



National Audit Office

**REPORT BY THE  
COMPTROLLER AND  
AUDITOR GENERAL**

**HC 1457  
SESSION 2010–2012  
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**HM Revenue & Customs**

The expansion of online  
filing of tax returns

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National Audit Office

## HM Revenue & Customs

# The expansion of online filing of tax returns

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Amyas Morse  
Comptroller and  
Auditor General

National Audit Office

8 November 2011

This report examines how HM Revenue & Customs has expanded online filing since 2006; the policies, strategies and governance of the expansion programme; and the operation of online filing systems.

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## Key facts

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**£341m**

HMRC's estimated cost of the online filing expansion programme by 2011-12

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**£190m**

cumulative savings HMRC expects to achieve by 2011-12

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**£60m–97m**

estimated annual benefits to customers of online filing

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<b>£373 million</b>	initial expected cost of the programme; later reduced in response to wider funding constraints
<b>£341 million</b>	current estimated cost of the expansion programme by 2011-12 (excluding £68 million costs incurred in 2006-07 and £44 million cost to HMRC for using the Government Gateway)
<b>£190 million</b>	cumulative savings HMRC expects by 2011-12 with annual savings of £66 million thereafter
<b>£126 million</b>	cumulative savings delivered by the end of 2010-11
<b>£60 million–£97 million</b>	estimated annual benefits to customers of online filing
<b>2012-13</b>	when HMRC estimates the programme will break-even (in net present value terms)
<b>77 per cent</b>	percentage of Income Tax Self-Assessment returns filed online in 2010-11
<b>94 per cent</b>	percentage of Pay-As-You-Earn in-year returns filed online in 2010-11, rising to 98 per cent in first 5 months of 2011-12
<b>67 per cent</b>	percentage of VAT returns filed online in 2010-11, rising to 78 per cent in first 5 months of 2011-12
<b>42 per cent</b>	percentage of Corporation Tax returns filed online in 2010-11, rising to 93 per cent in first 5 months of 2011-12

# Summary

**1** Filing tax returns online is more efficient for HM Revenue & Customs (HMRC) than paper returns as it reduces processing, storage, stationery and postal costs. It can also be faster and more accurate for customers. Online filing forms part of HMRC's drive to reduce costs and persuade customers to use lower-cost channels of communication. It is also central to HMRC's customer-centric strategy, which tailors how HMRC interacts with customers according to their ability and willingness to comply with their tax and benefit obligations.

**2** Between 2000 and 2003, HMRC introduced the facility to file tax returns online for Income Tax Self-Assessment, VAT, Corporation Tax and Pay-As-You-Earn (PAYE) in-year returns. Lord Carter's 2006 review noted that HMRC was ahead of most other government departments in the range of transactional services it offered online, but, while there had been progress, take-up rates were relatively low. The review recommended an aspirational goal for HMRC to achieve by 2012 universal electronic delivery of business tax returns and of individuals' tax returns from IT literate groups, and that online filing for VAT, Corporation Tax and PAYE in-year returns become mandatory. In 2007, HMRC launched its programme to expand online filing.

**3** Expanding online filing has long been part of government plans for increasing digital and online services. This was further reinforced with the government's plans that public services should be delivered 'digital by default', and the Cabinet Office's 2011 Information and Communications Technology (ICT) strategy that promised easier access to online government services and information.

**4** This report examines how HMRC has expanded online filing since 2006 (Part One); the policies, strategies and governance of the expansion programme (Part Two); and the operation of online filing systems (Part Three). Appendix One summarises our methodology.

**5** This report is part of our wider programme of audit of HMRC. The programme includes our annual audit of HMRC's accounts and systems for assessing and collecting taxes, value for money studies and other work either cross-government or focusing on HMRC. In developing the programme we have regard to the NAO's three strategic themes of cost-effective service delivery, financial management and informed government. Recognising HMRC's challenge of creating a more efficient, flexible and effective tax administration, we seek to provide objective insight on how HMRC is:

- improving its performance and the compliance of taxpayers and benefit and tax credit claimants, using its customer-centric approach; and
- achieving value for money by reducing its costs while increasing revenues.

**6** This report is also part of our work examining how government uses ICT for efficiency and reform, and its performance in delivering digital services. Our forthcoming reports on shared infrastructure and services for government online and on the government's ICT Strategy are other examples of work in this area.

## Key findings

### Service delivery improvement

**7** To evaluate whether HMRC has delivered an improved and effective online filing service for customers, it is necessary to assess whether the programme's planned benefits have been delivered to schedule and within the approved budget. Take-up rates are one way to assess whether the service meets the needs of the customer.

**8** **To date HMRC has delivered the online filing expansion programme to time.**

HMRC has introduced the online capability for the four taxes in stages as planned, to meet the revised timetable set by Ministers. The latest stage completed was for Corporation Tax which took place in April 2011. The final stage on VAT for smaller businesses is planned for April 2012.

**9** **Take-up rates are good and increasing but HMRC has lowered some of its forecasts in the light of take-up achieved to date.** Take-up rates have increased significantly, particularly after mandatory online filing requirements have come into force. Rates also compare reasonably well with those achieved by other tax authorities, although such comparisons are not straightforward. By the end of 2010-11, take-up rates for PAYE in-year returns and Self-Assessment had increased to 94 per cent and 77 per cent respectively, broadly in line with 2008 forecasts. The rates for VAT and Corporation Tax had increased to 67 per cent and 42 per cent, respectively, some 20 per cent below 2008 forecasts. Rates for PAYE, VAT and Corporation Tax have increased further during 2011-12. In the light of actual rates achieved and greater knowledge of customer behaviour, HMRC has lowered its original forecasts of 100 per cent take-up by 2012 to around 97 per cent by 2013-14 for the three business taxes. The 2013-14 forecast for Self-Assessment is 84 per cent. Customers generally recognise the efficiencies and practical benefits online filing offers, although professional bodies have told us of their concerns about the cost and usability of filing VAT and Corporation Tax returns online.

**10** **HMRC has delivered the programme so far within a reduced budget.** The original budget for the programme between 2007-08 and 2011-12 was £373 million, which HMRC later reduced to £341 million because of department-wide funding pressures. By 2010-11, HMRC had spent £303 million and it expects the final cost to be £332 million. These figures exclude £68 million in sunk costs incurred in 2006-07 and costs of £44 million for using the Government Gateway between 2007 and 2012.



**11 Online filing is delivering significant savings to HMRC, although 14 per cent less than it originally predicted and it is unclear whether benefits are being maximised.** In 2007, HMRC forecast cumulative savings of £220 million by 2011-12, mainly through reductions in staff no longer needed to manually process tax returns. In 2010, following changes in programme funding and deliverables, it revised this down to £190 million. By the end of 2010-11, with the 2011-12 outturn not yet known, HMRC estimated that expanding online filing had delivered savings of £126 million. While HMRC has department-wide systems for reducing budgets to reflect planned savings and for tracking staff reductions and savings, these systems do not enable it to demonstrate how savings from different projects within the programme aligned to actual staff reductions in the business directorates. It also cannot demonstrate if it has maximised the benefits since it has not identified the relative costs of processing paper and online returns, nor has it assessed the marginal costs and benefits of seeking greater take-up of online filing.

**12 HMRC has yet to measure whether the anticipated benefits and costs to customers are being achieved, but plans to do so.** HMRC's business case placed less emphasis on evaluating benefits and costs to customers, but sought to quantify these in annual regulatory impact assessments. In 2009, it estimated savings to be between £60 million and £97 million a year, with one-off costs of £39 million and annual costs of £5 million. HMRC is not in a position to compare actual customer benefits and costs against these estimates because it has not measured them, although it plans to do so.

## Policies and strategy

**13** It is important for change programmes such as the expansion of online filing to have a vision for what they are to achieve and for that vision to be updated over time, as necessary.

**14 HMRC had a clear vision for online filing at the start of the expansion programme but it has not refined its strategy to identify how and when it expects to achieve universal online filing in the context of lower levels of take-up.** HMRC's original vision was to achieve universal online filing of tax returns for the main business taxes and for Income Tax Self-Assessment from IT-literate groups by 2012. It has since reduced its forecast take-up levels. It has not refined its strategy nor assessed the costs, benefits and practicalities of achieving higher levels of take-up. HMRC has also not developed, as we previously recommended, an integrated channel strategy plan with which to gauge progress towards its overall goal of migrating customers to the most cost-effective means of communication, whether by telephone, face to face, post or online. HMRC recognises that it needs to produce an integrated plan which will support its developing approach to channel migration. It has recently commissioned work into the overarching principles for channel migration to refresh its current channel strategy. It also recognises it needs to better understand customer needs and behaviours in using different channels.

