Impact Assessments

March 2008

HM TREASURY

HM Revenue & Customs

HM TREASURY

HM Revenue & Customs

Impact Assessments

March 2008

HM Treasury contacts

This document can be found in full on our website at:

hm-treasury.gov.uk

If you require this information in another language, format or have general enquiries about HM Treasury and its work, contact:

Correspondence and Enquiry Unit
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

Tel: 020 7270 4558
Fax: 020 7270 4861
E-mail: public.enquiries@hm-treasury.gov.uk

Printed on at least 75% recycled paper.
When you have finished with it please recycle it again.

ISBN 978-1-84532-441-4
PU218

CONTENTS

Summary: Intervention & Options

Department /Agency: HMRC	**Title:** Impact Assessment of making changes to the collection of National Insurance Contributions from the self-employed

Stage: Consultation	**Version:** Final	**Date:** 29 February 2008

Related Publications: Consultation Paper – Collection of National Insurance Contributions from the self employed

Available to view or download at:

http://www.hmrc.gov.uk/consult

Contact for enquiries: Paul Hannick **Telephone:** 0207 147 2846

What is the problem under consideration? Why is government intervention necessary?

The Government's report, 'Income tax and national insurance alignment: an evidence based assessment' rejected a merging of Classes 2 and 4 but did commit HMRC to consult on ways of improving the processes for collecting contributions from the self-employed. Currently the self-employed pay two classes of NICs through two different processes. The different processes have the potential to create uncertainty and confusion. We think improvements may be possible by bringing the Class 2 process into closer alignment with the Class 4 process (within Self Assessment).

What are the policy objectives and the intended effects?

To simplify the processes for the self employed to understand and meet their NICs liabilities. Any options that emerge from the consultation process will need to take account of costs for the self employed and HMRC, and of the need for any legislative changes that might be required. They will also need to be compatible with establishing entitlement to contributory based benefits.

We believe that the effects of the three options set out below arise in the following main areas:

1. Taxpayers will have an improved understanding of their NICs 2 obligations.
2. Administrative burdens will be reduced through option 2.
3. Implementing all three options could lead to a reduction in the amount of irrecoverable NICs 2 debts.
4. All three options could lead to cost savings for HMRC.

What policy options have been considered? Please justify any preferred option.

We have currently identified three main areas where improvements may be possible

1. Advising contributors of Class 2 arrears through their Self Assessment statements
2. Reducing the number of payment dates for Class 2 contributions and/or aligning payment dates with those used for Self Assessment
3. Aligning the consequences for late paid Class 2 contributions with those that currently exist for Class 4 contributions

When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects?

To be confirmed once preferred option(s) established

Ministerial Sign-off For consultation stage Impact Assessments:

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible Minister:

Jane Kennedy .... Date: 6 March 2008

Summary: Analysis & Evidence

Policy Option: 1	Description: Including Class 2 arrears within Self Assessment statements

COSTS		
ANNUAL COSTS		Description and scale of **key monetised costs** by 'main affected groups' The costs identified are HMRC costs incurred in establishing new IT links and running costs. There may be some costs for taxpayers and their representatives in familiarising themselves with the new arrangements. Any time spent is expected to be insignificant.
One-off (Transition)	**Yrs**	
£ 11.2 million		
Average Annual Cost (excluding one-off)		
£ 360,000		**Total Cost** (PV) **£**

Other **key non-monetised costs** by 'main affected groups'

No non-monetised costs have been identified.

BENEFITS		
ANNUAL BENEFITS		Description and scale of **key monetised benefits** by 'main affected groups' We have not identified any monetised benefits for businesses associated with this option. Benefits for HMRC arise from automating what is currently a manual process.
One-off	**Yrs**	
£ Nil		
Average Annual Benefit (excluding one-off)		
£ 600,000		**Total Benefit** (PV) **£**

Other **key non-monetised benefits** by 'main affected groups' It is believed that providing such information would help to reduce confusion as to whether liabilities for Class 2 had been met, by making arrears clearer.

Key Assumptions/Sensitivities/Risks

We estimate that this option will reduce the level of irrecoverable class 2 debt by £3.5 million pa (see evidence base for more detailed explanation of this estimate).

Price Base Year 2007	Time Period Years	**Net Benefit Range** (NPV) **£**	**NET BENEFIT** (NPV Best estimate) **£**

What is the geographic coverage of the policy/option?			UK	
On what date will the policy be implemented?			Not yet known	
Which organisation(s) will enforce the policy?			HMRC	
What is the total annual cost of enforcement for these organisations?			£ Business as usual	
Does enforcement comply with Hampton principles?			Yes	
Will implementation go beyond minimum EU requirements?			N/A	
What is the value of the proposed offsetting measure per year?			£ 0	
What is the value of changes in greenhouse gas emissions?			£ 0	
Will the proposal have a significant impact on competition?			No	
Annual cost (£-£) per organisation (excluding one-off)	Micro **Nil**	Small **Nil**	Medium **Nil**	Large **Nil**
Are any of these organisations exempt?	No	No	N/A	N/A

Impact on Admin Burdens Baseline (2005 Prices) (Increase - Decrease)

Increase of **£ Nil** Decrease of **£ Nil** **Net Impact** **£ Nil**

Key: **Annual costs and benefits:** **(Net) Present**

Summary: Analysis & Evidence

Policy Option: 2	**Description: Reducing the number of payment dates and/or aligning payment dates more closely between Class 2 and 4**

COSTS

ANNUAL COSTS		Description and scale of **key monetised costs** by 'main affected groups'
One-off (Transition)	**Yrs**	The IT and consultancy costs for HMRC to implement option 2 include the costs required by Option 1 (a one-off £11.2m, and ongoing £360,000). Further one-off costs of £1.5m million, and ongoing costs of £90,000, allow the additional implementation of option 2. This means the costs shown here are estimated standalone costs. If option 1 is implemented, the incremental costs of option 2 are limited to the £1.5m one-off costs and the £90,000 ongoing cost. There may be some costs for taxpayers and their representatives in familiarising themselves with the new arrangements but this is expected to be insignificant.
£ 12.7 million		
Average Annual Cost (excluding one-off)		
£ 450,000		**Total Cost** (PV) **£**

Other **key non-monetised costs** by 'main affected groups' None identified.

BENEFITS

ANNUAL BENEFITS		Description and scale of **key monetised benefits** by 'main affected groups'
One-off	**Yrs**	This measure only relates to the self employed. The monetised benefit for the self employed is based upon a reduction to two payment events covering SA tax, Class 2 and 4 producing a £9m benefit in current prices. Savings for HMRC in processing estimated at £4.7 million.
£		
Average Annual Benefit (excluding one-off)		
£ 13.7 million		**Total Benefit** (PV) **£**

Other **key non-monetised benefits** by 'main affected groups' None identified.

Key Assumptions/Sensitivities/Risks A reduction of around 3.7 million customer transactions (based on 2006/07 figures) by combining SA and Class 2 payments. HMRC benefits arise from reduced contact from customers querying quarterly bills. Estimated reduction of irrecoverable class 2 debt of £3.5 million pa (see evidence base for more detailed explanation of this estimate). Making the period of liability longer and delaying payment could result in a loss of interest to HMRC compared to the current situation. The maximum interest loss is estimated at £1.7 million per annum. Further detail is given in the evidence base. Assuming option 1 is implemented, further one-off costs of £3 million, and ongoing costs of £180,000, allow the additional implementation of options 2 and 3. For the purposes of this impact assessment these further costs have been equally split between options 2 and 3.

Price Base Year 2007	Time Period Years	**Net Benefit Range** (NPV) **£**	**NET BENEFIT** (NPV Best estimate) **£**

What is the geographic coverage of the policy/option?	UK			
On what date will the policy be implemented?	Not yet known			
Which organisation(s) will enforce the policy?	HMRC			
What is the total annual cost of enforcement for these organisations?	£ Business as usual			
Does enforcement comply with Hampton principles?	Yes			
Will implementation go beyond minimum EU requirements?	N/A			
What is the value of the proposed offsetting measure per year?	£ 0			
What is the value of changes in greenhouse gas emissions?	£ 0			
Will the proposal have a significant impact on competition?	No			
Annual cost (£-£) per organisation (excluding one-off)	Micro **Nil**	Small **Nil**	Medium **Nil**	Large **Nil**
Are any of these organisations exempt?	No	No	N/A	N/A

Impact on Admin Burdens Baseline (2005 Prices)					(Increase - Decrease)
Increase of	£ Nil	Decrease of	£ 8 million	**Net Impact**	£ 8 million

Key: **Annual costs and benefits:** **(Net) Present**

Summary: Analysis & Evidence

Policy Option: 3	Description: Changing the consequences for late payment of Class 2 contributions

COSTS		
ANNUAL COSTS		Description and scale of **key monetised costs** by 'main affected groups' The IT and consultancy costs for HMRC to implement option 3 include the costs required by Option 1 (a one-off £11.2m, and ongoing £360,000). Further one-off costs of £1.5m million, and ongoing costs of £90,000, allow the additional implementation of option 2. This means the costs shown here are estimated standalone costs. If option 1 is implemented, the incremental costs of option 2 are limited to the £1.5m one-off costs and the £90,000 ongoing cost. There may be some costs for taxpayers and their representatives in familiarising themselves with the new arrangements but this is expected to be insignificant.
One-off (Transition)	**Yrs**	
£12.7 million		
Average Annual Cost (excluding one-off)		
£ 450,000		**Total Cost** (PV) **£**

Other **key non-monetised costs** by 'main affected groups' None identified.

BENEFITS		
ANNUAL BENEFITS		Description and scale of **key monetised benefits** by 'main affected groups' We have not identified any monetised benefits for businesses associated with this option. There is a benefit to HMRC arising from removing a manual process to update Class 2 debts when the rate changes.
One-off	**Yrs**	
£ Nil		
Average Annual Benefit (excluding one-off)		
£ 600,000		**Total Benefit** (PV) **£**

Other **key non-monetised benefits** by 'main affected groups' None identified.

