

Assessment of compliance with the Code of Practice for Official Statistics

Income Tax Projections

(produced by HM Revenue & Customs)

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About the UK Statistics Authority

The UK Statistics Authority is an independent body operating at arm's length from government as a non-ministerial department, directly accountable to Parliament. It was established on 1 April 2008 by the *Statistics and Registration Service Act 2007*.

The Authority's overall objective is to promote and safeguard the production and publication of official statistics that serve the public good. It is also required to promote and safeguard the quality and comprehensiveness of official statistics, and good practice in relation to official statistics.

The Statistics Authority has two main functions:

1. oversight of the Office for National Statistics (ONS) – the executive office of the Authority;
2. independent scrutiny (monitoring and assessment) of all official statistics produced in the UK.

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ASSESSMENT AND DESIGNATION

The *Statistics and Registration Service Act 2007* gives the UK Statistics Authority a statutory power to assess sets of statistics against the *Code of Practice for Official Statistics*.

Assessment will determine whether it is appropriate for the statistics to be designated as National Statistics.

Designation as National Statistics means that the statistics comply with the *Code of Practice*. The *Code* is wide-ranging. Designation can be interpreted to mean that the statistics: meet identified user needs; are produced, managed and disseminated to high standards; and are explained well.

Designation as National Statistics should not be interpreted to mean that the statistics are always correct. For example, whilst the *Code* requires statistics to be produced to a level of accuracy that meets users' needs, it also recognises that errors can occur – in which case it requires them to be corrected and publicised.

Assessment reports will not normally comment further on a set of statistics, for example on their validity as social or economic measures. However, reports may point to such questions if the Authority believes that further research would be desirable.

Assessment reports typically provide an overview of any noteworthy features of the methods used to produce the statistics, and will highlight substantial concerns about quality. Assessment reports also describe aspects of the ways in which the producer addresses the 'sound methods and assured quality' principle of the *Code*, but do not themselves constitute a review of the methods used to produce the statistics. However the *Code* requires producers to "seek to achieve continuous improvement in statistical processes by, for example, undertaking regular reviews".

The Authority may grant designation on condition that the producer body takes steps, within a stated timeframe, to fully meet the *Code's* requirements. This is to avoid public confusion and does not reduce the obligation to comply with the *Code*.

The Authority grants designation on the basis of three main sources of information:

- i. factual evidence and assurances by senior statisticians in the producer body;
- ii. the views of users who we contact, or who contact us, and;
- iii. our own review activity.

Should further information come to light subsequently which changes the Authority's analysis, it may withdraw the Assessment report and revise it as necessary.

It is a statutory requirement on the producer body to ensure that it continues to produce the set of statistics designated as National Statistics in compliance with the *Code of Practice*.

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1 Summary of findings

1.1 Introduction

1.1.1 This is one of a series of reports¹ prepared under the provisions of the *Statistics and Registration Service Act 2007*². The Act allows an appropriate authority³ to request an assessment of official statistics against the *Code of Practice for Official Statistics*⁴ in order for them to gain National Statistics status. This report is in response to such a request. The report covers the projections reported in the following publications, produced by HM Revenue & Customs (HMRC):

- *Income Tax Liabilities Statistics*⁵ (ITLS); and
- *Benefits in Kind Statistics*⁶ (BKS).

1.1.2 *ITLS* and *BKS*, excluding the projections, were the subject of Assessment Report 157⁷, which was published in November 2011. They have been discussed further in section 2.

1.1.3 Section 3 of this report adopts an ‘exception reporting’ approach – it includes text only to support the Requirements made to strengthen compliance with the *Code* and Suggestions made to improve confidence in the production, management and dissemination of these statistics. This abbreviated style of report reflects the Head of Assessment’s consideration of aspects of risk and materiality⁸. The Assessment team nonetheless assessed compliance with all parts of the *Code of Practice* and has commented on all those in respect of which some remedial action is recommended.