**15 The expansion of online filing has been consistently aligned with past and current government initiatives to improve public services.** The expansion supported the Transformational Government agenda to simplify customers' interactions with government. It also supports the current government's 'digital-by-default' initiative to improve access to public services. HMRC is reviewing all its online and digital activities to increase future use of these channels. HMRC is also well aligned with the Government's ICT strategy in facilitating the interoperability of its systems to allow the private sector to provide online filing software. Online filing also supports its customer-centric strategy of tailoring interactions with customers according to their behaviours and ability to comply with their tax and benefit obligations.

**16 HMRC faces a significant challenge in developing its online services at the same time as delivering other important change programmes.** HMRC is developing its online services in line with wider government initiatives, while also introducing wide-ranging changes to reduce costs, increase revenues and improve its service. This includes work to stabilise the PAYE service and transform it by introducing a real-time information system, and measures to reduce the level of avoidable contact and improve its telephony operations. These plans carry significant risks that will require detailed understanding of the interdependencies and measures to address the risk of under-delivery.

## Operational performance

**17** Online filing needs to be secure and reliable if it is to be effective and fully used by customers. Information on customer satisfaction, service performance and ICT costs is key to measuring whether this is being achieved and allows rational choices to be made when prioritising service improvements.

**18 HMRC achieved an ambitious timetable to expand the use of its online filing and large numbers of customers are using these services, although there is some dissatisfaction with aspects of the service.** More than 11.5 million customers a year now submit one or more tax returns online and steadily rising take-up rates suggest growing customer confidence in the service. The ICT systems are meeting availability targets. Since 2008, apart from an isolated occasion in July 2009, the online filing systems have provided a robust service capable of dealing with the peaks in traffic around filing deadlines. There has been repeated dissatisfaction, however, about delays in receiving login details to gain access to the Self-Assessment online service during peak periods. Levels of satisfaction with the assistance offered through the various helpdesks vary, and HMRC's website does not currently meet accessibility standards in full. HMRC uses various methods to collect customer feedback but it has not benchmarked customer satisfaction with that of other online services.

**19 HMRC uses a range of measures to assess the performance of its ICT systems but does not yet have sufficient information to assess whether the costs it pays for the online filing systems provides value for money.** HMRC uses a range of indicators to measure the performance of its ICT services, which include online services, and it measures availability that relates specifically to online filing. HMRC has a high-level view of the overall costs of ICT provision through the ASPIRE contract. It has been taking steps

to improve that information and achieve cost savings. It does not yet have a detailed breakdown of the costs of online filing services, so it cannot benchmark those costs to assess their value for money. HMRC is currently negotiating with the ASPIRE contractors to obtain a clearer breakdown of the costs of ICT services provided.

## Governance and assurance

**20** Successful change programmes require effective governance and scrutiny to provide assurance about progress and the use of resources, and proper accountability for the costs and business decisions.

**21** **Most aspects of HMRC's programme governance reflect good practice.** The Office of Government Commerce reviews of the programme highlighted the programme's clear outcomes; strong leadership; effective control mechanisms; and effective engagement with external stakeholders. In 2007, it identified the need for contingency plans and to keep the risk register up to date, which HMRC addressed. HMRC's practice of updating the programme business case annually and only measuring progress against the most recent business case creates a risk that HMRC loses sight of how well it is doing against its overall objectives and value for money proposition.

## Conclusion on value for money

**22** The progress HMRC has achieved in expanding online filing represents a real achievement. The programme is on track to deliver to time and budget, 11.5 million customers are now filing online, and there is evidence that savings are being achieved as a result. HMRC does not, however, have sufficient understanding of the relative costs it incurs in online filing compared to filing of paper returns or of the costs and benefits to customers. For these reasons it is not possible to conclude whether benefits are being maximised and value for money has been achieved. Significant improvement is needed in these areas to drive future development on an informed basis.

## The Department's view on value for money

**23** "HMRC welcomes the recognition of the achievements made, and the finding that this programme has delivered to time and budget, and is on course to deliver significant savings. We accept the recommendation to improve our understanding of the relative costs and benefits. However, although this programme may not be generating its full value for money potential yet, it will recoup the investment made and deliver ongoing savings in excess of £60 million a year. On this basis, HMRC considers that the programme is already demonstrating value for money."

## Recommendations

**24** Our recommendations are designed to help HMRC secure value for money in its online filing programme.

### Benefits to HMRC

**a** **HMRC does not know whether it is maximising the benefits of expanding online filing.** It should:

- show the extent to which staff savings from the programme are translating directly into reductions in staff numbers as well as in staffing budgets;
- calculate the relative costs of processing online and paper returns, and use this information to check that anticipated reductions in processing costs from online filing are realistic; and
- determine the scope and potential benefits and costs for HMRC and its customers of increasing take-up rates further, beyond current forecasts.

### Benefits to HMRC's customers

**b** **HMRC does not yet know if customers are receiving the benefits expected from online filing, nor the costs they incur.** It should assess:

- customer benefits by, for example, measuring the time spent by customers filing a return and the speed with which tax assessments are finalised; and
- the costs incurred by customers in preparing for, and using, online filing.

### Policies, strategy and governance

**c** **HMRC does not have an up-to-date strategy for migrating customers to online services.** It should:

- produce an integrated plan that brings together the costs, benefits and milestones of the different programmes covering its communication with customers; and
- identify ways to encourage more vulnerable groups to file online, including establishing arrangements with appropriate intermediaries to assist such customers to make the most of digital services; and ensuring that the speed of transition does not exclude those who remain unable to access online services.

**d** **HMRC requires a detailed understanding of the cumulative risk of developing online services at the same time as progressing other change programmes.** It should:

- clarify the interdependencies between these various programmes;

- ensure its governance arrangements are working effectively to provide early sight of possible under-delivery; and
  - build on the experience of managing the online filing expansion programme to ensure it has the necessary programme management skills to deliver future online programmes.
- e The operating model for online services requires updating to reflect wider government initiatives and organisational changes.** HMRC should:
- ensure the model adequately reflects the interrelationships between operational directorates, the Information Management Services and Change Directorate and the ASPIRE contractors, including reflecting, where appropriate, programme-specific as well as cross-department activity and information flows;
  - include relevant targets to measure the performance of the model over time; and
  - reflect the role that online filing will play in supporting the customer-centric strategy.

### Operational performance

- f There are gaps in how HMRC specifically measures the performance of online filing systems.** It should:
- establish a clear set of performance measures for the relevant systems;
  - assess the practicality of linking its service level agreement with ASPIRE with these performance measures; and
  - identify who, outside of the Information Management Services and Change Directorate, would benefit from routine performance information against these measures.
- g HMRC does not yet have sufficient assurance that the costs it pays for specific online filing services provided by its ICT suppliers represent value for money.** It should proceed with its plans to identify ICT costs specific to online filing services and ensure that current negotiations with the ASPIRE contractors provide sufficient breakdown of cost information for regular benchmarking of costs.
- h HMRC has limited information about customer satisfaction with its online filing systems.** It should:
- devise methods for monitoring customer satisfaction with online filing and benchmarking customer satisfaction against that of other public and private sector online services; and
  - establish responsibilities for coordinating action on changes in system design and operations in response to customer feedback.

# Part One

## How HMRC has expanded online filing

**1.1** This Part looks at the background to HMRC's expansion of online filing and the costs and benefits achieved so far.

### Expanding online filing

**1.2** Online filing of certain tax returns began in 2000 (**Figure 1**). Lord Carter's 2006 review of HMRC's online services noted that HMRC was ahead of most other UK government departments in the range of transactional services that it offered online, but that, while there had been progress, take-up rates were relatively low. The review recommended that HMRC should aim for universal electronic delivery by 2012 of business returns, and of individuals' tax returns from IT-literate groups. It also recommended a staged approach to making online filing mandatory for in-year PAYE returns, VAT and Corporation Tax. This was an ambitious timetable for HMRC especially since the systems providing the online services would need to be rebuilt. The Government accepted these recommendations, and in 2007, HMRC launched its online filing expansion programme.