Key Assumptions/Sensitivities/Risks

Estimated reduction of irrecoverable class 2 NICs debt of £1 million pa (see evidence base for more detailed explanation of this estimate). Assuming option 1 is implemented, further one-off costs of £3 million, and ongoing costs of £180,000, allow the additional implementation of options 2 and 3. For the purposes of this impact assessment these further costs have been equally split between options 2 and 3.

Price Base Year 2007	Time Period Years	**Net Benefit Range** (NPV) **£**	**NET BENEFIT** (NPV Best estimate) **£**

What is the geographic coverage of the policy/option?			UK	
On what date will the policy be implemented?			Not yet known	
Which organisation(s) will enforce the policy?			HMRC	
What is the total annual cost of enforcement for these organisations?			£ Business as usual	
Does enforcement comply with Hampton principles?			Yes	
Will implementation go beyond minimum EU requirements?			N/A	
What is the value of the proposed offsetting measure per year?			£ 0	
What is the value of changes in greenhouse gas emissions?			£ 0	
Will the proposal have a significant impact on competition?			No	
Annual cost (£-£) per organisation (excluding one-off)	Micro **Nil**	Small **Nil**	Medium **Nil**	Large **Nil**
Are any of these organisations exempt?	No	No	N/A	N/A

Impact on Admin Burdens Baseline (2005 Prices) (Increase - Decrease)

Increase of £ Nil | Decrease of £ Nil | **Net Impact** **£ Nil**

Key: **Annual costs and benefits:** **(Net) Present**

Evidence Base (for summary sheets)

Rationale for intervention

Every person who is over the age of 16, but below pensionable age who is self-employed is liable to pay Class 2 NICs for each week of self employment (currently at a rate of £2.20 a week) unless they apply for and are granted Small Earnings Exception (SEE). Additionally Class 4 contributions are payable where annual profits are equal to or above the Lower Profits Limit, currently £5225.

Different processes exist for the collection of Class 2 and 4 NICs. Class 2 contributions can be paid either by direct debit or on receipt of a quarterly bill (issued soon after the end of March, June, September and December). The quarterly bill includes the current quarter's liability and any arrears.

Class 4 contributions are paid through the Self Assessment (SA) process and a payment is due as part of the SA liability due on 31st July and 31st January unless the person is below the minimum payment on account level threshold – currently where the total liability for the previous year (tax and NICs) is less than £500, in which case a single payment is made on 31st January. The £500 level will be lifted to £1,000 from 6th April 2009.

Policy objective

The government aims to identify and consider changes to current processes that will simplify and improve the collection of NICs from the self employed. It appears that the difficulties in the process are focused around the Class 2 process and the options for change concentrate in that area.

Policy Options Considered

Feedback from the self employed and their representatives has identified concerns with the current processes, so we have not considered a 'no change' option as clearly this would not achieve the improvements sought.

It is important to note that whilst policy options 1 and 2 are closely related, all three options can be viewed as independent measures which could be implemented alone. From this perspective we would consider option 1 as simply a way to address arrears, option 2 as a way to simplify future payments, and option 3 as a new framework for the consequence for late payment. However, the costs do not add in a straightforward manner. If all measures were to be adopted the total one-off costs would be estimated as £14.2m (£11.2m for option 1, plus £3m for options 2 and 3), with total ongoing costs estimated as £540k (£360k for option 1, plus a further £180k for options 2 and 3).

Policy Option 1: Including Class 2 arrears within Self Assessment statements

We have identified that there is a proportion of the self employed who are compliant with respect to their SA liabilities but get into arrears with their Class 2 liabilities. Given the fact that Class 2 liabilities are usually relatively small sums compared to SA liabilities, and that benefit entitlements including State Pension result from the payment of Class 2 contributions, we believe that, for some at least, it is likely to arise from a mistaken belief that all their liabilities are met through their self assessment payments.

We believe that the timing of the Class 2 quarterly bills, particularly those for the quarters ending June and December, may get confused with the SA statements, which include Class 4 liabilities. Indeed information from our contact centres suggests this.

Therefore, we have considered including within the SA statement an additional line of information showing any Class 2 arrears at the time the statement is produced. In the case of a statement ahead of a payment due on 31st January the statement would include any arrears of Class 2 up until the end of the preceding September. It would not include arrears for the quarter to December as at the time of the issue of the statement the December quarter would not yet be in arrears. For example a statement requiring payment by 31st January could be issued in early January, but the December's quarterly bill should be issued within 14 days of the end of the quarter and the contributor has 28 days in which to pay. Therefore the December quarter's contributions would not be overdue until mid February.

Business Costs and Benefits

We have not identified any significant costs to business. There may be some costs for taxpayers and their representatives in familiarising themselves with the new arrangements, but this is expected to be negligible. We believe that there would be benefits to business through a better understanding of whether their Class 2 liabilities have been met.

HMRC Costs and Benefits

As this option would require the creation of links between the computer system that records Class 2 liabilities and payments (NIRS2) and the one that records liabilities and payments for Class 4 (CESA) there would be significant IT and consultancy development costs estimated at £11.2 million. The establishment of these links also allows Options 2 and 3 to be developed with some additional costs specific to those options. There are also on-going costs estimated at £360,000 a year.

Savings for HMRC would accrue from the automation of what is currently a manual process of drawing together of information on Class 2 and wider SA debts, with an estimated saving of £600,000 pa.

Exchequer Yield/Costs

We believe that the changes outlined in these three options can together lead to a reduction in the irrecoverable Class 2 debt (our latest available estimate for which is 5%), to a level closer to the SA irrecoverable level of 1%. We believe almost all of the additional irrecoverable debt for Class 2 arises from those receiving Quarterly Bills (this will include some people who take out a direct debit which subsequently fails and is not promptly re-instated – following which they are issued with Quarterly Bills). On the assumption that we can reduce it to 2.5% an annual additional reduction in NICs Class 2 debt of £8 million a year will be achieved. We believe such an assumption is reasonable based upon our view that there is an element of those non-compliant for Class 2 who are willing to comply but are confused as to their position. We believe that most of the improvement in yield will arise from Options 1 & 2. We have therefore attributed the bulk of this improvement (£7 million) to Options 1 & 2 and split it evenly (£3.5 million attributable to each of these options). The remaining £1 million has been attributed to Option 3.

Policy Option 2: Reducing the number of payment dates and/or aligning payment due dates more closely between Class 2 and 4

HMRC encourages the newly registered self employed to opt to pay their Class 2 liabilities by direct debit. When selected this is beneficial for both HMRC and the individual, as once the direct debit is set up there are much lower compliance costs than around quarterly bills. Those who do not opt to pay by direct debit are notified of their liability by quarterly bills. We have mentioned above the possibility of confusion between the quarterly bills and the SA statements.

Where the contributor understands their liabilities and pays their Class 2 and SA liabilities on time they will make a total of five or six payments (depending upon whether they need to make payments on account). This consists of four quarterly Class 2 payments and one or two SA payments.

Each of these payment 'events' carries a cost to the taxpayer, therefore a reduction in the number of separate payments required, or alignment of when liabilities are due would reduce the admin burdens to the business.

A finished proposal in terms of which payment dates might be altered is not set out below but the potential benefits of reducing the number of payment 'events' are outlined.

Business costs and benefits

There may be some costs for taxpayers and their representatives in familiarising themselves with the new arrangements, but this is expected to be insignificant. We believe that there would be benefits to business through a better understanding of whether their Class 2 liabilities have been met.

We also expect there would be savings in the admin burdens for business for any reductions in the need for separate payments. We estimate that the current number of Class 2 quarterly payments is 3.7 million each year. 90% of these are paid by cheque in the post or cheque/cash over a bank of Post Office counter and (on the basis of the standard cost model) have admin costs of £2.35 per transaction. The remainder are paid online with an estimated cost of £1 per transaction. Therefore, if we remove the need for these payments, by combining Class 2 payments with SA payments (by making Class 2 liability six monthly rather than quarterly), we would expect an admin burden reduction of £9 million (in current prices).

HMRC costs and benefits

This option would require changes to the NIRS2 system with respect to the timing and issue of bills. It would also depend upon the links required in Option 1. We estimate that additional IT development costs, for Options 2 & 3, to be in the region of £3 million, additional to those core costs identified for Option 1. Additional on-going costs for Options 2 and 3 are estimated at £180,000. These have been divided evenly for Options 2 and 3. As the consultation progresses, and once the final shape of any changes are clear, we expect to be able to refine the costs and benefits further.

Any reduction in the number of quarterly bills issued would produce savings in printing and postage – up to a maximum of £1.3 million a year if it were possible to incorporate all of the Class 2 liabilities into the SA statements.

It would also be possible to make savings in the processing and contact centres – up to a maximum of £3.4 million a year, based upon the reduction of follow up contact when quarterly bills are issued.

Exchequer Yield/Cost

As noted in option 1, we believe that the rationalisation of payment dates for Class 2 would support the aim of getting irrecoverable Class 2 debt closer to that for Class 4, resulting in a reduction in irrecoverable Class 2 NICs debt across all three options of £8 million pa. The reduction attributable to this option has been calculated at £3.5 million for the reasons set out in the corresponding section for Option 1.

Depending upon any changes that might be made there is a potential for a loss of interest within tax year. We do not anticipate that large numbers of contributors would stop paying by direct debit. For those currently paying this way we believe it works efficiently, and any benefit they could derive from delaying payment would be very minor. Assuming no change to the numbers paying by direct debit, we can examine the impact of quarterly payments being paid less frequently (for example if it was possible to establish a six month due date) and this provides us with a maximum interest loss of £1.7 million pa.

Policy Option 3: Changing the consequences for late payment of Class 2 contributions

Consequences for late payment of Class 2 NICs start one year after the end of the tax year in which the contributions were due. The contributions are payable at the highest rate between the year when the contributions were due, and the one in which they are paid. As rates typically increase, this will tend to be the rate in force at the time of payment. By way of example, contributions paid in tax year 2007/08 for the tax year 2005/06 would be payable at the current rate of £2.20 a week, rather than the 2005/06 rate of £2.10 a week.