1.1.4 This report was prepared by the Authority’s Assessment team, and approved by the Board of the Statistics Authority on the advice of the Head of Assessment.

1.2 Decision concerning designation as National Statistics

1.2.1 The Statistics Authority judges that the statistics covered by this report are readily accessible, produced according to sound methods and managed impartially and objectively in the public interest, subject to any points for action in this report. The Statistics Authority has determined that the statistics published in the products listed in paragraph 1.1.1 can be designated as new

¹ <http://www.statisticsauthority.gov.uk/assessment/assessment-reports/index.html>

² http://www.opsi.gov.uk/Acts/acts2007/pdf/ukpga_20070018_en.pdf

³ Subsection 12(7) of the Act defines ‘appropriate authority’ as Ministers of the Crown, Scottish Ministers, Welsh Ministers, Northern Ireland departments or the National Statistician

⁴ <http://www.statisticsauthority.gov.uk/assessment/code-of-practice/index.html>

⁵ http://www.hmrc.gov.uk/stats/income_tax/menu.htm#liabilities

⁶ http://www.hmrc.gov.uk/stats/taxable_benefits/menu.htm

⁷ <http://www.statisticsauthority.gov.uk/assessment/assessment-reports/assessment-report-157---statistics-on-income-tax.pdf>

⁸ <http://www.statisticsauthority.gov.uk/assessment/assessment/guidance-about-assessment/criteria-for-deciding-upon-the-format-of-an-assessment-report.pdf>

National Statistics subject to HMRC implementing the enhancements listed in section 1.5 and reporting them to the Authority by February 2013.

1.3 Summary of strengths and weaknesses

- 1.3.1 *ITLS* and *BIKS* include useful contextual information about tax policy and *ITLS* includes an explanation of how and why projections are produced and their likely use.
- 1.3.2 *ITLS* includes information about the quality of the projections and shows projection errors for earlier years. However, the information in *BIKS* about the completeness of the data sources that underpin some of the statistics raises concerns about whether they are of sufficient quality to meet users' needs.

1.4 Detailed recommendations

- 1.4.1 The Assessment team identified some areas where it felt that HMRC could strengthen its compliance with the *Code*. Those which the Assessment team considers essential to enable designation as National Statistics are listed in section 1.5. Other suggestions, which would improve the statistics and the service provided to users but which are not formally required for their designation, are listed at annex 1.

1.5 Requirements for designation as National Statistics

Requirement 1	Document the use made of the projections and the types of decisions that they inform (para 3.2).
Requirement 2	Evaluate whether the quality of the provisional statistics in <i>BIKS</i> meets users' needs and include prominent caveats in <i>BIKS</i> about the quality of the provisional statistics (para 3.6).
Requirement 3	Ensure access before public release is limited to those people essential for production and publication, and for quality assurance and operational purposes and publish records of those who have access prior to release (para 3.7).