**1.3** Ministers subsequently decided to defer the mandatory requirements by around a year, as shown in Figure 1. This was to allow more time for HMRC, businesses and the software industry to prepare for mandatory filing, and also recognised the pressures on funding for the programme. The goal of universal electronic delivery by 2012 remained unchanged.

**1.4** The taxes involved are very different (Appendix Two). For example, over 10 million people file an Income Tax Self-Assessment return each year while around 1.9 million businesses file quarterly VAT returns. The programme is due to finish in 2012 when, subject to Parliamentary approval of the regulations, online filing of VAT returns is due to become mandatory for the remaining 40 per cent of smaller businesses. All four services are operational, having been delivered to time, and currently more than 11.5 million customers a year submit one or more of their returns online.

**Figure 1**

Timeline for expanding online filing

Timeline	Self-Assessment	Corporation Tax	Pay As You Earn (in-year returns)	Value Added Tax
2000	Online filing first available			
2001				Online filing first available
2002				
2003		Pdf online filing first available <sup>1</sup>	Online filing first available	
2004				
2005				
2006	Lord Carter's Review of HMRC Online Services.	HMRC establishes the expansion of online filing programme		
2007	Differential filing dates introduced for paper and online returns			
2008				
2009			Mandatory for large and medium-sized employers (50 or more employees)	
2010				Mandatory for traders with turnover of £100,000 or more and all new businesses
2011		Mandatory using iXBRL <sup>2</sup>	Mandatory for small employers (less than 50 employees)	
2012	Universal electronic delivery of business tax returns and individuals' tax returns from IT-literate groups			Mandatory for traders with turnover below £100,000

**NOTES**

- 1 From 2003, companies could send their accounts to HMRC electronically in portable document format (pdf). HMRC then input relevant information to its systems.
- 2 iXBRL (inline extensible business reporting language) is an international data standard that allows data in company accounts and tax computations to be 'tagged', so that computers can process and interpret the data, while also preserving it in human-readable format.

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

## Online filing take-up rates

**1.5** Take-up of online filing is central to the programme's success. HMRC has not set public targets for take-up, other than the aspirational goal of universal electronic delivery by 2012. Take-up has increased significantly, particularly after online filing has become mandatory, although it is lower than early forecasts (**Figure 2** on pages 15 and 16). In 2008, HMRC forecast that VAT, Corporation Tax and in-year PAYE returns take-up would be 100 per cent by 2012 reflecting the mandatory requirements and that voluntary take-up of Self-Assessment online filing would reach 82 per cent. Between 2009 and 2011, HMRC revised its forecasts in the light of rates achieved and a better understanding of customer behaviour (Figure 2). As a result, HMRC anticipates that by 2013-14, final take-up for PAYE in-year, VAT and Corporation Tax should reach around 97 per cent, and for Self-Assessment 84 per cent. By the end of 2010-11, HMRC had achieved take-up rates for:

- Self-Assessment returns of 77 per cent (7.1 million returns), 3 per cent below the 2008 forecast (Figure 2a);
- PAYE in-year returns of 94 per cent (20.1 million returns), in line with forecast. By August 2011, this had risen to 98 per cent (Figure 2b);
- VAT returns of 67 per cent (5.2 million returns), 23 per cent below forecast. By August 2011, this had risen to 78 per cent (Figure 2c); and
- Corporation Tax returns of 42 per cent (0.7 million returns), 21 per cent below forecast. By August 2011, this had risen to 93 per cent, although the volume of returns received was around 20 per cent lower compared with the same point in 2010-11, and a significant proportion of businesses had yet to file given the profile of filing over the course of the year. The take-up rate also includes returns submitted in pdf format (Figure 2d).

**1.6** Take-up rates for VAT and Corporation Tax have been significantly lower than those forecast in 2008. These shortfalls may reflect perceptions that in the early days the service did not offer significant benefits to customers. The authentication and user authorisation processes were considered unwieldy and time-consuming; the need to update software was considered too costly; and the preparation of pdf documents to provide Corporation Tax returns too time-consuming and complex. They may also reflect a reluctance amongst some businesses to change how they deal with government.

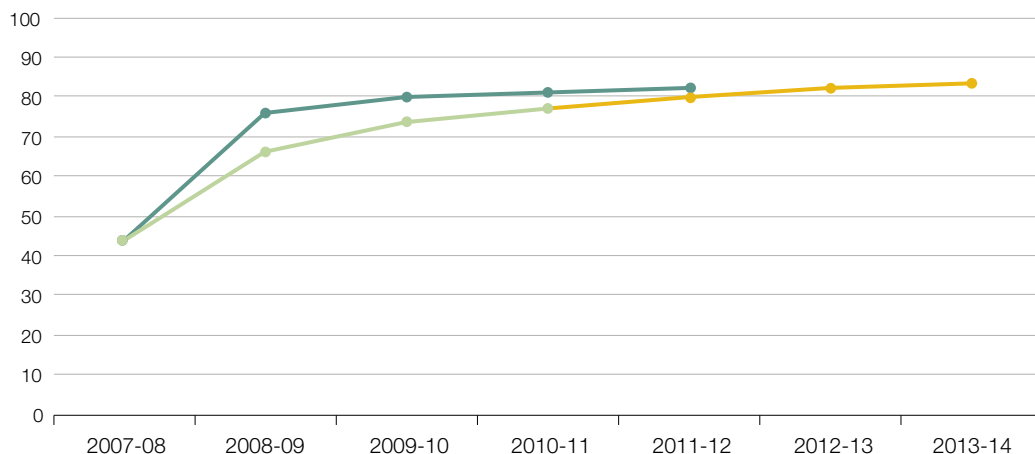
**1.7** More recently, around 60 cases are with the VAT Tribunal where challenges have been raised against mandatory online filing of VAT returns because customers consider they are unable to file online due to, for example, a lack of internet access or disability. The Chartered Institute of Taxation has also told us of the lack of incentive for tax agents to file VAT returns online which involves more steps in the client approval process than when filing by paper; concerns around the submission of Corporation Tax returns using iXBRL software (see paragraph 1.18); and concerns about the timing and impact of system changes on customers' ability to file online (see paragraph 3.14).



**Figure 2**  
Forecast and actual online filing take-up rates

**a) Self-Assessment**

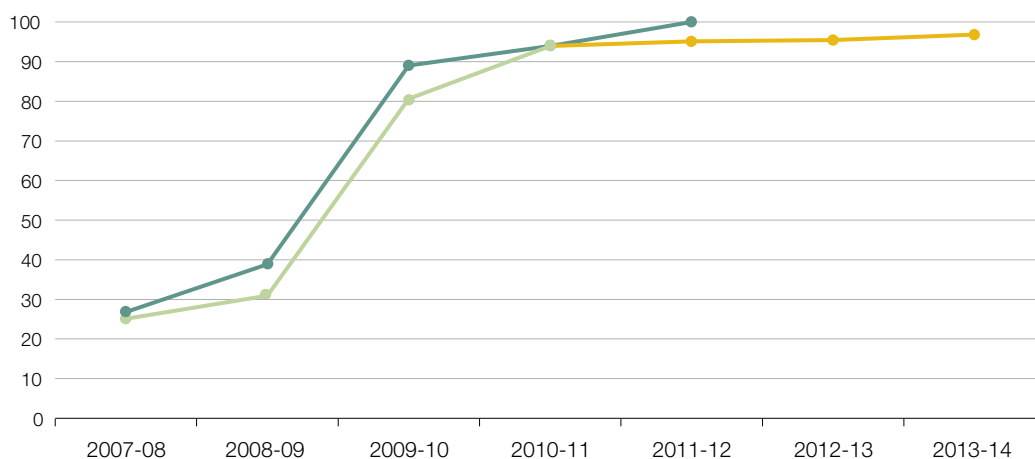
Percentage of Self-Assessment returns filed online



2008 forecast	43.9	75.6	79.6	81.1	81.9		
Actual	43.6	66.4	73.7	77.0			
Current forecast (2011)					79.8	82.0	83.5

