

# Assessment of compliance with the Code of Practice for Official Statistics

## Statistics on Inheritance Tax, Personal Wealth and Capital Gains 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 of compliance with the Code of Practice for Official Statistics**

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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 reports<sup>1</sup> prepared under the provisions of the *Statistics and Registration Service Act 2007*<sup>2</sup>. The Act requires all statistics currently designated as National Statistics to be assessed against the *Code of Practice for Official Statistics*<sup>3</sup>. The report covers the set of statistics reported in the following publications, produced by HM Revenue & Customs (HMRC):

- *Inheritance Tax Statistics*<sup>4</sup> (IHTS);
- *Personal Wealth Statistics*<sup>5</sup> (PWS); and
- *Capital Gains Tax Statistics*<sup>6</sup> (CGTS).

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 materiality<sup>7</sup>. 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 *Inheritance Tax Statistics*, *Personal Wealth Statistics* and *Capital Gains Tax Statistics* are designated as National Statistics, subject to HMRC implementing the enhancements listed in section 1.5 and reporting them to the Authority by July 2012.

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

<sup>2</sup> [http://www.opsi.gov.uk/Acts/acts2007/pdf/ukpga\\_20070018\\_en.pdf](http://www.opsi.gov.uk/Acts/acts2007/pdf/ukpga_20070018_en.pdf)

<sup>3</sup> <http://www.statisticsauthority.gov.uk/assessment/code-of-practice/index.html>

<sup>4</sup> [http://www.hmrc.gov.uk/stats/inheritance\\_tax/menu.htm](http://www.hmrc.gov.uk/stats/inheritance_tax/menu.htm)

<sup>5</sup> [http://www.hmrc.gov.uk/stats/personal\\_wealth/menu.htm](http://www.hmrc.gov.uk/stats/personal_wealth/menu.htm)

<sup>6</sup> [http://www.hmrc.gov.uk/stats/capital\\_gains/menu.htm](http://www.hmrc.gov.uk/stats/capital_gains/menu.htm)

<sup>7</sup> <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 presents statistics on inheritance tax, personal wealth and capital gains tax in clearly laid out releases, using charts and tables which are accompanied by commentary. The commentary provides some useful explanations, but often uses technical language and does not provide sufficient explanation about the context in which the statistics have been collected and will be used.
- 1.3.2 HMRC has improved their understanding of the users of these statistics outside HMRC and has recently undertaken user consultations in relation to each of these statistics and have published the findings. HMRC has developed a user feedback tool for statistics on personal wealth which is updated continuously and is available on HMRC's website.
- 1.3.3 HMRC bases the statistics on existing administrative data sources and the extra burden on data providers is therefore minimal.

### 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

<b>Requirement 1</b>	Publish information about the nature and extent of annual revisions in <i>CGTS</i> (para 3.3).
<b>Requirement 2</b>	Provide clear explanations of the data sources used to produce the statistics and improve the published information about the quality of the statistics and the methods used to produce them (para 3.4).
<b>Requirement 3</b>	Improve the accessibility of these statistics through HMRC's website (para 3.5).
<b>Requirement 4</b>	Improve the commentary in the releases so that it aids user interpretation of the statistics (para 3.6).

## 2 Subject of the assessment

- 2.1 Statistics on inheritance tax and personal wealth are produced using information collected by HMRC about the estates of deceased individuals for the UK. HMRC receives information about such estates if they require a grant of representation<sup>8</sup>.
- 2.2 HMRC publishes *IHTS* annually in July. It presents statistics on receipts, the use of reliefs, assets left on death, and assets held in trusts. In the latest release covering statistics for 2008/09 (published in July 2011), HMRC included new official statistics about the location of the tax-paying estates.
- 2.3 The latest *PWS* release was published in June 2011 and covered the periods 2001 to 2003 and 2005 to 2007. *PWS* contains details of the types of assets held in estates and the distribution of wealth by gender and age. The assets covered include: land and buildings; cash; bank and building society accounts; and securities. The statistics are intended to reflect the wealth of the living. This is achieved by making projections based on the grant of representation data using mortality rates. Specific mortality rates are used<sup>9</sup> which account for the relationship between mortality and wealth. In 2010, HMRC developed improved methods for producing the personal wealth statistics as previously, individual larger estates had caused volatility in the data leading to delays in publication and poor data quality. In January 2010, HMRC published details of the new methods, which included producing a combined three year dataset<sup>10</sup>, alongside the latest publication using the old methods. The latest release in 2011 combined three years of data<sup>11</sup>. The release could not include data from 2004 due to poor data quality. HMRC told us that it plans for the September 2012 release to include statistics for the period from 2008 to 2010 and that, following this, it plans to publish *PWS* every three years when a complete new dataset will be available. HMRC have decided on this approach as an annual publication based on a rolling three years would show very little change as two out of the three years would be the same.
- 2.4 Capital gains tax is charged on gains realised on the transfer of assets from one person to another when the owner of the asset receives a capital sum from it. Statistics on capital gains tax are produced from information collected on self-assessment tax forms. HMRC also carries out an annual survey of individuals paying capital gains tax in order to obtain more detailed information about transactions impacting on a taxpayer's final capital gains tax liability, for example types of assets and dates of acquisition and disposal. *CGTS* is published annually in October or November and contains statistics on liable