2 Subject of the assessment

- 2.1 Both *Income Tax Liabilities Statistics (ITLS)* and *Benefits in Kind Statistics (BIKS)* – previously called *Expenses and Benefits Statistics*) contain projections which were excluded from Assessment Report 157 at HMRC's request. In November 2011, the Authority wrote⁹ to the Exchequer Secretary to the Treasury, notifying him of the Authority's view that these projections should be assessed against the *Code of Practice*. In December 2011, the Exchequer Secretary replied¹⁰, requesting an Assessment of them, to start after May 2012. This report covers the projections published in *ITLS* and *BIKS*.
- 2.2 *ITLS* shows the expected amounts of tax due on incomes arising in a given tax year. HMRC publishes these statistics twice a year in April and December or January. They are drawn from the Survey of Personal Incomes¹¹ (SPI), which is based on a sample of around 675,000 individual tax-payer records from HMRC's main administrative systems¹². *ITLS* provides detailed analysis of the distribution of tax liabilities by tax-payer characteristics (such as income, sex, age and region). SPI results only become available several years after the tax year to which they relate, and HMRC publishes in *ITLS* projections of income tax distributions for three tax years – up to and including the tax year in which *ITLS* is published. In the latest *ITLS* release (April 2012), projections are included for the years 2010-11, 2011-12 and 2012-13. The projections use assumptions consistent with the latest economic forecast published by the Office for Budget Responsibility (OBR).
- 2.3 *BIKS* shows taxable benefits in kind statistics; HMRC publishes these annually. The statistics are compiled by matching data provided by employers (on taxable benefits in kind on HMRC's Employer Compliance System¹³) with the income data from the SPI. Since the SPI data is available only up to 2009-10, HMRC combines SPI projections produced for *ITLS* with the taxable benefits in kind dataset to publish projections for the tax year ending in the year prior to the publication date – the release published in July 2012 contains a projection for the 2010-11 tax year. The assumptions that inform the projections in *BIKS* are considerably less complicated than those used in *ITLS*. *BIKS* does not include projections for future years. During the course of this Assessment, the Assessment team agreed with HMRC's suggestion that the projections in *BIKS* might more appropriately be presented as provisional statistics, with the outturn statistics being a revised (final) estimate. The Assessment report has been written on that basis.
- 2.4 HMRC told the Assessment team that the 2008-09 SPI has been delayed due to technical problems with the introduction of a new PAYE (Pay As You Earn)

⁹ <http://www.statisticsauthority.gov.uk/reports---correspondence/correspondence/letter-from-sir-michael-scholar-to-david-gauke---s16-notification--03112011.pdf>

¹⁰ <http://www.statisticsauthority.gov.uk/reports---correspondence/correspondence/letter-from-david-gauke-mp-to-sir-michael-scholar---141211.pdf>

¹¹ See Annex B of http://www.hmrc.gov.uk/stats/personal_incomes/statistics-release-note-march.pdf

¹² These cover individuals with a PAYE (Pay As You Earn) record, those who have completed a self-assessment and claims cases who have had too much tax deducted on incomes at source and claim a repayment from HMRC

¹³ <http://www.hmrc.gov.uk/manuals/PSAmanualnew/PSA6000.htm>

computer system and consequently previously published SPI-based *ITLS* projections for 2007-08 have been used to produce provisional estimates of *BIKS* statistics for 2008-09. In September 2010 HMRC published a note¹⁴ on its website alerting users to the delay to the SPI.

- 2.5 HMRC and HM Treasury use tax liabilities statistics to provide policy advice to government departments on the operation and development of the UK income tax system. The OBR uses tax liabilities statistics in assessments of income tax trends for tax forecasting and for assessing fiscal sustainability. The statistics are also used by academics, the media and other commentators on the workings of the income tax system.
- 2.6 All statistics produced in *ITLS* and *BIKS*, of which projections are an integral part, are produced from administrative systems. HMRC estimates that the annual staff cost of producing the publications is £6,000 for *ITLS*, £5,000 for *BIKS*, with the projections accounting for around half of these totals.

