

Assessment of compliance with the Code of Practice for Official Statistics

Statistics on Corporation Tax

(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 requires all statistics currently designated as National Statistics to be assessed against the *Code of Practice for Official Statistics*³. The report covers the sets of statistics reported in *Corporation Tax Statistics*⁴ (CTS) produced by HM Revenue & Customs (HMRC).
- 1.1.2 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 materiality⁵. 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.
- 1.1.3 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 confirms that the statistics published in CTS can be designated as National Statistics, subject to HMRC implementing the enhancements listed in section 1.5 and reporting them to the Authority by March 2012.
- 1.2.2 The Assessment team conducted this assessment mainly during the period that HMRC was preparing the annual CTS release. HMRC provided the Assessment team with a draft version of the release so that the Assessment team could provide feedback on issues relating to compliance with the *Code*, allowing time for HMRC to address these in the published release.
- 1.2.3 HMRC has informed the Assessment team that it has started to implement the Requirements listed in section 1.5. The Statistics Authority welcomes this.

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

⁴ http://www.hmrc.gov.uk/stats/corporate_tax/ct-menu.htm

⁵ <http://www.statisticsauthority.gov.uk/assessment/assessment/guidance-about-assessment/criteria-for-deciding-upon-the-format-of-an-assessment-report.pdf>

1.3 Summary of strengths and weaknesses

- 1.3.1 HMRC has carried out a survey of users of these statistics to improve its understanding of the range of uses of the statistics and to inform future changes to the statistical releases.
- 1.3.2 HMRC has markedly improved a number of statistical publications recently, including *CTS*, to reflect users' views and to enhance the commentary and contextual information. It should improve the signposting to the Corporation Tax statistics, and should include more information about the industry classification system that is used. It could also include more information to explain when users should use the statistics about receipts and when it may be more appropriate to use the statistics about liabilities.

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	Publish more information about the Summary Trade Classification used in <i>CTS</i> , how it relates to Standard Industrial Classifications, and investigate the feasibility of publishing some analysis based on Standard Industrial Classifications (para 3.4).
Requirement 2	Improve the accessibility of these statistics through its website (para 3.8).

2 Subject of the assessment

- 2.1 HMRC publishes *Corporation Tax Statistics (CTS)* annually in October. The statistics cover corporation tax receipts and liabilities in the UK, analysed by the number of companies, income, allowances, deductions and industry. The statistics are based on HMRC's administrative records of corporation tax assessments and returns. HMRC takes a stratified sample of the records, including all large companies and 10 per cent of small companies. The definition of a company as large or small depends on its profits, losses, allowances and turnover. Large companies account for around 80 per cent of the total corporation tax liability.
- 2.2 HMRC introduced *CTS* in May 2011, providing commentary to support the statistics it had published in October 2010. Before this it published the tables of statistics individually and without commentary. Following the first publication, HMRC began publishing *CTS* annually in October.
- 2.3 HMRC publishes definitive figures on its income from corporation tax receipts in its *Trust Statement*⁶ (annual accounts) in the summer. The *Trust Statement* may differ from the statistics published in the previous *CTS* because the *Trust Statement* includes information that is not available from the administrative records for corporation tax: for example, repayments made in specific limited circumstances. In each *CTS*, HMRC ensures that the previous year's statistics reflect the total receipts published in the *Trust Statement* – updating them if necessary.
- 2.4 HMRC publishes other statistics on tax, including income tax receipts and liabilities, at various times each year. Corporation tax statistics are important to HMRC and HM Treasury (HMT) to inform and monitor corporation tax policy. Corporation tax represents approximately 10 per cent of the taxes within HMRC's responsibilities. Academics and the financial sector use the statistics to analyse how corporation tax payments have changed over time and across industry.
- 2.5 HMRC estimates that it takes approximately 30 person days each year to produce these statistics.