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<sup>8</sup> This is known as probate or letters of administration in England, Wales and Northern Ireland and Confirmation of executors in Scotland. Not all estates require a grant of representation; one may not be needed if the estate is of low value or the estate passes to the surviving spouse/civil partner

<sup>9</sup> Modelled based on the English Longitudinal Survey of Ageing using housing wealth rather than total wealth

<sup>10</sup> [http://www.hmrc.gov.uk/stats/personal\\_wealth/proposal0810.htm](http://www.hmrc.gov.uk/stats/personal_wealth/proposal0810.htm)

<sup>11</sup> HMRC published two three year datasets on the new methodology, one of which overlaps with the previously published one year tables for comparison rather than publishing a three year dataset on the old methodology. Data in the latest release are for 2001 to 2003 and 2005 to 2007

capital gains tax-payers and gains (from self assessment data) and types of assets (from survey data).

- 2.5 HMRC publishes official and experimental statistics in *IHTS* and *PWS*. HMRC told us that it plans to review the official statistics in *IHTS* after 2013 when the data source changes and will review the quality of the experimental data on liquid wealth in *PWS* when sufficient data are available.
- 2.6 HMRC uses the dataset used to produce *IHTS* and *PWS* primarily to produce tax forecasts for the Office of Budget Responsibility and in the analysis of tax policies. The statistics in *PWS* are also used by academics, private sector companies and the general public interested in wealth inequalities. HMRC uses information about capital gains and capital gains tax liabilities to analyse the spread of income and income tax liabilities across the tax-payers' income distribution.
- 2.7 HMRC told us that it costs approximately £6,000 annually to produce statistics on inheritance tax and personal wealth and approximately £4,000 to produce statistics on capital gains tax.

### 3 Assessment findings

- 3.1 HMRC has consulted the users of *PWS* and *CGTS* and has published<sup>12</sup> the findings from the consultations on HMRC's website. The consultation for *IHTS* is due to end in April 2012 and asks users for their views on proposed changes to tables in *IHTS*, along with other questions on the use of the data. The Assessment team was told that HMRC plan to publish the findings from the consultation soon after the consultation period has ended. HMRC has taken steps to identify a wider range of users who may be interested in *PWS* and the response to the latest consultation has improved considerably as a result. The Assessment team welcomes the improvements HMRC have made in engaging with users, particularly those outside government and suggests that HMRC consider whether there are other means of identifying and contacting users which may be appropriate, for example, establishing a specific user group for these statistics. We suggest that HMRC refer to the types of use put forward in the Authority's Monitoring Brief, *The Use Made of Official Statistics*<sup>13</sup> when documenting use.
- 3.2 HMRC has published additional official statistics in *IHTS* for the first time in July 2010 showing the number of taxpayers by geographic area. These tables are produced using a separate data source to the National Statistics published in *IHTS* and HMRC considers them to be of lower quality. HMRC told us that it plans to publish statistics for 2010/11 in 2013 and then move to producing them using the main inheritance tax dataset. We suggest that HMRC consult users before developing plans for the future production of tables on inheritance tax paid by region.
- 3.3 The statistics included in *CGTS* are shown by 'years of disposal' - that is, the tax year in which capital gains arise. Annex A of *CGTS* explains that it may take several years for all assessments of tax liability to be made and even longer for all subsequent amendments. As a result, estimates using data in the most recent five tax years are marked as provisional. The introduction to *CGTS* states that previous provisional figures have been updated but HMRC does not publish information about the size of these revisions and which tables have changed as a result. As part of the designation as National Statistics, HMRC should publish information about the nature and extent of annual revisions<sup>14</sup> (Requirement 1). We also suggest that HMRC review its policy of marking statistics for the most recent tax years as provisional, particularly when revisions are minimal.
- 3.4 *IHTS*, *PWS* and *CGTS* each contain a section about the methods used to produce the statistics. The information provided contains technical terms which may be confusing for the non-expert user. The releases do not provide sufficient information about the sources of the data which are used to produce the statistics or the quality of the statistics in relation to their likely use. For example, *IHTS* and *PWS* note that the coverage of the statistics is limited to those estates requiring a grant of representation but do not include further information for users about the implications this has on the use of the statistics.