Class 4 contributions paid late are charged with interest, along with other SA liabilities. For example the interest rate charged from 8th January 2008 became 7.5% per annum. Interest is charged at an annual rate on a daily basis from the date when it was due until the date payment is made.

In addition a surcharge of 5% is applied when the balancing payment for the SA return has not been paid within 28 days of the due date and a further 5% surcharge on any balance still unpaid six months after the due date. We have only considered the application of interest to outstanding Class 2 balances in our work so far. As part of the review of Powers, Deterrents and Safeguards, penalties for late payment are also being reviewed across the range of HMRC's responsibilities including NICs. Any changes will be subject to consultation.

Clearly both the Class 2 contribution rate and interest rates change over time. We have not made any assumptions about the future rates of either Class 2 contributions or interest charges. The driver here is an attempt to help contributors understand the basis for the extra they have to pay as a consequence of late payment. This may particularly be a factor where a contributor is in arrears in respect of both Class 2 contributions and their wider SA liabilities. They will not have to carry out two separate forms of calculation if they wish to check the accuracy of the charges.

Business costs and benefits

We anticipate that those contributors in arrears for both Class 2 and SA liabilities will find a single form of interest calculation easier to understand and verify than two separate forms of calculation. There are likely to be minor costs associated with becoming familiar with the changed arrangements.

HMRC costs and benefits

This option would require changes to allow the calculation of interest charges for Class 2 arrears. It would also depend upon the links required in Option 1. We estimate that additional IT development costs, for Options 2 & 3, to be in the region of £3 million, additional to those core costs identified for Option 1. Additional on-going costs for Options 2 and 3 are estimated at £180,000. These have been divided evenly for Options 2 and 3. As the consultation progresses, and once the final shape of any changes are clear, we expect to be able to refine the costs and benefits further.

There would be savings for HMRC in staff costs, as currently it costs £600,000 to manually update cases where debt management action has started when the rate of Class 2 contributions changes.

Exchequer Yield/Cost

We believe that clearer consequences for late paid Class 2 contributions would support the aim of getting irrecoverable Class 2 debt closer to that for Class 4. For the reasons set out in the corresponding section for Option 1 we expect the reduction in irrecoverable class 2 NICs debt attributable to this Option to be £1 million.

Combining the options

We believe that the options compliment one another, and that whilst capable of separate evaluation, the significant IT costs in linking systems means that the best cost/benefit analysis arises if all three options, or at least options 1 and 2 are adopted.

<u>Potential Impacts of proposals</u>

Competition

We have considered the impact and conclude that there are unlikely to be any effects.

Small Firms

These measures will impact most significantly on small and medium sized enterprises, though we anticipate the effects will be positive.

Human Rights

We have not identified any issues that impact on Human Rights.

Specific Impact Tests: Checklist

Use the table below to demonstrate how broadly you have considered the potential impacts of your policy options.

Ensure that the results of any tests that impact on the cost-benefit analysis are contained within the main evidence base; other results may be annexed.

Type of testing undertaken	***Results in Evidence Base?***	***Results annexed?***
Competition Assessment	Yes	No
Small Firms Impact Test	Yes	No
Legal Aid	No	No
Sustainable Development	No	No
Carbon Assessment	No	No
Other Environment	No	No
Health Impact Assessment	No	No
Race Equality	No	No
Disability Equality	No	No
Gender Equality	No	No
Human Rights	Yes	No
Rural Proofing	No	No

Summary: Intervention & Options

Department /Agency:	**Title:**	
HM Treasury	**Impact Assessment of The Saving Gateway**	
Stage: Consultation	**Version:** 1	**Date: 12 March 2008**

Related Publications: "The Modernisation of Britain's Tax and Benefit System" (Numbers Eight and Nine, Published April 2001 and November 2001)

Available to view or download at: http://www.hm-treasury.gov.uk

Contact for enquiries: Miranda Worthington **Telephone:** 020 7270 4698

What is the problem under consideration? Why is government intervention necessary?

Savings are important in providing people with independence throughout their lives and security if things go wrong. The Government has introduced Individual Savings Accounts (ISAs) to develop and extend the saving habit and ensure a fairer distribution of tax relief. The Child Trust Fund (CTF), introduced in April 2005, seeks to promote saving and financial education and to ensure that in future all young people have a financial asset at 18. Personal Accounts, for pension saving, to be introduced in 2012, will promote saving for retirement. The Saving Gateway will sit alongside these initiatives to promote saving for those on lower incomes.

What are the policy objectives and the intended effects?

The objectives of the Saving Gateway are to:

- kick-start a saving habit amongst people on lower incomes by providing a strong incentive to save through matching (a government contribution for each pound saved); and
- promote financial inclusion through encouraging people to engage with mainstream financial services.

What policy options have been considered? Please justify any preferred option.

1. Do nothing.
2. The Saving Gateway - the Saving Gateway has been piloted twice with positive results. The Saving Gateway pilots were successful in promoting saving and financial inclusion. 1,500 people participated in the first pilot, and match rates were set at £1:£1. The second pilot ran with over 22,000 participants and tested different match rates and monthly contribution limits.

When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects? The scheme will be monitored as the programme is implemented and its impact reviewed once sufficient evidence has been collected. Compliance costs are routinely reviewed after one to three years.

Ministerial Sign-off For Consultation stage Impact Assessments:

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible Minister:

.... Date: 4 March 2008

Summary: Analysis & Evidence

Policy Option:	Description: Introduce the Savings Gateway

COSTS

ANNUAL COSTS		Description and scale of **key monetised costs** by 'main affected groups'. The cost to Government will depend on the final parameters of the scheme. Financial institutions offering the Saving Gateway will incur the costs of administering accounts. Further consultation will help to form a picture of likely costs to providers.
One-off (Transition)	**Yrs**	
£		
Average Annual Cost (excluding one-off)		
£		**Total Cost** (PV) **£**

Other **key non-monetised costs** by 'main affected groups'

None

BENEFITS

ANNUAL BENEFITS		Description and scale of **key monetised benefits** by 'main affected groups'. Benefits will be in terms of Saving Gateway participants developing a saving habit, building a stock of savings, and being brought into contact with mainstream financial services. These are difficult to quantify, though we expect the total benefits to outweigh the total costs.
One-off	**Yrs**	
£		
Average Annual Benefit (excluding one-off)		
£		**Total Benefit** (PV) **£ Positive**

Other **key non-monetised benefits** by 'main affected groups' The Saving Gateway aims to help kick-start a saving habit and promote financial inclusion. The scheme will also provide a regulated saving environment for individuals on low incomes and there will be knock-on effects on financial capability through learning by doing.

Key Assumptions/Sensitivities/Risks

The Exchequer costs of the Saving Gateway are dependent on the final design of the accounts.

Price Base Year 2008	Time Period Years	**Net Benefit Range** (NPV) £	**NET BENEFIT** (NPV Best estimate) **£ Small, Positive**

What is the geographic coverage of the policy/option?			UK	
On what date will the policy be implemented?			2010	
Which organisation(s) will enforce the policy?			HMRC	
What is the total annual cost of enforcement for these organisations?			£ N/A	
Does enforcement comply with Hampton principles?			Yes	
Will implementation go beyond minimum EU requirements?			No	
What is the value of the proposed offsetting measure per year?			£ 0	
What is the value of changes in greenhouse gas emissions?			£ 0	
Will the proposal have a significant impact on competition?			No	
Annual cost (£-£) per organisation (excluding one-off)	Micro	Small	Medium	Large
Are any of these organisations exempt?	No	No	N/A	N/A

Impact on Admin Burdens Baseline (2005 Prices) (Increase - Decrease)

Increase of	£ see p.5	Decrease of	£ see p.5	**Net Impact**	£ see p.5

Key: **Annual costs and benefits: Constant Prices** **(Net) Present Value**

Evidence Base (for summary sheets)

Savings are important in providing people with independence throughout their lives and security if things go wrong. Since 1997, the Government has aimed to support saving and asset ownership for all from childhood, through working life and into retirement. The Government has introduced Individual Savings Accounts which seek to develop and extend the saving habit and ensure a fairer distribution of tax relief. The Government has also introduced the Child Trust Fund, which seeks to promote saving and financial education and will ensure that in future all young people have a financial asset at the age of 18. Personal Accounts, for pension saving, will be introduced in 2012 and will promote saving for retirement. The Saving Gateway will sit alongside these initiatives to promote saving for those on lower incomes.

The objectives of the Saving Gateway are to:

- kick-start a saving habit amongst people on lower incomes by providing a strong incentive to save through matching (a government contribution for each pound saved); and
- promote financial inclusion through encouraging people to engage with mainstream financial services.

Consultation to date and Pilots

The Government has consulted on the Saving Gateway twice, these consultation documents are available on the HM Treasury website (http://www.hm-treasury.gov.uk/):

1. Saving and Assets for All: The Modernisation of Britain's Tax and Benefit System, No. 8, April 2001; and
2. Delivering Saving and Assets: The Modernisation of Britain's Tax and Benefit System, No. 9, November 2001.

The scheme has also been piloted twice. Complete reports and analysis of these pilots are also available on the HM Treasury website:

1. Incentives to save: encouraging saving among low-income households, Bristol University – Personal Finance Research Centre, March 2005; and
2. Final evaluation of the Saving Gateway 2 Pilot: Main Report, Institute for Fiscal Studies & Ipsos MORI Social Research Institute, May 2007).

The Saving Gateway pilots were delivered in partnership with the-then Department for Education and Skills (DfES), with Halifax (now HBOS plc) providing the banking facilities. The first pilot ran from August 2002 to November 2004, with individuals' accounts open for an 18 month period, around 1,500 participants took part. The pilot covered five areas: Cambridge; East London; Hull; Cumbria and Manchester. People living in these areas were eligible to open an account if they were of working age (16 to 65) and if they had:

- household earnings less than £15k a year;
- individual earnings less than £11k a year; or were
- out of work or receiving benefits.

Individuals could save up to a limit of £25 per month into the account and up to a maximum of £375 overall for which they received a £1 to £1 match when the account matured. The final evaluation of the first pilot was published in March 2005.