⁶ <http://www.hmrc.gov.uk/about/annual-report-accounts-1011.pdf>

3 Assessment findings

- 3.1 Between June and September 2011 HMRC carried out a survey of users of its corporation tax statistics, inviting comments on its publications and areas for improvement. HMRC has published the findings⁷ from this survey. Before the survey, HMRC told us that it knew very little about the users and uses of its statistics and it had not reviewed the relevance of the statistics it published. HMRC now invites user feedback in *CTS* and clearly explains how users' views will influence the development of its statistics, including a commitment to summarise and publish user comments at regular intervals. We regard this as good practice.
- 3.2 HMRC announces changes to methods in advance of the publication of the relevant statistics. For instance, the annex of *CTS* explains the changes HMRC plans to make to the method it uses to produce these statistics, moving from a sample-based approach to a new system which will allow it to base the statistics on liabilities on the full set of corporation tax administrative records. However, it could do more to explain how other forthcoming changes will affect users – in particular, to explain when changes to corporation tax rates and policies will be incorporated in the statistics. We suggest that HMRC pre-announce when significant changes to the corporation tax rates and policies will be incorporated in the published statistics.
- 3.3 *CTS* includes an explanation of the revisions policy for the statistics. It also includes clear information explaining which of the statistics have been revised since the previous publication. Each publication updates many of the statistics included in the previous publication, so it is not realistic to expect HMRC to explain the extent (size) of all the revisions, but it does provide an indication of the usual level of revisions within the methodology section of the release. However, this information is rather limited and could more usefully be presented alongside the other information about revisions. We suggest that HMRC provide an indication of the extent of revisions alongside the revisions policy for these statistics and provide fuller explanation of revisions, for example to explain any unusually large revisions.
- 3.4 *CTS* includes analysis of the data by industry classification, based on HMRC's summary trade classification⁸ (STC) codes. Some users who contacted us regarding this Assessment asked why STC codes are used, rather than the Standard Industrial Classification (SIC) codes which are used more widely across official statistics. HMRC's use of STC makes it more difficult to compare the corporation tax statistics with other statistics. HMRC told us that STC is used for historic reasons – tax inspectors have always used this system to classify businesses – and it would be too costly to amend the administrative computer system to SIC. *CTS* includes some information about STC but it does not explain whether or how STC maps to SIC, nor how or whether STC is updated to reflect new emerging industries. HMRC told us that it is not straightforward to convert STC to recent versions of SIC and that such conversions may not be sufficiently robust. However, this conversion – as far as is possible given the differences between the two different classifications – is carried out for other purposes: for example, the Office for National Statistics

⁷ <http://www.hmrc.gov.uk/stats/survey-ct-natstats.pdf>

⁸ http://www.hmrc.gov.uk/stats/corporate_tax/table-d.xls

- converts STC to SIC for use in its Inter-Departmental Business Register⁹. As part of the designation as National Statistics, HMRC should publish more information about STC used in *CTS*, how it relates to SIC, and investigate the feasibility of publishing some analysis based on SIC¹⁰ (Requirement 1).
- 3.5 HMRC publishes some information about data quality in *CTS* including reference to sampling error, discussion of other potential sources of error and information about how it assures the quality of the underlying data. However, it does not include estimates of sampling error. HMRC told us that when the statistics are based on analysis from the new system, covering all tax records, there will be no sampling error. In view of this impending change and due to the resources involved, it has not calculated sampling errors for the current estimates.
- 3.6 *CTS* includes some good commentary and contextual information – particularly about the effect of historic changes to tax systems. HMRC has made improvements to the commentary in the *CTS* released in October 2011. These include: a more complete glossary; adding a summary that identifies the main messages; and additional text that explains the wider context, for example how the statistics relate to each other and to other published tax statistics. HMRC should give more explanation of the different uses for receipts and liabilities statistics, to explain when users might use each and how the two compare. *CTS* may benefit from some international data (or relevant links) to place the statistics in a wider context. We suggest that HMRC consider these and other points detailed in annex 2, when it reviews how to improve the publication in response to users' feedback.
- 3.7 HMRC told us that it produces additional analysis of the data for colleagues in HMRC and HMT. HMRC told us that some of this analysis feeds into the development of government policy and so may be published in policy documents. *CTS* includes a link to some relevant policy documents. However, some of this analysis might usefully be included in *CTS* itself. We suggest HMRC review whether users would benefit from including any additional analysis in *CTS*.
- 3.8 It is not sufficiently straightforward to access *CTS* or other statistics from HMRC's homepage. As part of the designation as National Statistics, HMRC should improve the accessibility of these statistics through its website¹¹ (Requirement 2).
- 3.9 In 2010 HMRC granted 11 people access to *CTS* in its final form, prior to its release.