**b) PAYE (in-year)**

Percentage of PAYE (in-year) returns filed online

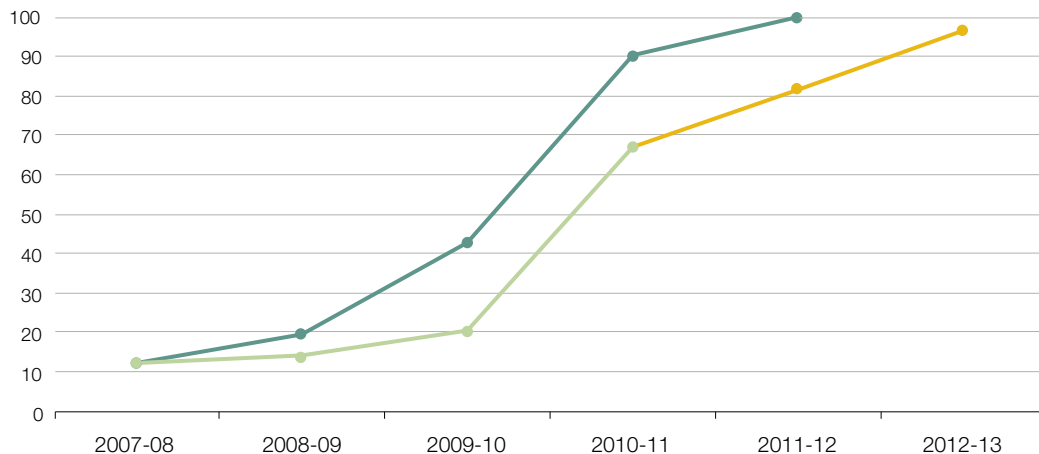


2008 forecast	26.8	38.8	89.0	94.0	100.0		
Actual	25.1	31.0	80.6	94.0			
Current forecast (2010)					95.0	95.4	96.8
<b>Actual as at August 2011</b>					<b>98.0</b>		

**Figure 2 continued**  
Forecast and actual online filing take-up rates

c) VAT

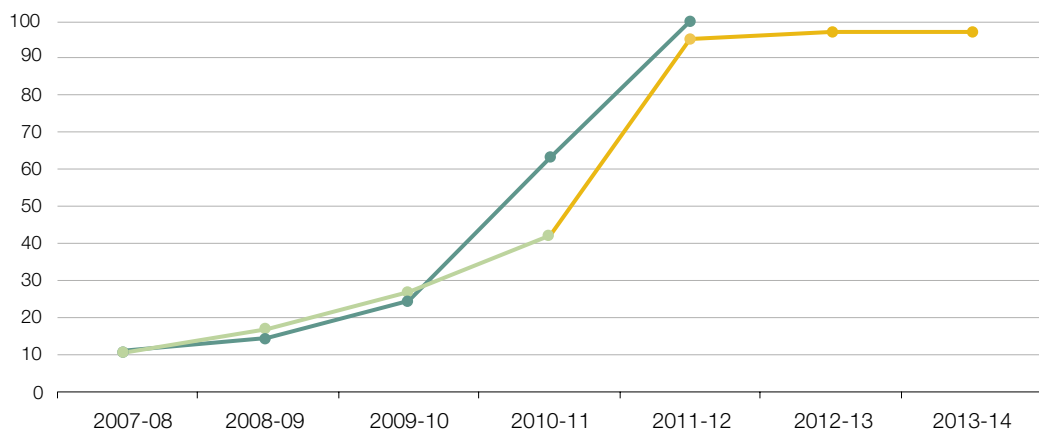
Percentage of VAT returns filed online



● 2008 forecast	12.1	19.6	42.6	90.1	100.0	
● Actual	12.0	14.0	20.4	67.0		
● Current forecast (2011)					81.8	96.4
<b>Actual as at August 2011</b>					<b>78.0</b>	

d) Corporation Tax<sup>1</sup>

Percentage of Corporation Tax returns filed online



● 2008 forecast	10.8	14.2	24.5	63.3	100.0		
● Actual	10.4	16.9	26.9	42.0			
● Current forecast (2011)					95.0	97.0	97.0
<b>Actual as at August 2011</b>					<b>93.0</b>		

NOTE

1 HM Revenue & Customs introduced mandatory filing of Corporation Tax returns online using iXBRL in April 2011. Before then, Corporation Tax returns were filed online in pdf format. 'Actual' and 'forecast' rates up to 2010-11 are for pdf submissions and those after are for iXBRL submissions.

**1.8** In its benefit model for the programme HMRC identified minimum rates it needed to achieve by 2012 to obtain the anticipated benefits. HMRC expects to exceed the minimum rates, except on Corporation Tax, where it expects take-up to peak at 97 per cent, against a minimum rate of 99 per cent.

**1.9** HMRC's achievement in online filing compares reasonably well with take-up rates achieved by other tax authorities. In the United States, online filing for individuals' tax returns was available from 1990 and take-up reached 20 per cent by 1998, when the Internal Revenue Service was set a goal to achieve a take-up rate of 80 per cent by 2007. This was later put back to 2012 in the face of slower than expected take-up. By 2011, it had achieved a rate of 80 per cent following a new congressional mandate on tax preparers to file online. HMRC began receiving online Self-Assessment returns in 2000 and by 2010-11 had achieved a take-up rate of 77 per cent. The rate of take-up has been quicker in some other countries. In Chile, online filing take-up was 5 per cent in 1999 and had risen to 97 per cent by 2007. However, comparisons are not straightforward because of differences in levels of ICT literacy and widespread ownership and access to ICT over time, and differences in how long online filing has been in force and whether it is mandatory.

**1.10** An international benchmarking study of 13 tax administrations compared online filing rates in 2008-09. The study did not identify individual countries but provided the range and average rates achieved (**Figure 3**). In 2008-09, HMRC achieved a Self-Assessment take-up rate 10 per cent higher than the international average. HMRC's 2008-09 take-up rates for VAT, Corporation Tax and in-year PAYE returns were much lower than the 57 per cent international average for business tax returns, although they have increased since.

**Figure 3**  
International take-up rates in 2008-09

	<b>Individual tax returns (%)</b>	<b>Business tax returns (%)</b>
Highest take-up rate achieved	99	100
Lowest take-up rate achieved	11	7
Average take-up rate achieved	56	57
HM Revenue & Customs take-up rate achieved		
Self-Assessment	66	
VAT		14
Corporation Tax		17
In-year PAYE		31

**NOTE**

1 HM Revenue & Customs take-up rates achieved by August 2011 are shown in Figure 2.

Source: National Audit Office analysis of HM Revenue & Customs data and McKinsey, *The Road to Improved Compliance, 2009*

## Costs of HMRC's expansion programme

**1.11** HMRC expects to deliver the expansion programme within budget. In 2007, HMRC estimated that the programme would cost £373 million between 2007-08 and 2011-12, and that, in net-present-value terms, benefits would start to outweigh costs by 2013-14. In 2010, it reduced the planned cost by 9 per cent to £341 million, because of wider funding pressures, and revised the break-even year to 2012-13. As a result, HMRC de-scoped certain aspects such as pre-populating returns using third party software. At the end of 2010-11, HMRC had spent £303 million. It expects the final costs to be £332 million (**Figure 4**), 3 per cent below the revised budget.

**1.12** Of the £332 million estimated outturn, HMRC expects to spend £87 million on infrastructure costs and £138 million on other projects associated with the expansion programme, such as the cost of a new portal through which users access the service. The project costs to implement and run the four ICT online applications are roughly: Self-Assessment £40 million, VAT £13 million, PAYE £31 million and Corporation Tax £23 million. Around 80 per cent of the costs are on the provision and management of ICT services.

**1.13** While HMRC expects to complete the programme within budget, its early financial management did not always follow good practice. In the first full business case in 2007 it did not include £68 million of costs it incurred in 2006-07, largely on projects started before, but then subsumed into, the programme. These were included in later business cases following an internal audit review. None of the business cases have included the £44 million cost of using the Government Gateway between 2007 and 2012. Treasury guidance does not require such sunk costs to be included in the economic appraisal, but they should be included to inform the wider value for money assessment.