A second, larger Saving Gateway pilot ran in the same five locations as the first pilot, as well as an additional area, South Yorkshire. The pilot started in March 2005, with accounts open for 18 months (as in the first pilot). Around 22,000 accounts were opened. The second pilot was open to a wider income group. Individuals were eligible for the second pilot if they were of working age (16 to 65) and had:

- household incomes less than £50k a year;
- individual incomes less than £25k a year; or were
- out of work or receiving benefits.

The pilot tested alternative match rates (20p, 50p or £1 match for every £1 saved); different monthly contribution limits (£25, £50 or £125); the effect of an initial endowment (£50); and opt-in to voluntary financial education. The final evaluation of the second pilot was published in May 2007.

The pilots point to the success of matching as a targeted incentive for lower income savers. Other key findings from the pilots were that: the Saving Gateway generated both new savers and new saving amongst existing savers; and that the scheme brought individuals into contact with mainstream financial institutions for the first time.

Eligible Population

Building on the results of the pilots, the Government will offer Saving Gateway accounts to individuals who are in receipt of one or more qualifying benefits or tax credits. The total estimated eligible population is around 8 million individuals. The full list of qualifying benefits/tax credits is as follows:

- Working Tax Credit;
- Child Tax Credit paid at the maximum rate;
- Income Support;
- Incapacity Benefit or Employment Support Allowance;
- Severe Disablement Allowance; and
- Jobseeker's Allowance.

Admin Burdens

Providers will only incur costs in relation to the Saving Gateway if they opt to provide accounts to eligible people.

Those financial organisations that opt to provide Savings Gateway accounts will incur a cost in setting up and administering Saving Gateway accounts. The detailed statutory requirements for Saving Gateway providers are the subject of consultation. Subject to consultation responses, the Government is minded to require potential providers to gain approval for operating Saving Gateway accounts from HMRC. Once approved, providers will also be required to:

- submit a monthly return containing details of all new accounts opened;
- submit a monthly return of accounts that have matured. For compliance purposes, in addition to the total amount of match payment made, this return will contain a record of the amount of match funding paid to each participant;
- send a Saving Gateway account statement to each customer at least quarterly;
- allow customers to withdraw money deposited, and to pay interest on credit balances held in Saving Gateway accounts;
- pay a return on credit balances held in Saving Gateway accounts; and
- keep (and hold for 4 years) records to demonstrate that Saving Gateway accounts are being operated in accordance with the statutory rules.

Providers will also be subject to periodic audit by HMRC to ensure accounts are run in accordance with the rules of the scheme. However, to minimise this burden, providers may be able to request that HMRC undertake integrated audits for Saving Gateway, Child Trust Fund and ISA.

The Government will be consulting with the financial services industry on the total cost to the market of meeting the statutory requirements of the Saving Gateway. This further consultation should enable the industry administration burdens to be estimated in time for the implementation stage Impact Assessment. The Government would welcome evidence from industry to aid with quantifying this.

Competition Assessment

The Saving Gateway offers financial institutions a new saving product to sell to eligible individuals. It is not expected to have any significant impact on competition in the savings product market.

Small Firms Impact Test

The Saving Gateway will potentially be delivered through a range of existing providers that wish to take part in the programme. The Government is minded to require that returns and claims from providers be sent in electronic form. However, this is already the case for providers of the Child Trust Fund and gradual phasing of electronic filing of Self Assessment has already begun. The implementation of the Saving Gateway is unlikely to impact significantly on small providers.

Gender Equality

The benefits and tax credits from which the Government will passport eligibility to the Saving Gateway are offered to both men and women.

Disability Equality

The Government will offer the Saving Gateway to individuals claiming the benefits and tax credits listed above. The qualifying benefits and credits include Severe Disablement Allowance and Incapacity Benefit.

Specific Impact Tests: Checklist

Ensure that the results of any tests that impact on the cost-benefit analysis are contained within the main evidence base; other results may be annexed.

Type of testing undertaken	*Results in Evidence Base?*	*Results annexed?*
Competition Assessment	Yes	No
Small Firms Impact Test	Yes	No
Legal Aid	No	No
Sustainable Development	No	No
Carbon Assessment	No	No
Other Environment	No	No
Health Impact Assessment	No	No
Race Equality	No	No
Disability Equality	Yes	No
Gender Equality	Yes	No
Human Rights	No	No
Rural Proofing	No	No

Summary: Intervention & Options

Department /Agency: HM Treasury	**Title:** Impact Assessment of provision to allow businesses to write off small amounts of unrelieved expenditure on plant and machinery	
Stage: Final Proposal stage	**Version:**	**Date:** 14 February 2008
Related Publications: Business tax reform: capital allowances changes consultation document		

Available to view or download at:

http://www.hm-treasury.gov.uk/consultations_and_legislation/consult_fullindex.cfm

Contact for enquiries: Roze Ahmad **Telephone:** 0207 270 6113

What is the problem under consideration? Why is government intervention necessary?

Businesses have made representations to the Government to introduce a rule so they no longer need to track small amounts of unrelieved expenditure on plant and machinery to receive comparatively small amounts of tax relief, but instead can write it off when it reaches a de minimis threshold.

What are the policy objectives and the intended effects?

The measure is intended to simplify the tax system, particularly for the smallest business. It will allow them to write-off remaining expenditure in both pools of expenditure on plant and machinery, general and at the special rate, if either are £1,000 or less. The effect will be that businesses do not need to track and calculate the amount of tax relief they are due every year once the pools reach this threshold

What policy options have been considered? Please justify any preferred option.

1. No Change
2. Transitional Change
3. Permanent Change

Option 3 offers the greatest benefits to business, as where businesses occasionally invest above the limit of £50,000 for the new Annual Investment Allowance (AIA) (which will allow for businesses to write off all of their expenditure in the year in which it is incurred) a permanent measure would allow businesses to write of the excess when it reaches the £1000 threshold.

It also caters for businesses who are just above the threshold in the year the measure is introduced. Over time, their pools will fall below £1000 and they will be able to take advantage of this measure

When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects? 1 – 3 years after implementation the Government will review the compliance cost impact of the measure.

Ministerial Sign-off For Final Proposal stage Impact Assessments: I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) the benefits justify the costs.

Signed by the responsible Minister:

Jane Kennedy .... Date: 14 February 2008

Summary: Analysis & Evidence

Policy Option: **No Change**	**Description:** No change to current policy. Businesses unable to clear legacy small capital allowance pools

COSTS	**ANNUAL COSTS**	Description and scale of **key monetised costs** by 'main affected groups' In a do nothing scenario, there are no additional costs or benefits to business beyond those included in the admin burdens baseline.	
	One-off (Transition) **Yrs**		
	£ Nil		
	Average Annual Cost (excluding one-off)		
	£ Nil	**Total Cost** (PV)	**£ Nil**
	Other **key non-monetised costs** by 'main affected groups' Nil		

BENEFITS	**ANNUAL BENEFITS**	Description and scale of **key monetised benefits** by 'main affected groups'	
	One-off **Yrs**		
	£ Nil		
	Average Annual Benefit (excluding one-off)		
	£ Nil	**Total Benefit** (PV)	**£ Nil**
	Other **key non-monetised benefits** by 'main affected groups' Nil		

Key Assumptions/Sensitivities/Risks

No change from current system.

Price Base Year	Time Period Years	**Net Benefit Range** (NPV) £ **N/A**	**NET BENEFIT** (NPV Best estimate) **£ N/A**

What is the geographic coverage of the policy/option?			UK	
On what date will the policy be implemented?			N/A	
Which organisation(s) will enforce the policy?			HMRC	
What is the total annual cost of enforcement for these organisations?			£	
Does enforcement comply with Hampton principles?			Yes	
Will implementation go beyond minimum EU requirements?			N/A	
What is the value of the proposed offsetting measure per year?			£ 0	
What is the value of changes in greenhouse gas emissions?			£ 0	
Will the proposal have a significant impact on competition?			No	
Annual cost (£-£) per organisation (excluding one-off)	Micro **£0**	Small **£0**	Medium **£0**	Large **£0**
Are any of these organisations exempt?	N/A	N/A	N/A	N/A

Impact on Admin Burdens Baseline (2005 Prices) (Increase - Decrease)

Increase of £ N/A Decrease of £ N/A **Net Impact** **£** N/A

Key: **Annual costs and benefits: Constant Prices** **(Net) Present Value**

Summary: Analysis & Evidence

Policy Option: Option 2 Transitional Change	**Description: TRANSITIONAL CHANGE:** businesses are able to clear a significant number of small pools in the year in which the AIA is introduced.

COSTS			
ANNUAL COSTS		Description and scale of **key monetised costs** by 'main affected groups'	
One-off (Transition)	**Yrs**		
£ Nil			
Average Annual Cost (excluding one-off)			
£ Nil		**Total Cost** (PV)	**£**
Other **key non-monetised costs** by 'main affected groups' Nil			

BENEFITS			
ANNUAL BENEFITS		Description and scale of **key monetised benefits** by 'main affected groups' There is no one-off benefit, no HMRC operation cost implication. Benefit is a £4-5m reduction in admin burden to businesses on average.	
One-off	**Yrs**		
£ Nil			
Average Annual Benefit (excluding one-off)			
£ 4 to 5m		**Total Benefit** (PV)	**£ 5m**
Other **key non-monetised benefits** by 'main affected groups' Nil			

Key Assumptions/Sensitivities/Risks

Assumes a rate of growth of pools within the range that will benefit from the measure. If that rate of growth is higher, more businesses would miss out on the benefit in future years.