⁹ <http://www.ons.gov.uk/ons/about-ons/who-we-are/services/idbr/about-the-idbr/index.html>

¹⁰ In relation to Principle 4, Practices 1 and 6 of the *Code of Practice*

¹¹ In relation to Principle 8, Practice 4 of the *Code of Practice*

Annex 1: Suggestions for improvement

A1.1 This annex includes some suggestions for improvement to *CTS*, 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 | Pre-announce when significant changes to the corporation tax rates and policies will be incorporated in the published statistics (para 3.2). |
| Suggestion 2 | Provide an indication of the extent of revisions alongside the revisions policy for these statistics and provide fuller explanation of revisions, for example to explain any unusually large revisions. (para 3.3). |
| Suggestion 3 | Consider the points raised in paragraph 3.6 and other points detailed in annex 2, when it reviews how to improve the publication in response to users' feedback (para 3.6). |
| Suggestion 4 | Review whether users would benefit from including any additional analysis in <i>CTS</i> (para 3.7). |

Annex 2: Compliance with Standards for Statistical Releases

A2.1 In October 2010, the Statistics Authority issued a statement on *Standards for Statistical Releases*¹². Whilst 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 corporation tax statistics, 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 *CTS* clearly identifies the statistics being released. The front cover describes the coverage, release date, frequency of release and contact details for the relevant statisticians. The introduction clearly describes the content of the release and identifies which statistics are new.

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

A2.4 *CTS* includes a summary of the key statistics and commentary alongside each table that draws out the key points. The main technical terms are explained and there is a glossary. The commentary mainly describes rises and falls, but does sometimes go further, for example to suggest reasons for changes, or to draw relevant comparisons. There is room for more such commentary and better use of charts to illustrate the statistics.

Use language that is impartial, objective and professionally sound

A2.5 The language in *CTS* is impartial, objective and professionally sound.

Include information about the context and likely uses

A2.6 *CTS* includes good factual information about corporation tax, explaining the key features of the tax (which will help non-expert users to understand the statistics) and the historical background. It describes the factors that influence the statistics and provides links to relevant published information about corporation tax policy. It also includes information about the quality of the statistics, including the main sources of error.

Include, or link to, appropriate metadata

A2.7 *CTS* includes an annex that describes the data sources and methods. The information presented is quite high level, which will meet most user needs, but it could be more detailed. Information about the schedule for revisions is clearly

¹² <http://www.statisticsauthority.gov.uk/news/standards-for-statistical-releases.html>

presented in the introduction. The release does not provide information about, or links to, related statistics from other countries.

Annex 3: Summary of assessment process and users' views

A3.1 This assessment was conducted from May to October 2011.

A3.2 The Assessment team – Jacob Wilcock, Gary Wainman and Catherine Barham – agreed the scope of and timetable for this assessment with representatives of HMRC in May. The Written Evidence for Assessment was provided in June. The Assessment team subsequently met HMRC during August to review compliance with the *Code of Practice*, taking account of the written evidence provided 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 8 responses from the user consultation. The respondents were grouped as follows:

HMRC	1
Other government	3
Private sector	1
Academic	2
International	1

A3.5 The statistics are used within government to develop and evaluate corporation tax policy and to inform briefing on the topic. The statistics are used in academia to comment on government policy and for further research. A private sector umbrella organisation uses the statistics to evaluate its members' contribution to corporation tax.

A3.6 Users valued engagement with the HMRC statistics team, particularly to further interrogate the data. Not all users were aware of *CTS* (which was first released in May 2011. Before this HMRC published the tables of statistics individually and without commentary). Some users felt that *CTS* would be useful but it wasn't clear on HMRC's website that it was the main publication for corporation tax. Most users indicated that they contact HMRC's statistics team in order to request further analysis that meets their need. One user criticised the accessibility of the statistics. Users would like HMRC to analyse the data by SIC. HMRC was able to address some of these issues before the release of *CTS* in October 2011.

Key documents/links provided

Written Evidence for Assessment document