### Figure 4

Actual costs compared with budget<sup>1</sup> in 2007 and 2010

	2007-08 (£m)	2008-09 (£m)	2009-10 (£m)	2010-11 (£m)	2011-12 (£m)	Total (£m)
<b>Programme budget 2007</b>	95	104	69	60	45	373
<b>Programme budget 2010</b>	95	84	72	57	33	341
<b>Actual/planned outturn</b>	94	84	72	53	29	332
<b>Cumulative actual outturn</b>	94	178	250	303		

#### NOTE

<sup>1</sup> The budget did not include £68 million incurred during 2006-07.

Source: HM Revenue & Customs

## Benefits of online filing

### Benefits to HMRC

**1.14** Online filing is more efficient than paper filing since it reduces the staff required to manually process returns and minimises costs of storage, stationery and postage. In addition, online filing incorporates basic data checks that can improve the accuracy of returns. The business case focused primarily on benefits to HMRC. We cover customer benefits in paragraph 1.25.

### Benefits achieved

**1.15** To date, HMRC has achieved significant savings, although not as high as it originally predicted. Because of the staged introduction, the planned annual savings increased each year until completion of the programme in 2011-12, and remained constant thereafter. In 2007, HMRC estimated that, by 2011-12, it would reduce full-time equivalent staff numbers by 2,871 and achieve cumulative savings of £220 million. HMRC expected benefits of £75 million a year thereafter. In 2010, it reduced the cumulative estimate to £190 million, because of changes to the funding for the programme, and reduced the ongoing annual benefits to £66 million. By 2010-11, HMRC assessed it had reduced full-time equivalent staff numbers by 2,375 and saved around £126 million, against the 2007 cumulative forecast of £145 million. While HMRC has department-wide systems for reducing budgets to reflect planned savings and for tracking staff reductions and savings, these systems do not enable it to demonstrate how savings from different projects within the programme aligned to actual staff reductions in the business directorates. Although savings have clearly been made, and are likely to be sustainable as they derive from less manual processing, we cannot confirm the accuracy of the actual savings claimed.

**1.16** HMRC anticipates additional benefits, beyond those attributed to the expansion programme, from the requirement that customers file Corporation Tax returns using inline extensible business reporting language (iXBRL). iXBRL allows data to be ‘tagged’, so computers can process and interpret it automatically, and it still appears in human-readable format. This saves time for HMRC in not having to retype information as was the case previously, but companies need specialist software to prepare their returns.

**1.17** HMRC expects additional tax yield from introducing iXBRL arising from improved accuracy through automated checks and improved risk assessment of returns. In 2011, HMRC quantified this additional yield at around £151 million over three years from 2012-13, with an associated cost to itself of around £10 million. HMRC has not assessed the cost to customers of using iXBRL. HMRC faces several risks in achieving these benefits:

- Improved risk assessment requires data to be completely and accurately tagged. Not all software is designed to tag the required content automatically. Some tag none and others tag only a percentage, typically around 80 per cent. The customer has to use the software to tag the remaining 20 per cent. This may affect the consistency HMRC can achieve in its risk assessment of returns.

- HMRC has introduced a 'reasonable effort' policy so that it will not penalise those who try to return their accounts in iXBRL but fail in some aspect of the tagging. It will need to apply this policy fairly and consistently for smooth transition to the mandatory use of iXBRL.

**1.18** Professional bodies told us of their concerns about the costs incurred by customers in providing tagged information using iXBRL, largely due to increased preparation time, and high failure rates when returns are first submitted. They considered that iXBRL involved customers in extra costs for little direct benefit and suggested that HMRC could still undertake effective risk assessment with a significantly lower level of tagging, which would also reduce customers' preparation costs.

### **Optimising benefits to HMRC**

**1.19** With 100 per cent take-up, efficiency gains are maximised, as paper return systems are no longer needed. In practice, 100 per cent take-up is unlikely for a number of reasons:

- Exemptions: These are set out in legislation and include religious objections to using computer technology (affecting about 200 users); and businesses that are subject to a 'winding-up order', in administrative receivership or being managed by an administrator (affecting about 20,000 businesses).
- Non-compliance: A percentage of the population will continue to send HMRC paper returns or pdfs.
- Filing Self-Assessment returns online is not mandatory.

**1.20** HMRC has not analysed the costs and benefits of seeking to increase online filing take-up further, including whether there is a cost-benefit case for reviewing the exemptions and the steps needed to target customers that continue to submit paper returns.

**1.21** Comparing the relative costs of processing online and paper returns can highlight the relative benefits of online filing, inform decisions about the value for money of achieving higher take-up rates and allow benchmarking against other comparators. In 2006, in evidence to the Committee of Public Accounts, HMRC estimated it cost £9 less to process an online return compared with a paper return. The United States' Internal Revenue Service has estimated that the cost of processing an online tax return for individuals is up to 15 times cheaper than the cost of processing an equivalent paper return.

**1.22** HMRC has assessed the benefits of online filing largely from the reduced time needed to process an online return, based on process mapping of online and paper returns for each tax. Such analysis could provide the basis for calculating the relative costs involved in directly processing online and paper returns, but to obtain a full picture it would need to be extended to cover all the different costs involved. HMRC has not calculated the marginal costs and benefits of increasing online take-up to inform

decisions about whether there is a case for pursuing higher take-up rates, particularly for Self-Assessment returns. HMRC does, however, recognise the importance of mapping costs and other relevant performance measures. In 2010, it began its Process Management Capability project which, among other things, is designed to understand and map the costs of its end-to-end processes. HMRC expects the project to inform its approach to making unit-cost comparisons.

### Benefits management

**1.23** HMRC established, and annually updated, its Benefit Realisation Management Plans but weaknesses in benefits forecasting and reporting mean that it may not have achieved optimal savings from the resources deployed. HMRC forecast the level of staff and other savings for each project within the programme and the associated risks and dependencies. While differences between actual and forecast savings might be expected, there have been significant variations in the level of different benefits achieved. For example, Self-Assessment staff savings have been 26 per cent less than originally forecast (**Figure 5**). HMRC identified significant additional benefits that made up this shortfall, for example, in the use of autocoding. Autocoding allows HMRC to use data from Self-Assessment returns by people with multiple incomes to update PAYE codes immediately, thereby improving the accuracy of future deductions. HMRC initially estimated staff savings from autocoding at 189 full-time equivalents, which it later increased to 469, having underestimated the amount of processing time saved and the number of cases where it could apply autocoding.

## Figure 5

Self-Assessment full-time equivalent staff savings delivered below forecast

Benefit	Original savings forecast (Full-time staff equivalent)	Actual savings achieved (Full-time staff equivalent)	Change (Full-time staff equivalent)	Change (%)
Staff savings from not having to log customer tax data and validation activities	1,296	1,001	295	-23
Staff savings from improved online guidance and a simpler main tax return requiring less departmental assistance	479	314	165	-34
<b>Total</b>	<b>1,775</b>	<b>1,315</b>	<b>460</b>	<b>-26</b>

### NOTE

1 HM Revenue & Customs considers that it has delivered a proportion of the savings shortfall through the autocoding project, but it has not calculated that proportion.

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

**1.24** HMRC has regularly reported on benefits achieved, but there have been differences between the Benefit Realisation Management Plans, the business cases and claims for benefits in the financial models. For example, staff savings in 2009-10 are reported as the equivalent of 674 staff in the 2010 business case and 796 in the Benefit Realisation Management Plans of November 2010. In 2009, internal audit raised concerns that the benefits of improved online guidance, in reducing customer contact with call centres, had been overestimated because of weak modelling techniques.

### Benefits to customers

**1.25** Online filing can offer benefits to customers as well as generate costs (paragraph 1.18). HMRC's business case placed less emphasis on evaluating costs and benefits to customers, although it sought to quantify these in regulatory impact assessments. In 2009, HMRC estimated that online filing would deliver annual benefits to customers of between £60 million and £97 million, a small increase on its previous estimate, with one-off costs of £39 million and annual costs of £5 million. Benefits were based on reductions in time to complete returns online and built-in calculation and checking functions reducing the need for follow-up queries. Costs were largely related to the one-off costs of the time needed to register with HMRC's website. HMRC has not yet analysed the actual benefits and costs for customers. It plans to carry out a post-implementation assessment when the programme is complete. We examine customer experience in Part Three.