Price Base Year	Time Period Years	**Net Benefit Range** (NPV) **£**	**NET BENEFIT** (NPV Best estimate) **£**

What is the geographic coverage of the policy/option?			UK	
On what date will the policy be implemented?			N/A	
Which organisation(s) will enforce the policy?			HMRC	
What is the total annual cost of enforcement for these organisations?			£ 0	
Does enforcement comply with Hampton principles?			Yes	
Will implementation go beyond minimum EU requirements?			N/A	
What is the value of the proposed offsetting measure per year?			£ 0	
What is the value of changes in greenhouse gas emissions?			£ 0	
Will the proposal have a significant impact on competition?			No	
Annual cost (£-£) per organisation (excluding one-off)	Micro **£0**	Small **£0**	Medium **£0**	Large **£0**
Are any of these organisations exempt?	N/A	N/A	N/A	N/A

Impact on Admin Burdens Baseline (2005 Prices)			(Increase - Decrease)
Increase of £ 0	Decrease of £ 4 to 5m	**Net Impact**	**£ -4 to -5m**

Key: **Annual costs and benefits: Constant Prices** **(Net) Present Value**

Summary: Analysis & Evidence

Policy Option: Option 3 Permanent change	**Description: PERMANENT CHANGE:** offers simplification and allows businesses to write of the excess when it reaches £1000.

COSTS

ANNUAL COSTS		Description and scale of **key monetised costs** by 'main affected groups'
One-off (Transition)	**1 Yr**	
£Nil		
Average Annual Cost (excluding one-off)		
£Nil		**Total Cost** (PV) **£**

Other **key non-monetised costs** by 'main affected groups'

BENEFITS

ANNUAL BENEFITS		Description and scale of **key monetised benefits** by 'main affected groups'
One-off	**1 Yr**	There is no one-off benefit, no HMRC operation cost implication. Benefit is a £6m reduction in admin burden for businesses.
£		
Average Annual Benefit (excluding one-off)		
£ 5 to 6m		**Total Benefit** (PV) **£**

Other **key non-monetised benefits** by 'main affected groups'

Key Assumptions/Sensitivities/Risks

Assumes a rate of growth of pools within the range that will benefit from the measure. If that rate of growth is higher, more businesses would benefit in future years.

Price Base	Time Period	**Net Benefit Range** (NPV) **£**	**NET BENEFIT** (NPV Best estimate) **£**

What is the geographic coverage of the policy/option?	UK			
On what date will the policy be implemented?	1 or 6 April 2008			
Which organisation(s) will enforce the policy?	HMRC			
What is the total annual cost of enforcement for these organisations?	£ 0			
Does enforcement comply with Hampton principles?	Yes			
Will implementation go beyond minimum EU requirements?	N/A			
What is the value of the proposed offsetting measure per year?	£ 0			
What is the value of changes in greenhouse gas emissions?	£ 0			
Will the proposal have a significant impact on competition?	No			
Annual cost (£-£) per organisation (excluding one-off)	Micro £0	Small £0	Medium £	Large £
Are any of these organisations exempt?	No	No	N/A	N/A

Impact on Admin Burdens Baseline (2005 Prices) (Increase - Decrease)

Increase of £ 0 Decrease of £ 5 to 6m **Net Impact** £ -5 to -6m

Key: **Annual costs and benefits: Constant Prices** **(Net) Present Value**

Evidence Base

A number of respondents to the consultation on the new features of the capital allowances system, announced in Budget 2007, commented that the introduction of the £50,000 AIA would mean that very little new expenditure would be going into the main Plant and Machinery (P&M) pool. With the reduced rate of writing-down allowances (WDA) from April 2008 (20%, down from 25%), this could mean that businesses would be making very small claims for allowances on the historic pools for some considerable number of years to come for comparatively small amounts of relief.

Whilst it is possible that such historic pools could also be reduced by the proceeds of the sale of the assets they contain, there is still a significant number of smaller businesses who only make investments in P&M occasionally and it was unlikely that for this group of smaller businesses disposal proceeds would actually wipe out the pool within the next five or so years. The respondents therefore suggested the introduction of a provision that allowed businesses to write off small pools of qualifying expenditure, which might not otherwise grow, as a transitional measure when introducing the AIA.

In the technical note published in December 2007, which summarised the responses to the earlier consultation on the package, we noted that this suggestion had been made and committed to considering it further.

This impact assessment should be read in conjunction with the impact assessment on the wider reforms to the capital allowances system, as the benefits are closely linked with the benefits from the AIA.
http://www.hm-treasury.gov.uk/media/F/2/consult_businesstaxreform171207.pdf

Because the benefits are annual and rounded, they are presented in 2005 prices against the admin burdens baseline, rather than in present value terms.

Value of pools

HMRC have undertaken some analysis of the size of existing capital allowances pools held by both incorporated and unincorporated businesses. The value of the pools and total number of businesses in 2008/09 is set out below.

Pool value	Number of pools
£0	2,938,000
£1 to £1,000	618,000
£1 to £2,000	1,051,000
£1 to £5,000	1,739,000
£1 to £10,000	2,234,000
Over £10,000	713,000
All values	6,333,000

Given the expected flow into and out of these ranges, as business purchase plant and machinery which are added to the pools, allowances are given and disposal proceeds are deducted, we would not expect the number of businesses benefiting in any one year to be as high as indicated above.

The number of pools in the next five years of the forecasting horizon is unknown and its estimate is not straightforward. HMRC have made assumptions regarding the growth rate of tax payers, the rate at which pools are written off under the no-change scenario and the scenario under the permanent provision, and the rate at which pools change their size over time.

Policy difference under transitional provision

A transitional measure would have the benefit of removing a significant number of historic small pools in the year in which the AIA is introduced.

The numbers of pools with a value of £1-1,000 in the baseline (no provision) and the alternative (with £1,000 transitional provision) scenarios are estimated in the table below. Their difference represents the number of businesses that would benefit from a reduction of their admin burden in claiming the allowances.

		2008/9	2010/11	2012/13	2014/15	2015/16
	Pool	Y1	Y2	Y3	Y4	Y5
1. Base	**£1-1,000**	**618,000**	**646,000**	**683,000**	**727,000**	**773,000**
2. Policy	**£1-1,000**	**618,000**	**110,000**	**219,000**	**324,000**	**424,000**
3.Difference		**0**	**536,000**	**464,000**	**403,000**	**349,000**

Policy difference under permanent provision

The table below shows the number of businesses with a pool in £1-£1,000 range, under the base case of no policy change (line 1) and the policy scenario of a £1,000 permanent provision (line 2), and their difference in the number of pools falling into the range (line 3).

		2008/9	2010/11	2012/13	2014/15	2015/16
	Pool	Y1	Y2	Y3	Y4	Y5
1. Base	**£1-1,000**	**618,000**	**646,000**	**683,000**	**727,000**	**773,000**
2. Policy	**£1-1,000**	**618,000**	**110,000**	**123,000**	**135,000**	**143,000**
3.Difference		**0**	**536,000**	**560,000**	**592,000**	**630,000**

Special rate pools

As there are a small number of special rate pools below the £1,000 level, the difference between the impact of a transitional and permanent measure is minor (100 pools difference by 2014-15).

No of pools benefiting	**2008/9**	**2010/11**	**2012/13**	**2014/15**	**2015/16**
Permanent	**0**	**600**	**600**	**600**	**600**
Transitional	**0**	**600**	**600**	**500**	**500**

Estimates of effects on administrative burdens

Changes in compliance costs have been estimated using HMRC's Standard Cost Model of administrative burdens. There might be some reading-and-understanding costs of implementing a new process, which are regarded as trivial.

Transitional Provision

The estimated reduction in admin burden is given in the following table, generated by the fall in the number of businesses which no long need to claim capital allowances from the general pool.

	Y1	Y2	Y3	Y4	Y5
AdminB (£m)	**0**	**6**	**5**	**5**	**4**

Permanent Provision

The reduction in the admin burden results from the reduction in the number of businesses having to claim capital allowances from the general pool. This is the number of businesses affected, multiplied by the average admin burden of each business as provided in the Admin Burden Database.

	Y1	Y2	Y3	Y4	Y5
AdminB (£m)	**0**	**6**	**6**	**7**	**7**

Specific Tests

Competition Assessment suggests that the measures have no adverse effect on competition.
For *Small Firms Impact Test*, these measures with permanent or transitional changes will benefit small firms particularly.

Specific Impact Tests: Checklist

Use the table below to demonstrate how broadly you have considered the potential impacts of your policy options.

Ensure that the results of any tests that impact on the cost-benefit analysis are contained within the main evidence base; other results may be annexed.

Type of testing undertaken	***Results in Evidence Base?***	***Results annexed?***
Competition Assessment	Yes	No
Small Firms Impact Test	Yes	No
Legal Aid	No	No
Sustainable Development	No	No
Carbon Assessment	No	No
Other Environment	No	No
Health Impact Assessment	No	No
Race Equality	No	No
Disability Equality	No	No
Gender Equality	No	No
Human Rights	No	No
Rural Proofing	No	No

Summary: Intervention & Options

Department /Agency:	Title:	
HMT	**Impact Assessment of changes to R&D tax credits to ensure State aid compatibility**	
Stage: Final proposal	**Version:** 1.0	**Date:** 12 March 2008
Related Publications:		

Available to view or download at:

http://www.hm-treasury.gov.uk/consultations_and_legislation/ria/consult_ria_index.cfm

Contact for enquiries: Dan York-Smith **Telephone:** 02072704424

What is the problem under consideration? Why is government intervention necessary?

Research and development (R&D) tax credits aim to encourage companies to spend more on R&D in order to promote investment in innovation. Three changes are needed to the R&D tax credit scheme for companies that are small and medium sized enterprises (SMEs) and the vaccine research relief (VRR) scheme. At Budget 2007, the Government announced changes to the schemes, notably to increase the rate of the relief given, and, as a consequence, the small changes described below are necessary to ensure that the revised, more generous, reliefs still fall within the European Commission's state aid guidelines.

What are the policy objectives and the intended effects?

The package is intended to ensure that the UK can obtain EC approval in respect of recently announced changes to the SME R&D and VRR schemes. Budget 2007 announced increases in the rate of the tax relief from 150% to 175%. The three changes described in this document will enable this Budget announcement to be activated and make additional relief available to companies.

What policy options have been considered? Please justify any preferred option.