¹⁴ <http://www.hmrc.gov.uk/stats/delay-sept10.htm>

3 Assessment findings

- 3.1 Between April and July 2011, HMRC carried out a survey of users of its income tax statistics¹⁵, inviting comments on its publications and asking for suggestions for areas for improvement. It published the findings¹⁶ from the survey, which provides information about frequency of use of the statistics and levels of satisfaction. *ITLS* includes projections up to one year ahead and *BIKS* includes provisional statistics that bring the statistics up to the tax year ending in the year prior to publication. Users who contacted us regarding this Assessment asked whether HMRC could produce longer-term projections for both outputs. HMRC statisticians noted that the rationale for publishing projections only to the current tax year is that the structure and parameters of the tax system are known, allowing useful updating of the distributions of tax shown by the older base SPI survey data. Longer-term projections would be subject to errors arising due to subsequent changes in the tax system, generally increasing errors due to uncertainty about the economy, and are not seen by HMRC statisticians as the purpose of the *ITLS* publication. We suggest that HMRC explore users' needs for longer term projections and take account of needs identified in future planning. The statistics team told us that in the year since the survey it had not actively engaged with users of these statistics outside of HMRC. The statistical bulletins invite feedback from users and the statistics team keep a log of user enquiries, which it told us it plans to review once a year to ensure that the releases reflect users' evolving needs.
- 3.2 The April 2012 *ITLS* informed users that the projections should be used to provide information about breakdowns of income tax payers and liabilities and not for projections of total tax – as this is provided in separate publications using different methods. However, the release does not include a statement about the likely uses and users of the projections. The Assessment team felt that there was scope for HMRC to try to identify and engage users more proactively to explore the need for projections and for accompanying information to ensure that they are used appropriately. As part of the designation as National Statistics, HMRC should document the use made of the projections and the types of decisions that they inform¹⁷ (Requirement 1). We suggest that in completing this requirement, HMRC refer to the types of use put forward in the Statistics Authority's Monitoring Brief, *The Use Made of Official Statistics*¹⁸ when documenting use. We also suggest that DfT should consider the points detailed in annex 2.
- 3.3 HMRC has not always announced changes to the methods and classifications of the projections in *ITLS* in advance. It told us that this reflects the tight production schedules for the release, which follows approximately one month after the Budget and partly reflects information that is released alongside the Budget. However, in the course of this Assessment, HMRC made a commitment to announce in advance the changes that will be incorporated in *ITLS*.

¹⁵ Income tax receipts, liabilities and taxable benefits in kind and expenses payments

¹⁶ http://www.hmrc.gov.uk/stats/income_tax/menu.htm#liabilities

¹⁷ In relation to Principle 1, Practice 2 of the *Code of Practice*

¹⁸ <http://www.statisticsauthority.gov.uk/assessment/monitoring/monitoring-briefs/index.html>

- 3.4 As suggested in Assessment Report 157, *ITLS* now includes some analysis of average absolute errors in the projections for key variables, which are calculated by comparing outturn statistics with projections. This provides an indication of the extent of past projection error. However, the analysis presents average errors for the whole period since 2001, which might mask differences between years. We suggest that HMRC publish annual comparisons of the projections with outturn statistics in *ITLS*.
- 3.5 *ITLS* includes detailed information about the methods used to produce the projections. It outlines the data that the assumptions are drawn from, but HMRC does not publish the actual assumptions that are used to produce the projections. HMRC told us that some of the assumptions are not published because they are drawn from unpublished data supplied by OBR. We suggest that HMRC discuss with OBR the scope for publishing the data that underpin assumptions in *ITLS*.
- 3.6 *BIKS* includes information about some limitations of the provisional estimates – it explains that some taxable benefits in kind are not included in the source data and provides an estimate of the impact of these missing data on the statistics. Some of the missing data are significant – for example, in 2010-11 the amount of employee benefits and expenses covered by PAYE Settlement Agreements¹⁹ (which are not covered in the statistics) was approximately £1 billion – around 14 per cent of the total taxable benefits in kind. In 2012 HMRC excluded some expense types from the statistics because large proportions are subject to subsequent relief claims and are non-taxable. It published a detailed explanation²⁰ about this change, which removed about £1.1 billion from the total taxable value of benefits in kind. However, ‘considerably less than half’²¹ of the taxable value excluded from the source data is expected to be genuine taxable expenses. This information about missing data is presented in an annex in *BIKS*. Given the extent of missing data, it would be more appropriate to present caveats prominently at the start of the release. Taken together, the missing data give grounds for concern about whether the quality of the provisional and final results is sufficient to meet users’ needs. This is difficult to evaluate because HMRC has very little information about how the provisional statistics are used. As part of the designation as National Statistics, HMRC should evaluate whether the quality of the provisional statistics in *BIKS* meets users’ needs and include prominent caveats in *BIKS* about the quality of the provisional statistics²² (Requirement 2).
- 3.7 HMRC does not publish records of those who have access to the statistics (for operational purposes) ahead of release, nor does it take any formal steps to prevent onward transmission of the statistics. As part of the designation as National Statistics, HMRC should ensure access before public release is limited to those people essential for production and publication, and for quality