# Part Two

## Policies, strategies and governance

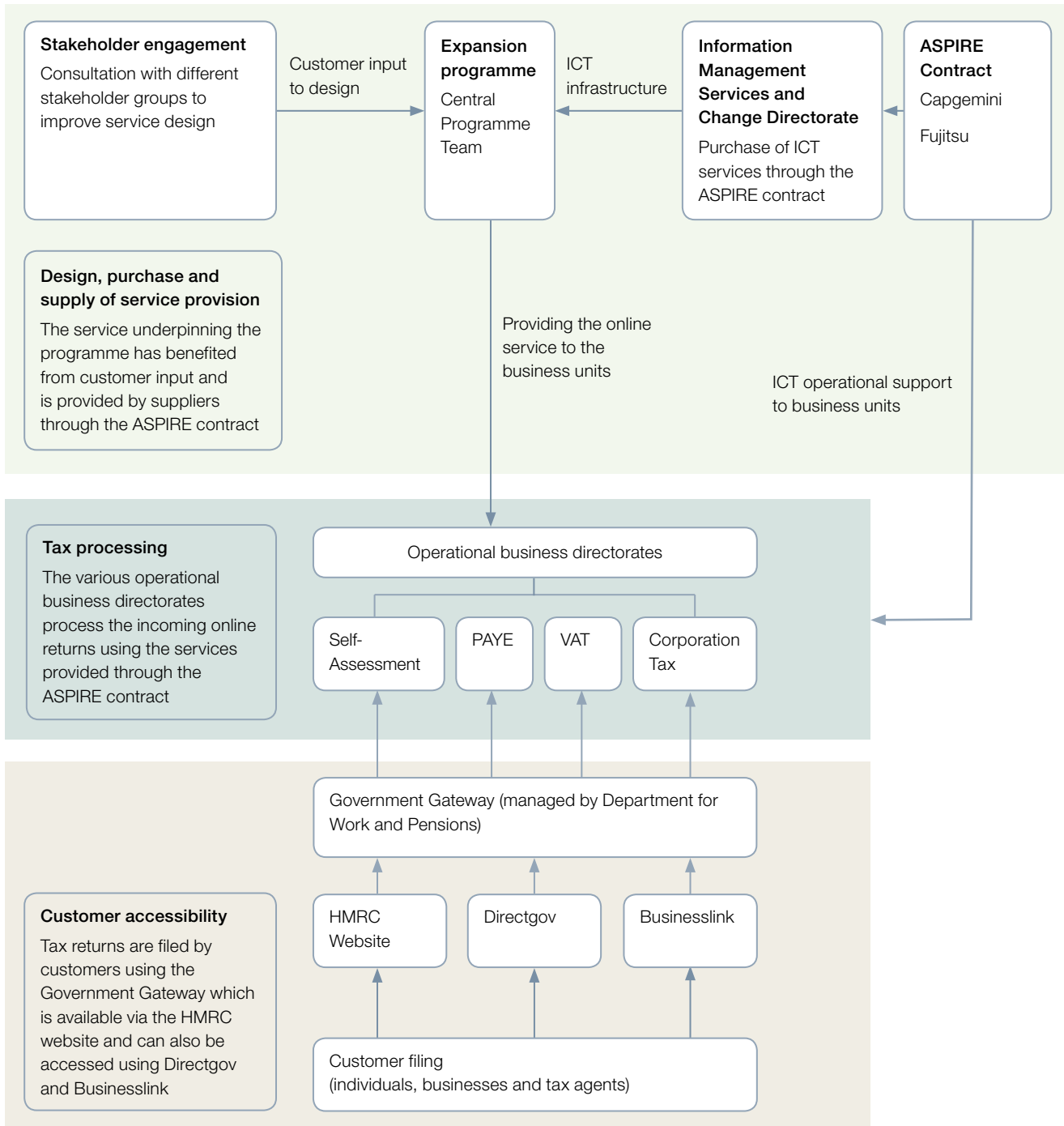
**2.1** This Part examines the policies and strategies behind expanding online filing, and the governance of the programme.

**2.2** Various HMRC directorates are involved in the expansion programme (**Figure 6** overleaf). A central programme team manages programme delivery, handing over the systems to relevant operational directorates once they are ready for full operational use. The Information Management Services and Change Directorate is responsible for the purchase of ICT services through the HMRC-wide ASPIRE contract. Tax returns are filed by customers through the Government Gateway, managed by the Department for Work and Pensions, before being processed by the operational directorates. The programme has 'core' projects to scale up the ICT infrastructure and 'enabler' projects to provide a robust, reliable and secure online experience, as well as improved functionality.

### Policies and strategies

**2.3** HMRC had a clear goal for the expansion programme: to achieve by 2012 universal online filing of tax returns for the main business taxes and for Income Tax Self-Assessment from IT-literate groups. This approach supported at that time the government's wider Transformational Government agenda for delivering customer-focused services, the aim of which was to simplify customers' interactions with government. Online filing also fitted with HMRC's strategy to move customers towards channels of communication that most effectively met customers' needs at the lowest cost to both parties. As HMRC implemented the expansion programme, it reduced its forecast take-up rates for the business taxes to below 100 per cent. It also expects Self-Assessment online filing to peak at around 87 per cent. HMRC's goal remains to achieve 100 per cent adoption of online filing for business taxes, after taking exemptions into account. It has not, however, refined its strategy to identify when and how it expects this to be achieved, and it has not assessed the marginal costs and benefits of, nor the steps needed, to increase take-up rates further.

**Figure 6**  
Responsibilities for the expansion programme



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

**2.4** HMRC's strategy to move customers to the most cost-effective form of communication involves greater use of online and telephony services and less use of face-to-face contact and post. HMRC has different programmes underway to achieve this, such as expanding online filing and automated telephony services. However, it has not developed an integrated plan that brings together the costs, benefits and milestones of the different programmes and their interdependencies, as recommended in our 2010 report on *Handling telephone enquiries*.<sup>1</sup> Since then, HMRC has been introducing its customer-centric strategy, which tailors HMRC interactions with customers according to their needs and their ability and willingness to comply with their tax and benefit obligations. Over time it intends to increase the numbers in the 'willing and able' segment through education and advice, and enforcement activities to tackle deliberate non-compliance. HMRC's online services will play an important part in this strategy. HMRC expects that, for those able to manage their affairs with little or no help, the primary method of contact will be online, while it will provide more personalised help for those who need it.

**2.5** Over time, the expansion of online filing has continued to be aligned with government initiatives to improve public services. In November 2010, the Government reinforced wider use of online services when it announced that public services should be delivered 'digital by default'. HMRC is, therefore:

- reviewing how it should design online services to meet this commitment;
- assessing the support required for customers who may need assistance in using online services; and
- reviewing how it makes use of other parties, such as voluntary organisations, to support customers who need the most help.

**2.6** In July 2011, the Treasury Select Committee<sup>2</sup> concluded that HMRC had been relatively successful in enabling taxpayers to pay taxes online. However, it also said that requiring online filing prematurely runs the risk of excluding those without reliable high-speed internet access, dissuading those who are not computer literate from being tax compliant, and overloading new systems. It recommended that HMRC should retain robust, well-advertised alternatives for those who cannot submit online.

**2.7** In March 2011, the Government also published its ICT strategy which set out how public sector ICT services and infrastructure would be purchased and developed in future. This includes a commitment to working with departments on a timetable for opening up 'Application Programme Interfaces', which provide a set of rules and specifications so that software programs can interface with government departments. In this way, third parties can provide software products or websites for citizens to provide information to, or receive information from, government. HMRC has already defined a number of interfaces for online filing and made these publicly available.

<sup>1</sup> National Audit Office, *HM Revenue & Customs: Handling telephone enquires* HC 211, 2009-10 (January 2010).

<sup>2</sup> HC Treasury Select Committee, *Administration and effectiveness of HMRC*, Sixteenth report (July 2011).

**2.8** HMRC is also developing its wider online services while implementing other important change programmes to meet its commitments to reduce costs, increase revenues and improve its service. These include:

- ongoing work to stabilise and transform the PAYE service, and introducing a real-time information system to underpin wider welfare reform;
- wider application of its Pacesetter programme to improve business operations;
- reducing avoidable contact and improving telephony operations; and
- expanding the range of online guidance and tools for customers.