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<sup>12</sup> [http://www.hmrc.gov.uk/stats/personal\\_wealth/menu.htm](http://www.hmrc.gov.uk/stats/personal_wealth/menu.htm) and [http://www.hmrc.gov.uk/stats/capital\\_gains/menu.htm](http://www.hmrc.gov.uk/stats/capital_gains/menu.htm)

<sup>13</sup> <http://www.statisticsauthority.gov.uk/assessment/monitoring/monitoring-briefs/monitoring-brief-6-2010---the-use-made-of-official-statistics.pdf>

<sup>14</sup> In relation to Principle 2, Practice 6 of the *Code of Practice*

*CGTS* does not include any measures of sampling variability alongside the statistics compiled using the survey of capital gains tax-payers. Furthermore, *CGTS* does not clearly explain the methods used to collect data though the survey of capital gains tax-payers. As part of the designation as National Statistics, HMRC should provide clear descriptions of the data sources used to produce the statistics and improve the published information about the quality of the statistics and the methods used to produce them<sup>15</sup> (Requirement 2).

- 3.5 The Assessment team did not find *IHTS*, *PWS* and *CGTS* easily accessible on HMRC's website as the statistics are not clearly signposted from the home page: for example, the list of National Statistics published by HMRC is not listed as a link from HMRC's home page and the landing page for information about capital gains tax does not include a link to the statistics. Information is provided in *IHTS* and *PWS* releases on other relevant releases although this information is not available on the website. HMRC could encourage the wider use of these statistics by improving accessibility through the website and by providing clearer links. As part of the designation as National Statistics, HMRC should improve the accessibility of these statistics through its website<sup>16</sup> (Requirement 3).
- 3.6 All releases contain commentary to accompany the statistics. However, the commentary often contains technical language and little discussion about the impact of the wider economic situation on the statistics, or the policy and operational context of the statistics. It also does not highlight the limitations of the statistics, which would aid appropriate interpretation. As part of the designation as National Statistics, HMRC should improve the commentary in the releases so that it aids user interpretation of the statistics<sup>17</sup> (Requirement 4). We suggest that in meeting this requirement HMRC should consider the points detailed in annex 2.

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<sup>15</sup> In relation to Principle 4, Practice 2 of the *Code of Practice*

<sup>16</sup> In relation to Principle 8, Practice 4 of the *Code of Practice*

<sup>17</sup> In relation to Principle 8, Practice 2 of the *Code of Practice*

## Annex 1: Suggestions for improvement

A1.1 This annex includes some suggestions for improvement to the HMRC's inheritance tax, personal wealth and capital gains tax statistics, 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.

- |                     |   |
|---------------------|---|
| <b>Suggestion 1</b> | Consider whether there are other means of identifying and contacting users which may be appropriate, for example, establishing a specific user group for these statistics. Refer to the types of use put forward in the Authority's Monitoring Brief, <i>The Use Made of Official Statistics</i> <sup>18</sup> when documenting use (para 3.1). |
| <b>Suggestion 2</b> | Consult users before developing plans for the future production of tables on inheritance tax paid by region (para 3.2).   |
| <b>Suggestion 3</b> | Review the current policy for <i>CGTS</i> to mark data for the most recent tax years as provisional, particularly when revisions are minimal (para 3.3).  |
| <b>Suggestion 4</b> | Consider the points detailed in annex 2, in seeking to improve the statistical releases (para 3.6).   |

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<sup>18</sup> <http://www.statisticsauthority.gov.uk/assessment/monitoring/monitoring-briefs/monitoring-brief-6-2010---the-use-made-of-official-statistics.pdf>

## Annex 2: Compliance with Standards for Statistical Releases

- A2.1 In October 2010, the Statistics Authority issued a statement on *Standards for Statistical Releases*<sup>19</sup>. 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 inheritance tax, personal wealth and capital gains 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 The titles of the releases do not describe the coverage of the statistics, but the coverage is specified in the left margin on the front page. The titles of *IHTS* and *PWS* include the period to which the latest statistics relate, but the title of *CGTS* does not.
- A2.4 The frequency of the release is stated in the left hand margin on the front page, but the releases do not state clearly the frequency with which the statistics are updated.
- A2.5 The releases use standard headings, formatting and logos. The names of the originating department and contact details for the responsible statistician are on the front cover of the releases.
- A2.6 Both *IHTS* and *PWS* include a contents page that lists the subjects covered in the release, but not the charts (the tables are not included within these releases). *CGTS* also contains a contents page which lists the subjects and tables included in the release. The tables are listed by number so it is not clear what statistics they contain. All releases include a section stating the new or updated tables in the release.