¹⁹ <http://www.hmrc.gov.uk/payee/exb/schemes/psa.htm>

²⁰ http://www.hmrc.gov.uk/stats/taxable_benefits/rev-method-ben-inkind-jul12.pdf

²¹ See Annex A of *BIKS July 2012*, http://www.hmrc.gov.uk/stats/taxable_benefits/expen-ben-stats.pdf

²² In relation to Principle 4, Practice 2 and Principle 8, Practice 1 of the *Code of Practice*

assurance and operational purposes and publish records of those who have access prior to release²³ (Requirement 3).

²³ In relation to Protocol 2, Practice 7 of the *Code of Practice*

Annex 1: Suggestions for improvement

A1.1 This annex includes some suggestions for improvement to HMRC’s income tax projections, in the interest of the public good. These are not formally required for designation, but the Assessment team considers that their implementation will improve public confidence in the production, management and dissemination of official statistics.

- | | |
|---------------------|---|
| Suggestion 1 | Explore users’ needs for longer term projections and take account of needs identified in future planning (para 3.1). |
| Suggestion 2 | Refer to the types of use put forward in the Statistics Authority’s Monitoring Brief, <i>The Use Made of Official Statistics</i> when documenting use and consider the points detailed in annex 2 (para 3.2). |
| Suggestion 3 | Publish annual comparisons of the projections with outturn statistics in <i>ITLS</i> (para 3.4). |
| Suggestion 4 | Discuss with OBR the scope for publishing the data that underpin assumptions in <i>ITLS</i> (para 3.5). |

Annex 2: Compliance with Standards for Statistical Releases

- A2.1 In October 2010, the Statistics Authority issued a statement on *Standards for Statistical Releases*²⁴. While this is not part of the *Code of Practice for Official Statistics*, the Authority regards it as advice that will promote both understanding and compliance with the *Code*. In relation to the statistical releases associated with HMRC's income tax projections, this annex comments on compliance with the statement on standards.
- A2.2 In implementing any Requirements of this report (at paragraph 1.5) which relate to the content of statistical releases, we encourage the producer body to apply the standards as fully as possible.

Appropriate identification of the statistics being released

- A2.3 *ITLS* and *BIKS* both include the coverage (UK), release date, frequency of the release and the date of the next release on the front cover. The release date in *BIKS* refers only to the month and year of release. The background information in both releases explains the nature of the new release and makes clear the main changes compared to the previous release. A contents list is given for each release. Both *ITLS* and *BIKS* label the projections and provisional statistics as falling outside the scope of National Statistics.
- A2.4 Both releases include the name of the originating department and name and contact details for the responsible statistician(s) on the front page. Both releases include a section which briefly describes the content of the release.

Include commentary that is helpful to the non-expert and presents the main messages in plain English

- A2.5 *ITLS* provides a summary of the key messages at the beginning of the release. *BIKS* does not contain a summary of key messages.
- A2.6 *ITLS* contains useful commentary on the projections, accompanied by appropriate charts and graphs to illustrate key messages in the release. It includes comments on the likely impact of behavioural responses to changes in the income tax structure. However, the release would benefit from improved structure and signposting to enhance its accessibility to a non-technical audience.

Use language that is impartial, objective and professionally sound

- A2.7 The text in the releases is impartial and objective.