**2.9** As highlighted in our report on *Reducing costs in HMRC*,<sup>3</sup> HMRC's plans involve wide-ranging changes with significant risks. Addressing these will require a detailed understanding of the interdependencies between projects, measures to address the risks of under-delivery and periodic assessment of programme management skills.

## Governance and assurance

**2.10** HMRC's governance of the expansion programme followed good practice, including having a Senior Responsible Owner accountable for its success, clear roles and responsibilities for those involved, and Board meetings at programme development and operational levels. Board meetings, attended by key personnel, have been held as scheduled and reported on achievements, risks and issues.

### Programme accountability and scrutiny

**2.11** HMRC approved the first full business case for the programme in October 2007. In line with good practice, it included an explanation of the rationale for the expansion, a financial model and information on risks, contingency requirements and benefit realisation. HMRC has revised the business case annually to show its continuing rationale and affordability. As such the document became a mix of past achievements and future plans. HMRC considers the latest business case of 2010 to be the benchmark against which to judge success, as it provides a current view of budget, deliverables and benefits. HMRC, however, risks losing sight of what the programme originally intended to achieve, and at what cost, thereby weakening accountability. **Figure 7** shows how changes have led to a greater reduction in the level of savings expected than the reduction in expected costs.

<sup>3</sup> National Audit Office, *Reducing Costs in HM Revenue & Customs*, HC 1278, 2010-12 (July 2011).

**Figure 7**

Comparing the 2007 and 2010 business cases

	<b>2007</b>	<b>2010</b>	<b>Percentage change (%)</b>
Programme budget (£m)	373	341	-9
Forecasted total FTE savings	2,871	2,522	-12
Cumulative annual paybill savings (£m)	188	161	-14
Cumulative savings total (£m)	220	190	-14

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

**2.12** The programme has been subject to Office of Government Commerce external scrutiny at key stages. Its reviews concluded that the programme had clear outcomes; was well led; had effective programme control mechanisms; and engaged effectively with external stakeholders. It also highlighted in 2007 the need for contingency plans to respond to unforeseen events and mapping identified risks to the risk register, and, in 2008, plans for replacing key staff. Internal audit has also undertaken various examinations covering financial, benefits and stakeholder management, governance and fraud controls. HMRC has improved the governance and management of the programme in response, including:

- appointing a benefits manager to track progress in achieving benefits;
- recruiting customer champions to help identify customer benefits; and
- maintaining a more comprehensive risk register.

# Part Three

## Operational performance

**3.1** The online filing systems for Self-Assessment, PAYE in-year returns, VAT and Corporation Tax are now operational. This Part examines the operating model for online filing services, how HMRC engaged with stakeholders to develop the systems, the measurement of service performance, system security, and customers' experience of using online filing.

### Operating model

**3.2** Services should have an operating model that details roles, responsibilities and processes. HMRC decided to incorporate online filing processes into the different operational lines of business, which then drove the definition of roles, responsibilities and processes. Consequently, whilst the Information Management Services and Change Directorate retained a cross-cutting view, there was no single model which described specifically the responsibilities for decision-making within the expansion programme, the costs of delivering its various elements, or how the programme's performance would be measured. As part of its department-wide review of online and digital activities HMRC is defining a revised operating model to reflect the Government's wider agenda and its plans to manage online services as a cross-departmental function.

### Engagement with stakeholders

**3.3** HMRC consulted extensively throughout the programme with a wide range of stakeholders to identify customers' needs. For example, it established:

- consultative groups to keep tax agents and industry representatives informed of developments;
- programme 'champions' to act as a single point of contact for different groups of external stakeholders (such as tax agents, businesses and the software industry);
- research into customer concerns about online filing and support needs; and
- online filing 'roadshows' to help local businesses and individuals to understand the process.

**3.4** HMRC prioritised stakeholder concerns in the light of funding constraints and addressed those problems that had the highest priority. In addition to deferring the introduction of mandatory filing (see paragraph 1.3), it has provided:

- free entry-level software, in particular, a Corporation Tax package for small businesses with simple tax affairs that allows them to meet their obligations without investing in commercial software; and
- ‘soft landings’ – a period of time for customers to familiarise themselves with online filing without fear of penalties.

**3.5** HMRC also engaged with commercial software developers, providing technical packs to assist them in developing software to interact with HMRC’s systems. Software providers were positive about HMRC’s willingness to consult. Ministers considered adopting the United States model, where the private sector alone provides low- and middle-income taxpayers with free online filing software, in return for the Internal Revenue Service not launching competing products. They decided that HMRC would continue providing free ‘entry level’ software to help customers comply with the mandatory requirement to file online.

### **Measuring service performance**

**3.6** HMRC’s ICT services are provided through the ASPIRE contract. HMRC’s Information Management Services and Change Directorate is responsible for measuring the performance of ICT services in general, including the online filing systems.

**3.7** HMRC measures the performance of its broader ICT service using a range of indicators, linked to the ASPIRE contract and service level agreement. While these do not measure online filing services specifically, HMRC uses the measures to identify and respond to problems occurring on particular services, including online filing. HMRC also measures specifically the availability of the online service. Availability data shows that, apart from problems in 2008 (paragraph 3.13) and one occasion in July 2009, availability has been in line with the standards set for acceptable performance.

**3.8** The ASPIRE contract includes a rolling programme of benchmarking the prices HMRC pays for the various contracted services, including those relevant to online filing. While the Directorate seeks to challenge those costs and savings have been made, it has been aware that the benchmarking has not provided sufficient assurance about value for money of individual services. Since 2010, HMRC has introduced new processes to improve information on the cost and use of ICT and benchmarking of key ICT service lines. These processes cannot yet provide information in sufficient detail to benchmark and challenge the cost of individual online filing services. HMRC is currently negotiating with contractors to obtain a clearer breakdown of the costs of ICT services provided.

**3.9** HMRC is responsible for making its services accessible for people with disabilities or special needs. The part of HMRC's website through which online returns are filed does not fully meet accessibility standards. HMRC, therefore, plans during 2011-12 to make the website more accessible to visually-impaired users by improving colour contrast and the use of headings.

### Online security

**3.10** Online systems need to be secure for customers to have confidence in them. These include secure means for customers to authenticate their identity to prevent fraud. HMRC uses the identity authentication measures provided by the Government Gateway for its online filing services, accreditation of which is supplied by an independent assessor. Our forthcoming report *Digital Britain 1: Shared infrastructure and services for government online* covers the Gateway and examines the value for money of investments made and whether existing technology is sufficient for future demands.

**3.11** HMRC produces guidance for customers to protect against 'phishing' attacks (fraudulent requests for confidential information) and proactively monitors fraud. In 2009, following an increase in fraudulent activity on the Self-Assessment online service, HMRC established a dedicated team to identify and prevent potential online fraudulent repayments. HMRC has prevented an estimated £63 million of fraudulent repayments in the 18 months to March 2011. A 2011 internal audit report raised concerns that extra controls introduced to detect fraudulent activity were not yet working to full capacity owing to funding pressures.

### Customers' experience of online filing

**3.12** Lord Carter's review recommended that HMRC should benchmark customer satisfaction with its online services against commercial online services, but HMRC has not sought to do this since it considers this would be costly. We analysed HMRC's customer feedback and met with various representative organisations to get the perspective of people using online filing, such as tax agents, accountancy practitioners and small businesses. This yielded a range of positive and negative experiences. Generally there was recognition that, after initial problems had been resolved, online filing offers real efficiencies and has many practical benefits. These include immediate HMRC acknowledgement that the return has been received, a reference number for tracking submissions and reduced reliance on, and costs of, using the postal service.

**3.13** Customers generally have confidence in online filing, as reflected in take-up rates that have risen steadily (see paragraph 1.5). There have been no major service failures since 2008 when the Self-Assessment online service failed, causing HMRC to extend the filing deadline. Since then the ICT systems have coped with significant peaks in traffic, especially around the Self-Assessment filing deadlines.