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

- A2.7 *IHTS* and *PWS* contain a summary of the main messages within the release, and these messages are linked together well. However, the summaries and main body of the release contain some technical terms which are not explained, so some readers may find it difficult to fully understand the main messages. The language used in *CGTS* also assumes some knowledge of accountancy and tax.
- A2.8 All releases include graphs to illustrate comparisons but *IHTS* and *PWS* do not include any tables to present the statistics; they link to full data tables elsewhere.

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<sup>19</sup> <http://www.statisticsauthority.gov.uk/news/standards-for-statistical-releases.html>

A2.9 The commentary in *IHTS* and *PWS* provides explanations for trends in the statistics and makes some useful comparisons; for example, age and gender differences in personal wealth, and the amount of inheritance tax by estate band and region. However, the commentary does not cover sufficiently the limitations of the statistics in order to aid appropriate interpretation of the statistics.

A2.10 The commentary within *CGTS* is mostly restricted to descriptions of increases and decreases. It identifies patterns and trends but, as with *IHTS* and *PWS*, it contains little discussion about the wider picture of the economy and how this may have influenced changes in the statistics. However, Figure 1 provides useful information about changes to tax regulations which may have affected the disposal trend.

### **Use language that is impartial, objective and professionally sound**

A2.11 The text is impartial. Descriptive statements are consistent with the statistics, and descriptions of changes and trends are professionally sound. Sampling and non-sampling variability is not discussed in the text and confidence intervals are not presented.

### **Include information about the context and likely uses**

A2.12 The releases include little information about the policy and operational context in which the statistics have been collected and will be used. The releases do not comment on the quality and reliability of the statistics in relation to the range of potential uses.

### **Include, or link to, appropriate metadata**

A2.13 HMRC provides little information about the source of the data used to create *IHTS* and *PWS*. Each release includes a section explaining the methods used to produce the statistics, but these contain technical terms and the explanations may not be accessible to non-expert users. Each release includes a section 'Related data sources' which signposts users to related statistics in the UK, *CGTS* presents information about data sources and methodology within 'Annex A'. This provides only an overview of how the statistics are produced; HMRC could further explain the procedures it uses to collate the data and produce the statistics.

A2.14 *PWS* includes a section which explains the changes made to the methods (eg to combine three years' of data rather than two to create a larger sample size). *IHTS* does not include an explanation of the changes to sampling procedures which were implemented in 2009. *CGTS* provides a review of changes to the Capital Gains Tax regime from 1982 to 2004 in Annex B. The tables indicate that taper relief was abolished from 2008-09 so previous statistics are not comparable. The first page of the release identifies provisional estimates.

## Annex 3: Summary of assessment process and users' views

A3.1 This assessment was conducted from December 2011 to March 2012.

A3.2 The Assessment team – Catherine Barham, Emma Bowditch and Rachel Beardsmore – agreed the scope of and timetable for this assessment with representatives of the HMRC in December 2011. The Written Evidence for Assessment was provided on 17 January 2012. The Assessment team subsequently met HMRC during January 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 6 responses from the user consultation. The respondents were grouped as follows:

Central government	3
Parliament	1
Independent public body	1
Member of the public	1

A3.5 One user commented that they found the trends, breakdowns and charts presented in *PWS* useful. User feedback about unmet needs relating to *PWS* included that the statistics are not timely (published 2 years after the period to which they refer), that the language is technical in places, and that recent changes to the statistics mean that it is now difficult to gain an understanding of trends in wealth inequality. One user also said that it would be useful if the release contained a wider variety of categories, such as wealth by region or ethnic group. This same user also said that the experimental liquid wealth statistics in *PWS* are useful and that they would like to see similar tables for other types of wealth, such as property wealth. User feedback for *CGTS* included that some tables only present statistics for the latest year when it would be interesting to see the figures in the context of previous years' figures. The users commented that the producer teams had been helpful in responding to queries.

### Key documents/links provided

Written Evidence for Assessment document

