals and partners are able to claim a taxable grant worth 80% of their trading profits up to a maximum of £2,500 per month for the next 3 months.
- The amount of the grant will be calculated from prior year tax returns and is not at the claimants' discretion. Claimants must, therefore, have submitted 2018/19 tax returns.
- HMRC will administer this via a grant and will be required to build and deliver an IT solution (a simple online form via an online portal) in time for the first grants to be paid by the start of June.

## 2.3 Explanations of changes in Non-Voted Resource AME

An increase of £9.95bn Non-Voted AME, which represents an 23% increase on 2019-20 Supplementary Estimate and consists of the following:

### 2.31 Personal Tax Credit (Non-Voted) (Section M)

A £9.95bn increase which represents a change of 32% from last year due to an Increase in basic element of Working Tax Credits (WTC) as part of the governmental response to the coronavirus Covid-19 pandemic, and other changes.

This scheme will be delivered as follows: In addition to the planned annual uprating, WTC will increase by £20 a week for both new and existing claimants. This is a policy change made by HM Treasury and only minor IT changes will be required to ensure the increased amount is paid to claimants.

### 2.32 Other Reliefs and Allowances (Non-Voted) (Section N)

No material change since last year. This section covers a range of tax reliefs, including Large Companies Research and Development Relief, Small Companies Research and Development Relief, and Film Tax Relief.

## 2.4 Explanations of changes (Capital AME)

£10,000 is held in Capital AME for the utilisation of the Child Trust Fund provision. No changes required.

## 2.5 Restructuring

No restructuring to disclose.

## 2.6 Ring fenced budgets

Budget	Value (£m)	
	RDEL	CDEL
Budget 20 Measures (Section 1.9)	117	82
Depreciation	379	-
EU Transition	375	7

## 2.7 Change to Contingent Liabilities

The contingent liabilities identified by the Department at Main Estimate 2020-21 are materially unchanged from those reported at Supplementary Estimate 2019-20.

Description	Value (£ m)
Legal claims – Costs that may be awarded should various legal cases in which HMRC is involved be determined against the department.	90.5
Guaranteed costs – possible liability where appointed liquidators have been guaranteed payment of their costs with a view to recovery of outstanding tax liabilities, 91 cases.	0.6
Other – the department has a further number of contingent liabilities	91.2

*Data sourced from Main Estimate 2020-21 (Note K)*

HMRC has included within Note K the Contingent Liabilities that it currently holds. These contingent liabilities have been held by the department for several years and reported within the departmental resource accounts annually. They have been incurred in the ordinary course of business. HMRC have an established process in place to regularly review and monitor contingent liabilities.

## 3. Performance

### 3.1 Measures of performance against each priority

HMRC's objectives are set out in our Single Departmental plan. Each objective includes key performance indicators and Government commitments. HMRC's strategic objectives are deliberately overlapping in order to drive corporate behaviours within the organisation. For this reason, the spending detailed at Section 2.1 contributes to all top level objectives.

We are working to finalise a set of targets and new ways of measuring objectives for 2020-21.

#### **Progress against our targets**

We publish [quarterly updates\\*](#) on our performance against these objectives and cover them in the performance section of our Annual Report & Accounts. In addition to this, and to increase transparency around our customer service performance, we publish [monthly updates\\*](#) on use of our digital services and our telephony, post handling and complaints performance.

We are currently operating within a challenging public fiscal environment. Since the 2015 Spending Review we have seen an unusually high level of change, much of which has resulted in additional ongoing work for which the funding is not included as part of our current core settlement.

We have rigorously prioritised and made difficult choices to improve deliverability of both our business as usual and transformational plans. We will continue to work with Her Majesty's Treasury to ensure continued funding is made available to enable us to deliver our agreed priorities, for example by ensuring that we are fully prepared for Spending Review 2020, with multi-year investment and savings options already in development.

### 3.2 Major projects

HMRC currently have five live projects within the Government Major Projects Portfolio (GMPP):

**Making Tax Digital for Business: Modernising tax administration for businesses, helping them get their tax affairs right, by introducing digital recordkeeping and quarterly updating.** This will help reduce errors, give businesses greater certainty over their tax and reduce the need for HMRC to intervene to correct mistakes.

**Customs Transformation (Customs Declaration Service):** Providing a more flexible, scalable customs declarations service that can handle anticipated future import and export growth.



Locations Programme: Developing a more highly-skilled and flexible workforce in fewer geographical locations across the UK, equipping new workplaces with the digital infrastructure and training facilities required to realise that ambition.

Securing Our Technical Future: Delivering a resilient, flexible and highly available infrastructure which provides a foundation to enable HMRC to become the most digitally advanced tax administration in the world.

Tax Free Childcare: Tax-Free Childcare is a key part of the Governments childcare agenda and will be available to parents in work to help cover the cost of childcare. The service will provide a government contribution of up to £2,000 per child, per year (or £4,000 for disabled children) topping up payments to registered childcare providers via a parental account hosted by NS&I.

## 4. Other information

As we head into the new financial year HMRC anticipates that costs will be especially fluid and that there will be a number of financial pressures as the department attempts to deliver both its EU Transition and COVID-19 related priorities. There may also be compensatory opportunities to reduce spend.

The Office for Budget Responsibility have forecast lower National Insurance Contributions. If this does occur, it is likely to result in a funding shortfall within the National Insurance Fund. HMRC, HMT and GAD are seeking to identify and agree an appropriate trigger point at which additional funding would be requested via the Supplementary Estimates.

## 5. Accounting Officer Approval

This Memorandum has been prepared in accordance with the guidance in the Estimates Manual provided by HM Treasury.

The information in this Memorandum has been approved by the Principal Accounting Officer, Jim Harra