1. Do nothing - in which case the EC guidelines would not be satisfied.
2. Continue operating a two-tier scheme complying with EU state aid rules, which requires:
    - A cap on relief available to any single R&D project at EUR 7.5m
    - That relief is not given to companies in difficulties
    - Large companies claiming under the Vaccine Research Relief scheme to declare that the relief has had an incentive effect.

When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects? A Compliance Cost Review is expected to be carried out once the policy has bedded in (typically between 1 and 3 years after implementation).

Ministerial Sign-off final proposal/implementation Impact Assessment:

I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) the benefits justify the costs.

Signed by the responsible Minister:

.... Date: 4 March 2008

Summary: Analysis & Evidence

Policy Option:	Description: changes to R&D tax credits to ensure State aid compatibility

COSTS

ANNUAL COSTS		Description and scale of **key monetised costs** by 'main affected groups'
One-off (Transition)	**Yrs**	The estimated one-off cost almost all reflects companies familiarising themselves with changes and accounts for half of the total cost. The average annual cost is split between all companies checking they are a going concern, a few companies checking the cap and a few large companies declaring a VRR incentive.
£ 260k-630k	5	
Average Annual Cost (excluding one-off)		
£ 60k		**Total Cost** (PV) **£ 490k-830k**

Other **key non-monetised costs** by 'main affected groups'

BENEFITS

ANNUAL BENEFITS		Description and scale of **key monetised benefits** by 'main affected groups'
One-off	**Yrs**	
£		
Average Annual Benefit (excluding one-off)		
£		**Total Benefit** (PV) **£**

Other **key non-monetised benefits** by 'main affected groups'

The main benefit from these changes is allowing companies to continue to claim support under the SME R&D tax credit and VRR schemes.

Key Assumptions/Sensitivities/Risks Changes are assumed to enable companies to continue to claim support under the SME R&D tax credit and VRR schemes, with no significant Exchequer effect. Present value estimates assume a 3.5% discount rate.

Price Base Year 2008	Time Period Years 5	**Net Benefit Range** (NPV) **£ 490k-830k (cost)**	**NET BENEFIT** (NPV Best estimate) **£ 660k (cost)**

What is the geographic coverage of the policy/option?			UK	
On what date will the policy be implemented?			to be decided	
Which organisation(s) will enforce the policy?			HMRC	
What is the total annual cost of enforcement for these organisations?			£	
Does enforcement comply with Hampton principles?			Yes/No	
Will implementation go beyond minimum EU requirements?			No	
What is the value of the proposed offsetting measure per year?			£ N/A	
What is the value of changes in greenhouse gas emissions?			£ N/A	
Will the proposal have a significant impact on competition?			No	
Annual cost (£-£) per organisation (excluding one-off)	Micro **10**	Small **10**	Medium **510**	Large **2,400**
Are any of these organisations exempt?	No	No	N/A	N/A

Impact on Admin Burdens Baseline (2005 Prices)				(Increase - Decrease)
Increase of £ 25k	Decrease of £		**Net Impact**	**£** 25k increase

Key: **Annual costs and benefits: Constant Prices** **(Net) Present Value**

Evidence Base

Proposed changes

The research and development (R&D) tax credit scheme for companies that are small and medium-sized enterprises (SMEs) and the vaccines research relief (VRR) scheme are notified State aids and must comply with the European Commission's (EC) Research and Development and Innovation (R&D&I) guidelines published in 2006. In line with this, we are required to introduce three changes:

- a cap to limit the amount of relief available in respect of a single research project to EUR 7.5m;
- a restriction so that aid is not provided, under either scheme, to companies in difficulty. To achieve this we will be adding, as a condition of making a claim, a requirement that a company's accounts be prepared on a "going concern" basis; and
- a requirement that large companies claiming support through the VRR scheme must make a declaration that the aid received had an incentive effect.

A number of alternative options were considered. The introduction of a cap was in preference to the alternative of companies individually notifying to the EC details of any projects for which they had received relief in excess of EUR 7.5m. The EC would then have the discretion to refuse all the relief, not just that above the cap. This would have added considerable complexity and uncertainty to the whole claims process. The EC limits the amount of aid provided to companies in difficulty but its definition of such a company is not easily applicable and might have affected companies which are not actually in difficulties. The "going concern" test is a concept already familiar with UK companies and accountants.

The UK must be able to evidence an incentive effect arising as a result of large companies receiving VRR relief. The government had no other choice regarding this issue.

Summary of estimated impacts

The proposed cap may affect around an estimated 25 companies out of the total 5,000 companies claiming the SME tax credit and VRR each year. HMRC are not aware of any companies that would be affected by the proposal for companies in difficulty and, if any companies are affected, the number is likely to be extremely small. The proposal for large companies to declare an incentive effect when claiming VRR is estimated to affect around 5 companies a year.

The total admin burdens for R&D tax credits are estimated to increase by around £25,000 a year as a result of these proposed changes. This increase is split between the effects of the proposed cap and the proposed declaration of a VRR incentive effect. In addition, the proposed changes are estimated to increase wider compliance costs, comprising a one-off cost in range of £260,000 to £630,000 and an ongoing cost of around £25,000 a year. Finally, the changes are estimated to involve an ongoing cost to HMRC of around £10,000 a year. **Overall, therefore, the proposed changes are estimated to involve a total one-off compliance cost in the range of £260,000 to £630,000 and a total ongoing cost of around £60,000 a year.**

In estimating the total cost, the one-off cost is summed with ongoing costs over an assumed five-year period and a present value total calculated using an assumed 3.5% discount rate. This shows **a total estimated cost over five years in the region of £490,000 to £830,000**. The central point of this range is taken to give **a best estimate of the net cost of £660,000 over five years** (at present value), equivalent to an annual average cost of around £130,000 over the period.

The proposed changes are not expected to have any adverse impacts on competition. Indeed, as the changes are required to ensure compatibility with State aid guidelines, they may involve a small positive effect on competition. Similarly, the proposed changes are not expected to have a disproportionate effect on small companies. Indeed, the effects of the proposed changes should either be similar across companies of all sizes or disproportionately affect larger companies.

Detailed assessment of potential impacts

Number of businesses affected

EUR 7.5m cap per R&D project

This proposed change will mean that relief provided under the SME R&D tax credit or VRR schemes will be capped at EUR 7.5m per R&D project; any R&D in excess of the cap can only be claimed under the large company scheme. The value of the 7.5m euros cap in sterling will vary with the prevailing exchange rate but is likely to translate to a cap of around £5.5m.

Companies typically claim R&D tax credit support on annual basis rather than in terms of specific R&D projects. So far, claims made for the SME R&D tax credit are well below the £5.5m cap. Latest monitoring statistics for the SME scheme show that of the 15,000 or so claims made over the latest three years (2003-04 to 2005-06), only about 50 claims were for more than £1m of support, between 15 and 20 each year. Of these 15-20 claims each year, around 10-15 claims were for support of £1m to £1.5m, around 5 were for support of £1.5m to £2m and, in one of the three years, 1 claim was made for support of over £2m.

It is also not the same companies claiming the largest amounts of support each year. In 2005-06, for example, the top 20 claims were for support ranging from £0.97m up to £1.7m. Of these 20 claims, 8 had also claimed a similar amount in both of the two previous years (2003-04 and 2004-05), whilst a further 6 had claimed a similar amount in 2004-05 but not in 2003-04. The remaining 6 companies had not claimed a similar amount in either of the two previous years.

Even allowing for projects that run over several years, it seems unlikely that the proposed cap will affect more than around 10 companies at most. For reasons of caution in estimating the impacts, however, we will assume that around 25 companies using the SME scheme may potentially be affected by the proposed cap and hence will need to consider it when claiming support.

No claims have been received under the VRR scheme for support of more £300,000, which suggests that it is extremely unlikely that any companies claiming VRR will be affected by the proposed cap, even allowing for projects to run over several years.

Companies in difficulty

This proposed change will mean that relief will not be provided under the SME R&D tax credit or VRR schemes to companies that are not a "going concern" according to their most recent accounts. Monitoring data for R&D tax credits does not contain information on whether or not a company is a "going concern". However, HMRC are not aware of any companies claiming R&D tax credits that are not a "going concern" and it is expected that the number of any such companies would be extremely small (i.e. less than one per cent). Companies will already hold information on whether they are going concern and there should be no uncertainty surrounding this fact. Companies will not be required to submit any additional information to HMRC proving that they are a going concern, nor will they be required to keep additional records on this.

Declaration of VRR incentive effect

This proposed change will require large companies claiming VRR support to declare that there is an incentive effect from the relief. Monitoring statistics on R&D tax credits shows that around 10 companies claim VRR each year. This total comprises up to 5 large companies and between 5 and 10 SME companies claiming VRR each year. The proposed change is, therefore, assumed to affect up to 5 large companies each year. Each company would need to make a declaration in the computations filed with their CT return and to maintain background documentation backing this up.

Impact on admin burdens

Admin burdens, as measured by the Standard Cost Model, form a subset of overall compliance costs.

EUR 7.5m cap per R&D project

The proposed cap will not change the way that companies claim support through R&D tax credits and hence there is no change to the information obligations comprising the admin burdens for the SME scheme. However, the proposed cap will require some companies to undertake additional work in meeting those obligations and hence will result in an increase in admin burdens.

For the 25 companies assumed to be potentially affected by the proposed cap, there will be an ongoing burden to check whether or not the relief claimed for those projects reaches the cap or not. This will initially require some detailed familiarisation work to ensure that they understand the full implications of the cap and how it will affect them. These companies will also all need to spend some additional time each year to check that the relief claimed for each project does not exceed the cap.

The cost of this additional burden will vary between companies that use an agent and those undertaking the work themselves. For those carrying out the additional burden themselves, an assumption that the additional requirement would involve a day's work on average implies an additional burden of around £200 per company (assuming eight hours work at an average hourly wage of £25). Comparison with the 2005 admin burden database suggests that an additional £200 cost represents a 40% increase in the average burden of companies that don't use an agent. It seems extremely unlikely that the proposed cap would raise burdens to this extent and hence suggests that the assumed £200 cost is likely to be an over-estimate.