Include information about the context and likely uses

- A2.8 *ITLS* includes a section on 'Relevance and use', which explains when the statistics should not be used but includes very little information about potential uses and users. Annex C includes a 'Relevance' section which provides more information about the differences between statistics on income tax liabilities

²⁴ <http://www.statisticsauthority.gov.uk/news/standards-for-statistical-releases.html>

and receipts but does not explain in detail the likely uses of the projections. *BIKS* contains sections entitled 'What does this publication tell me?' and 'Who might be interested?' which provide a reasonable summary of the statistics included in the release. However, the description of potential users is limited to 'analysts and others with a research interest in benefits in kind'. This could be expanded to provide greater context.

- A2.9 Details of planned changes to tax policies which impact on the projections in the *ITLS* are included in the release. In *BIKS*, the 2010-11 provisional statistics are largely based on the policies applicable to 2009-10, details of which are provided in the release.
- A2.10 Annex C of *ITLS* includes detailed information about sampling, coverage, model and projection errors applicable to the outturn statistics and projections. It includes a table of confidence intervals from SPI for the number of UK tax-payers and total tax liabilities. *ITLS* also includes sensitivity analyses of the central projections to changes in key economic assumptions and comparisons of previous projections against outturn, but these do not relate to specific years. *BIKS* contains some information about the quality of the provisional statistics, particularly in terms of the completeness of the data sources, and provides information about their reliability in relation to use. Given the extent of missing data, it would be appropriate to present caveats prominently at the start of the release.

Include, or link to, appropriate metadata

- A2.11 *ITLS* includes a data sources and methodology section which includes information about the accuracy of the projections and provides useful metadata to accompany the statistics. *BIKS* includes a description of recent revisions to the methodology, and includes revised tables for 2007-08 under the new methodology, but there is no information about revisions to previous years' statistics.
- A2.12 *ITLS* references other HMRC publications and includes hyperlinks to the referenced publications. These include *Personal Incomes Statistics*²⁵, which includes further outturn statistics on income tax liabilities, and HMRC's detailed published assessment of the 50p rate, *The Exchequer effect of the 50 per cent additional rate of income tax*²⁶.

²⁵ http://www.hmrc.gov.uk/stats/income_distribution/menu.htm

²⁶ www.hmrc.gov.uk/budget2012/excheq-income-tax-2042.pdf

Annex 3: Summary of assessment process and users' views

A3.1 This assessment was conducted from May to September 2012.

A3.2 The Assessment team – Jacob Wilcock, Sara James and Catherine Barham – agreed the scope of and timetable for this assessment with representatives of HMRC in May. The Assessment team met HMRC during August to review compliance with the *Code of Practice*, taking account of the statistical releases and other relevant sources of evidence.

Summary of users contacted, and issues raised

A3.3 Part of the assessment process involves our consideration of the views of users. We approach some known and potential users of the set of statistics, and we invite comments via an open note on the Authority's website. This process is not a statistical survey, but it enables us to gain some insights about the extent to which the statistics meet users' needs and the extent to which users feel that the producers of those statistics engage with them. We are aware that responses from users may not be representative of wider views, and we take account of this in the way that we prepare Assessment reports.

A3.4 The Assessment team received 5 responses from the user consultation. The respondents were grouped as follows:

Central government	4
Research organisation	1

A3.5 The projections are used as the basis for formulating and evaluating proposed tax and benefits policy and for other research. In general, users were complimentary about engagement with HMRC statisticians. Users raised the following specific issues:

- whether HMRC could publish more projections, for future years and more projections about personal income;
- want more detailed information about methods – for example, how the underlying series are weighted;
- some of the bandings (for example, income bands) do not suit some uses. One user commented that it would be useful if an online tool was available that allowed users to set their own bandings;
- one user highlighted a need for breakdowns by region; and
- problems navigating to the statistics on HMRC's website.

Key documents/links provided

Written Evidence for Assessment document