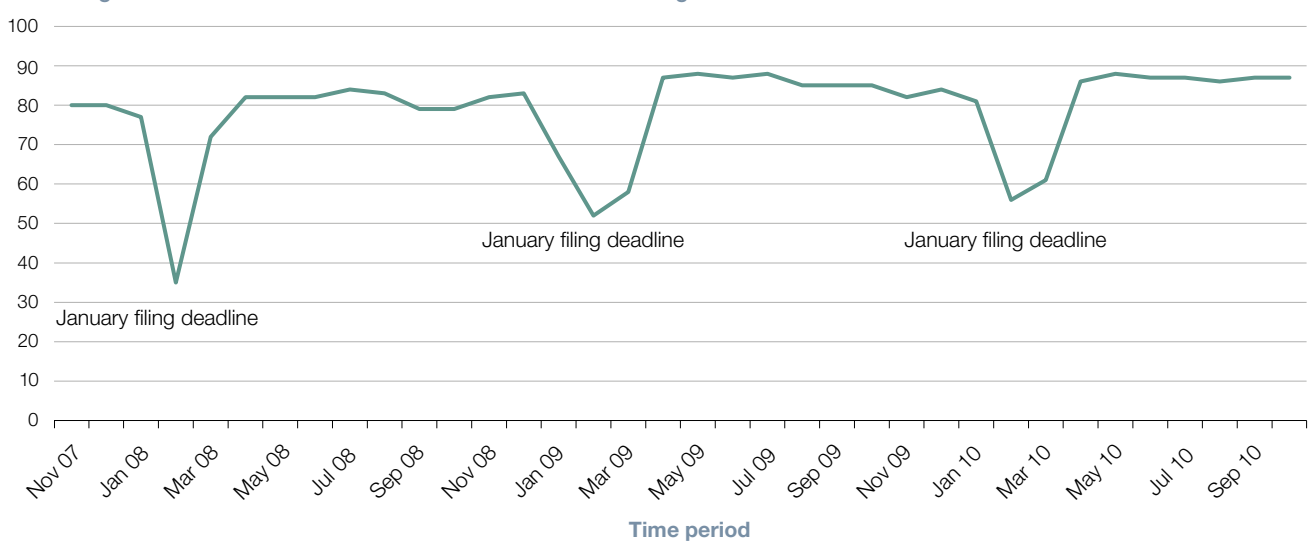
**3.14** It is also widely acknowledged that the online transition has had its difficulties. Customers have had problems getting their activation pin and using the email, online and telephone help functions. Many businesses have had to invest in software and training to submit returns online. Some iXBRL software does not automatically convert all company accounts data into the required format (see paragraph 1.17), and businesses may need to take more time than originally envisaged running the software to complete the process. Professional bodies and tax agents considered that more time was needed for businesses and software companies to prepare for iXBRL. They also had concerns about the timing and impact of upgrades to HMRC's systems, which led to the VAT online system being unavailable for a few days in April 2011 when failure to file would have led to penalties, and delays in being able to file certain Corporation Tax returns until after a system upgrade in October 2011. HMRC recognises the impact that its major annual ICT upgrades have on customers and has been taking steps to alert customers when there may be delays and to implement changes in a way that reduces impact on customers.

**3.15** Customer feedback suggests that the majority of customers are satisfied with online filing services, but they are not satisfied with every aspect. There were significant falls in satisfaction with the login process among customers using the Self-Assessment service near the January filing deadlines in 2008, 2009 and 2010 (**Figure 8**), largely due to delays in customers obtaining login details. Between January and October 2010, 122 of the 503 complaints made to the Customer Contact Directorate related to Self-Assessment login problems.

**Figure 8**

Satisfaction with the Self-Assessment online login process, based on voluntary exit surveys

Percentage of customers satisfied with Self-Assessment online login



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

**3.16** As take-up rates have increased, telephone calls to HMRC's Self-Assessment and PAYE online service helpdesks have increased from around 121,000 in 2007-08 to over a million in 2010-11; emails increased by around 194,000 over the same period. HMRC could not identify how many enquiries were from online customers as all initial enquiries come through to a single line, but it is likely that these represented many of the contacts made.

**3.17** Self-selecting customer feedback indicates that the quality of HMRC's online help, telephone and email support services varies between the different taxes and at different times of the year. For example, satisfaction rates with Self-Assessment customer support in the year to October 2010 averaged 55 per cent for email, telephone and online assistance, but fell to a low of 36 per cent in the months immediately following the January filing deadline. Satisfaction rates with Corporation Tax customer support services in 2010 were generally much lower, ranging from 8 to 44 per cent. Satisfaction with the Corporation Tax online service fell sharply when HMRC introduced updates to the system in November 2009 in preparation for the change to iXBRL, which resulted in significant changes to many features of the online filing service.

### Using customer feedback

**3.18** HMRC has not always been in the best position to make full use of feedback information. It carried out usability testing to identify problems before systems went 'live' but this was not always done when it could provide most benefit. For example, navigation around the Corporation Tax online return was not as flexible as was needed when it went 'live'. HMRC did not test navigation when it undertook usability testing of its own Corporation Tax online filing software because it had not decided at that time which product the software would be based on. Consequently, HMRC released the software 18 months before its use became mandatory, so that problems could be identified and fixed as funding and technical solutions allowed. HMRC identified over 200 changes which needed to be made to the software in that period.

**3.19** There is no central function to assess and prioritise suggested changes to the online filing process. Each operational directorate is responsible for making the case for changes to their system, following feedback received. Over the past two years, only changes required by legislation have been funded. The online customer service team has reduced the time spent on producing customer satisfaction reports, based on voluntary online feedback, as it considers this information to be unrepresentative of the majority view of its customers.

**3.20** Customers contacting HMRC's call centres with a software-specific problem are not passed to the relevant software provider. From HMRC's point of view, this would create data protection difficulties. Software providers, however, considered this was a missed opportunity to better understand and resolve the software problems users experienced.

# Appendix One

## Methodology

Our research methods were:

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### Method

#### Document review

Review of a wide range of client documents including HMRC business cases, benefit realisation plans, programme management plans, programme and project minutes, process and technology documentation, portfolio reports, lessons learned logs, internal audit reports and Office of Government Commerce Gateway Reviews.

#### Structured interviews with department staff

We conducted approximately 15 structured interviews with an extensive range of HMRC staff.

#### Semi-structured interviews with stakeholders

We held discussions with a wide variety of stakeholders including tax agents, accountancy practitioners, representatives from the software industry, small business interest groups and representatives from the banking sector.

#### International comparison

We used comparative data from other tax authorities and held a semi-structured panel interview with members of the United States' Internal Revenue Service, including the Chief of Staff for electronic tax administration and other personnel involved in the operation of the electronic filing programme.

#### Performance data analysis

Analysis of HMRC's data on programme benefits, take-up rates, compliance, accuracy and customer satisfaction.

### Purpose

To assess the cost, performance, project management and governance of HMRC's programme to expand online filing.

To gain insight into HMRC's management of the programme to date and to gather evidence on HMRC's targets, project management, financing, customer satisfaction and governance arrangements.

To inform our understanding of how online filing has been working in practice and how HMRC interacted and consulted with various stakeholder groups as the programme progressed.

To assess different costs and successes achieved in similar programmes internationally and to understand alternative approaches used to deliver and expand the filing of tax returns online.

To assess whether HMRC's expansion of online filing of tax returns is being delivered as planned and achieving the expected benefits.

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# Appendix Two

## The four online taxes

	<b>Income Tax Self-Assessment</b>	<b>Pay As You Earn in-year returns</b>	<b>Value Added Tax</b>	<b>Corporation Tax</b>
<b>What is it?</b>	Self-Assessment returns are concerned with income, capital gains and claims for tax allowances or reliefs.	HMRC uses PAYE to collect Income Tax and National Insurance contributions from employees' pay as they earn it.	VAT is charged on most business transactions that take place in the UK.	Corporation Tax is charged on the taxable profits of limited companies and other organisations.
<b>Who files the return?</b>	Individuals with more complicated tax affairs, or income from several sources.	Employers	VAT registered traders.	Companies and other organisations including clubs, societies and associations.
<b>Estimated number of people/businesses affected</b>	10 million Self-Assessment taxpayers	1.9 million employers	1.9 million traders	1.9 million companies
<b>Number of returns in 2010-11</b>	9,248,160	22,089,091	7,829,980	1,658,419
Online returns	7,127,072	20,789,542	5,218,099	688,783
Paper returns	2,121,088	1,299,549	2,611,881	969,636
<b>Revenue 2010-11 (£bn)</b>	27	130.2	90.3	45.9



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