For companies that do use an agent, we would expect a higher cost from meeting the additional burden. The 2005 admin burden database shows that the average burden from R&D tax credits is roughly four times larger for companies using an agent compared to those not using an agent. Applying this ratio to the assumed £200 average cost per company not using an agent, therefore, suggests an average cost of £800 per company using an agent. Again, this represents a 40% increase in the 2005 admin burden baseline for companies using an agent, which most probably overstates the likely effects of the proposed cap.

Applying the average £200 cost per company not using agents to half of the 25 companies assumed to be affected suggests a burden of £2,500. Applying the average £800 cost per company using agents to the other half of the 25 companies affected suggests a burden of £10,000. Taking these together gives an additional annual burden of £12,500 in total for the 25 companies assumed to be affected.

Companies in difficulty

Companies that are not "normally efficient" are out of scope of the standard cost model for admin burdens and hence the effects of the proposed change on any companies that are "in difficulty" are assumed not to impact on admin burdens but count as wider compliance costs.

Declaration of VRR incentive effect

The 5 large companies assumed to be affected by this change would need to familiarise themselves with this change, incurring a small one-off cost. Familiarisation might involve someone at each company reviewing the change and understanding the implications for that company.

These 5 large companies would also be required to declare an incentive effect each time they make a claim for VRR following the change. The detailed process that would be required by this declaration is currently being negotiated with the Commission. However, it is anticipated that, for each VRR claim, the company would need to consider whether and how the relief has increased or changed the size, scope, speed or expenditure for that R&D. The nature of the impact would most likely need to be documented and a statement included in the company's CT computations. This process is not intended to represent too onerous a task and, since the company should already have the majority of this information, it is hoped that the work involved will be minimised.

The cost of these requirements will vary depending both on amount of effort a company makes to demonstrate an incentive effect as well as whether or not the company uses an external agent in claiming VRR. Given this uncertainty, we assume a variety of effects in order to ensure the range of potential outcomes are reasonably represented.

Where a company either does the work internally or commissions a relatively simple report from an agent, we might assume a relatively low average cost of, say, £1,000. Where a company either undertakes a comprehensive internal assessment of the incentive effect or commissions a more substantial report from an agent, we might assume a slightly higher average cost of, say, £2,500. Finally, a company may opt to commission a detailed and extensive report from an agent, with an assumed cost of £5,000. Finally, assuming that two of the five affected companies incur the lower cost of £1,000 each, a further two incur the central cost of £2,500 each and the final company pays £5,000, would produce a total annual burden of £12,000. These assumptions are based on the figures which exist in the admin burdens baseline.

It should be noted that this proposed change will not affect small and medium sized companies as only large companies are required to declare an incentive effect of VRR support.

Summary

Overall, therefore, the proposed changes are estimated to have an admin burden increase of almost £25,000 a year. Half of this estimated burden arises from the proposed cap and half from the VRR incentive declaration. In order for these total costs to exceed what would normally be considered as negligible, the fees charged by agents would need to be of a completely different order of magnitude. This is considered to be unlikely and unnecessary, given the existence of the HMRC R&D tax credit units.

Impact on wider compliance costs

Familiarisation

In total, around 5,000 companies each year are estimated to claim the SME R&D tax credit, including the mid-size extension, and/or the VRR scheme. All of these companies will need to familiarise themselves with the proposed new EUR 7.5m cap and the rule around companies in difficulties. As the vast majority of companies are extremely unlikely to be affected by either change, they will simply need to spend a small amount of time to understand the proposed changes and satisfy themselves that they will be unaffected.

This familiarisation might be expected to take a few hours at most. If it took between two and five hours at an average hourly wage of £25, the average cost per company would be £50 to £125. This would represent a total one-off cost of between £250,000 and £625,000 for all 5,000 companies.

There seems to be little reason why the average cost of familiarisation will vary between small and medium-sized companies. Although larger SMEs and mid-size companies are likely to spend more on R&D and hence may need to take a little more time to understand the change and ensure they will not be affected, it seems unlikely that this will involve substantially larger familiarisation costs given that only a very small number of companies are likely to have sufficiently large R&D projects that may approach the cap. On the changes for companies in difficulty, all companies should be aware of whether they are a “going concern” and so there does not appear to be any strong reason why familiarisation of this change should vary substantially between different sized companies.

One-off IT costs

To comply with the proposed cap, the 25 companies assumed to be affected may well need to ensure that their internal accounting systems are able to track the R&D spending and relief claimed for each individual R&D project. Some companies may already use such systems, some may need to make small adjustments to existing accounts software, whilst others may need to make substantial improvements or purchase new software. These adjustments and improvements represent a one-off compliance cost.

Given the small numbers of companies likely to be affected by this change, we assume that 10 companies already track R&D projects, a further 10 companies need to make small adjustments to existing software, and a further 5 companies will require more substantial improvements. This will involve additional one-off costs for those companies needing to adjust existing software or to improve their systems.

Assuming an average cost of £250 for adjusting software would give a total burden of £2,500 for the 10 companies affected. Assuming a higher £1,000 average cost for improving systems would give a total burden of £5,000 for the five companies affected. Together, this suggests an additional one-off burden of around £7,500.

These costs are particularly uncertain as the standard of companies' existing accounts systems are unknown and the cost of adjusting or improving systems are likely to vary. However, the very small number of companies affects makes it very unlikely that the total cost will be substantial.

Companies in difficulty

The change relating to companies in difficulty will require a company to consider whether it is a going concern every time it claims relief under the SME R&D tax credit scheme. As the judgement of whether a company is a going is included in its accounts, which are required to support a claim, this check should take only a few minutes. Assuming 10 mins on average per company at an average hourly rate of £25 would imply a total ongoing cost of £25,000 per year for the 5,000 claims. As noted above, there does not seem to be any strong reason why this average cost should vary substantially between different sized companies.

Inquiry costs

If the proposed EUR 7.5m cap leads to one or more businesses being subject to an HMRC enquiry when otherwise they would not (see below), those businesses would incur additional compliance costs as a result (assuming they were found to be compliant). This might include costs of providing information to HMRC as well as more intangible costs associated with the enquiry procedure in general (e.g. uncertainty).

Summary

Overall, therefore, the proposed changes are estimated to have wider compliance costs comprising a one-off cost in the range of £260,000 to £630,000, mainly driven by familiarisation costs, and an ongoing cost of £25,000 per year from companies checking they are a going concern.

Impact on HMRC

EUR 7.5m cap per R&D project

In addition to costs incurred by companies, the change will also involve costs to HMRC. Companies' tax computations do not show the relief claimed by individual projects and so HMRC could only check this by opening an enquiry. Therefore, HMRC are most likely to identify companies that have claimed £4-5m of relief over a few years (and so may have a project approaching the cap) and explore whether they would need to open an enquiry to explore whether that company may be nearing the cap.

As it is only likely to be a small number of companies claiming this amount of relief, this check is unlikely to involve substantial resources. This might involve a total of five days a year at a total ongoing cost of £500 per year. If this work led to one additional enquiry being opened, this might involve a further £500 cost per year, implying a total ongoing cost of around £1,000 per year.

Companies in difficulty

In addition to costs incurred by companies, the change will also involve costs to HMRC. HMRC will need to check that each claim for relief is by a company that is a going concern. As this will simply mean checking the company accounts, which are easily accessible, the cost will be very small – perhaps an average of five minutes for each of the 5,000 claims per year, suggesting a total annual cost of £7,500.

Declaration of VRR incentive effect

In addition to costs incurred by companies, the change will also involve costs to HMRC. HMRC will need to check that each claim for VRR includes a declaration of the incentive effect. As this will simply mean checking that the declaration has been made in the company's CT computations, the cost will be very small – perhaps an average of 10 minutes for each of the five claims, suggesting a total annual cost of less than £50.

Summary

Overall, therefore, the proposed changes are estimated to generate an additional ongoing cost of around £9,000 a year, mainly comprising that all companies claiming the SME R&D tax credit are a "going concern".

Risk analysis

There would appear to be a number of potential risks relating to the accuracy of these compliance cost estimates. These include:

- more companies may exceed the 7.5m cap than assumed – past claims figures would suggest that this is a low risk;
- more companies than expected are subject to HMRC enquiries in relation to breaching the 7.5m cap or in relation to the VRR incentive effect declaration – again, past claims figures would suggest that this is likely to be a low risk;
- agent fees are higher than expected – this may be a possible risk, given some reported agent behaviour in the R&D tax credit field, and fees would also depend upon nature of each case; and
- IT costs are higher than assumed – again, a possible risk, but this would imply that existing company IT and management systems are weak and perhaps in line for an upgrade soon anyway.

Specific impact tests

Competition assessment

The proposed changes are not expected to have any adverse impacts on competition.

The changes are required to ensure compatibility with State aid guidelines so that companies can continue to claim support under the SME R&D tax credit and VRR schemes. The SME R&D tax credit scheme is available to all small and medium-sized companies carrying out eligible R&D and the VRR scheme is available to all companies (of any size) carrying out eligible R&D into specified diseases. As such, the policies should not:

- directly limit the number or range of suppliers;
- indirectly limit the number or range of suppliers;
- limit the ability of suppliers to compete; nor
- reduce suppliers' incentives to compete vigorously.

Overall, the R&D tax credit and VRR schemes provide incentives for companies generally to spend more on R&D, leaving market forces to determine which companies undertake R&D and thus benefit from the support. The proposed changes simply aim to maintain the incentives provided by these schemes. By promoting business R&D generally, with additional support provided for SMEs, the schemes may involve a small positive effect on competition.

Small firms impact test

The proposed changes to VRR claims do not apply to small companies - SMEs claiming VRR would be excluded from making the declaration of incentive effect so would not suffer any increased costs.

The proposed cap on claims applies to the SME R&D tax credit scheme and so potentially affects all small and medium-sized companies claiming support under this scheme. However since the cap is set at 7.5m EURO (approx £5.5m) the threshold is thought to be substantial enough to exclude SMEs from any adverse impact.

The proposed restriction on companies in difficulty is answered by requiring companies to have their accounts prepared on a going concern basis. This is a widely understood term and should impose no extra costs on any compliant business and the cost to SMEs is not likely to be proportionately greater than the cost to larger enterprises.

Specific Impact Tests: Checklist

Type of testing undertaken	*Results in Evidence Base?*	*Results annexed?*
Competition Assessment	Yes	No
Small Firms Impact Test	Yes	No
Legal Aid	No	No
Sustainable Development	No	No
Carbon Assessment	No	No
Other Environment	No	No
Health Impact Assessment	No	No
Race Equality	No	No
Disability Equality	No	No
Gender Equality	No	No
Human Rights	No	No
Rural Proofing	No	No

Summary: Intervention & Options

Department /Agency:	Title:	
HM Treasury and HM Revenue and Customs	**Impact Assessment of the extension of Corporation Tax (CT) loss carry back**	
Stage: Implementation	**Version:** 1	**Date:** Budget 2008

Related Publications: : Securing a Sustainable Future: A Consultation on the North Sea Fiscal Regime

Available to view or download at:

http://www.hm-treasury.gov.uk/consultations_and_legislation/consult_liveindex.cfm

Contact for enquiries: Rob Douglas **Telephone:** 0207 270 5000

What is the problem under consideration? Why is government intervention necessary?

Existing legislation allows a 3 year carry-back for companies with ring fence CT losses arising from decommissioning expenditure. Evidence and analysis now indicates that this time limit will be insufficient to give full relief for industry's decommissioning costs. As a result, this is likely to lead to premature decommissioning of oil and gas fields and so leave some of the UK's oil and gas reserves in the ground, that would otherwise be economically recoverable.

What are the policy objectives and the intended effects?

The objective of this proposal is to further support the Government's aim to maximise the economic recovery of oil and gas from the North Sea through encouraging renewed investment and facilitating asset trade. More specifically, this proposal aims to allow companies to operate fields to the point at which they become commercially uneconomic, rather than to the point at which the available tax relief for decommissioning costs ceases to outweigh the expected remaining revenue from oil and gas reserves.

What policy options have been considered? Please justify any preferred option.

1) Do nothing.

2) Extend the CT loss carry-back from 3 to 6 years.

3) Extend the CT loss carry-back from 3 years, to profits accrued on or after 17 April 2002. This option is preferred as it is should allow full tax relief for decommissioning costs, for effectively all companies, and coincides with the introduction of the CT Supplementary Charge.

4) Extend CT carry back indefinitely.

When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects?

The impact of the proposed policy measure is likely to be included in any review of the measures implemented following the HM Treasury December 2007 Consultation on North Sea Taxation.

Ministerial Sign-off For final proposal/implementation stage Impact Assessments:

> ***I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) the benefits justify the costs.***

Signed by the responsible Minister:

.... Date: 24 February 2008

Summary: Analysis & Evidence

Policy Option:	Description:

COSTS

ANNUAL COSTS		Description and scale of **key monetised costs** by 'main affected groups'
One-off (Transition)	**Yrs**	
£ -		
Average Annual Cost (excluding one-off)		
£ -		**Total Cost** (PV) **£**

Other **key non-monetised costs** by 'main affected groups' May be small information costs associated with the retention of records concerning CT liabilities falling on/after 17 April 2002 until such time as field decommissioning is completed. Scale of computations may also become more involved once decommissioning starts and slots have to be found for losses carried back.

BENEFITS

ANNUAL BENEFITS		Description and scale of **key monetised benefits** by 'main affected groups'
One-off	**Yrs**	
£ -		
Average Annual Benefit (excluding one-off)		
£ -		**Total Benefit** (PV) **£**

Other **key non-monetised benefits** by 'main affected groups' Measure will provide companies with more certainty as regards receiving tax relief on their decommissioning costs. It may also produce a saving in compliance costs in so far as it may save companies from unnecessary diversification in order to maximise the sideways use of losses.

Key Assumptions/Sensitivities/Risks

Price Base Year	Time Period Years	**Net Benefit Range** (NPV) **£**	**NET BENEFIT** (NPV Best estimate) **£**

What is the geographic coverage of the policy/option?			UK Continental Shelf	
On what date will the policy be implemented?			Royal Assent 2008	
Which organisation(s) will enforce the policy?			HMRC	
What is the total annual cost of enforcement for these organisations?			£	
Does enforcement comply with Hampton principles?			Yes	
Will implementation go beyond minimum EU requirements?			N/A	
What is the value of the proposed offsetting measure per year?			£ N/A	
What is the value of changes in greenhouse gas emissions?			£ N/A	
Will the proposal have a significant impact on competition?			No	
Annual cost (£-£) per organisation (excluding one-off)	Micro	Small	Medium	Large
Are any of these organisations exempt?	No	No	N/A	N/A

Impact on Admin Burdens Baseline (2005 Prices)					(Increase - Decrease)
Increase of	£ negligible	Decrease of	£ negligible	**Net Impact**	**£** negligible

Key: **Annual costs and benefits: Constant Prices** **(Net) Present Value**

Evidence Base (for summary sheets)

Rationale for intervention

The UK Government remains committed to promoting a healthy and prosperous UK oil and gas industry and has a stated objective to maximise the economic recovery of the UK's oil and gas reserves. Whilst the underlying geology and future oil and gas prices are the dominant drivers of investment, and hence ultimate recovery, Government has a crucial role to play in ensuring that the fiscal regime helps deliver the best possible future for oil and gas production from the UK Continental Shelf (UKCS). A careful balance must be struck between promoting investment and production, whilst ensuring a fair return for the UK taxpayer from our national resources.

Following the 2005 Pre-Budget report the Government has engaged with the oil and gas industry and other interested stakeholders to discuss wider structural concerns over areas of the North Sea fiscal regime which were viewed as running counter to the above policy objectives. Following those discussions Government is undertaking a package of reforms to the North Sea fiscal regime to help encourage investment, reduce the impact of the fiscal regime on investment decisions, help facilitate asset trade, increase certainty and stability, remove anomalies and simplify the fiscal regime and reduce the administrative burden it imposes. This measure forms part of that package.

Policy Objective

Oil fields have an unusual profits pattern - following heavy initial investment, large profits are made in the early days of production but tail off as the field ends its productive life. Under the current arrangements companies may not be able to obtain full tax relief for all of their decommissioning costs if they run fields to the point where production ceases to be economic.

A study undertaken by the oil and gas industry suggests that as a result of this a potentially significant number of fields could be driven to decommission early, leaving up to 10 per cent of their potential remaining recoverable reserves in the ground. Providing companies with the certainty that they will be able to obtain relief for, effectively, all of their decommissioning costs removes this consideration from assessing the point of decommissioning. It is therefore expected to lead to an increase in the productive life of oil and gas fields in the North Sea.

Policy proposals

The specific proposal here is to:

- Extend the carry back provisions, relating to ring fence corporation tax losses, attributable to abandonment expenditure, contained within S393A (2A), (2B), (2C) ICTA 1988 from three years to ring fence profits that accrue on or after the 17th April 2002.

The proposal has been developed following a period of extensive consultation with the oil and gas industry between January 2006 and January 2008, aimed at addressing a range of issues. Although this proposal is aimed specifically at reducing the uncertainty over the treatment of decommissioning liabilities, it will also act to encourage renewed investment, facilitate asset trade and reduce the impact of the fiscal regime on investment decisions.

The proposal allows companies to carry back losses attributable to decommissioning costs against profits beyond the three-year point allowed under the current legislation, to ring fence profits, back to April 2002. Analysis suggests that allowing companies to carry back these losses to 17th April 2002 will allow companies to secure tax relief on their decommissioning costs in all probability at a rate comparable with the rate at which their North Sea profits have been taxed. Also, it should be possible to implement these changes for relatively low HMRC system costs and should ensure that the proposal is compliant with State aid rules.

The extension of carry-back from 3 to 6 years and also extending carry-back indefinitely was considered but, due to the reasons above, it was concluded that an extension of carry-back to profits accrued on or after 17th April 2002 was likely to be the best option.

Costs and Benefits

The Government expects this measure to provide companies with more certainty as regards receiving tax relief on their decommissioning costs. It may also produce a saving in compliance costs in so far as it may save companies from unnecessary diversification in order to maximise the sideways use of losses. There may be small information costs associated with the retention of records concerning CT liabilities falling on/after 17 April 2002 until such time as field decommissioning is completed. The scale of computations may also become more involved once decommissioning starts and slots have to be found for losses carried back.

The net impact of these measures on the admin burden on business is expected to be negligible.

Consultation

In the 2005 Pre-Budget report the then Chancellor announced that the Government would open discussions with the oil and gas industry to examine wider structural concerns over areas of the North Sea fiscal regime. These discussions would cover any areas of the fiscal regime which either Government or industry felt could potentially undermine ongoing stability, and impact on the Government's objective to maximise the economic recovery of the UK's oil and gas reserves.

The initial round of discussions lasted from January 2006 though to September 2006 and provided a forum within which UKCS stakeholders could discuss any aspect of the fiscal regime with officials from HM Treasury, HM Revenue and Customs and BERR. A large number of stakeholders took advantage of this opportunity and meetings were held with a wide range of delegates from oil and gas companies, representative bodies, academics, the supply chain and other stakeholders.

At Budget 2007 Government published "The North Sea Fiscal Regime: a discussion paper". This discussion paper summarised the discussions that had occurred up to September 2006, and set out the conclusions that had been drawn from those. It also announced that discussions would continue, with the paper forming the basis for further, more focussed discussions through to the end of September 2007.

The issue outlined above was raised during the two rounds of discussions. The Government's proposal to remedy it were then set out in "Securing a sustainable future: a consultation on the North Sea Fiscal Regime" that was released in December 2007. Draft legislation for this measure was published alongside the consultation document to allow interested parties to comment on the exact detail of the proposed measures. The consultation period lasted through to the end of January 2008.

Competition Assessment

This change will potentially apply to all companies operating within the North Sea ring fence.

More generous treatment than is afforded to other businesses subject to corporation tax is appropriate since North Sea oil and gas extraction is a non-continuing business and once the reserves are depleted there is no further means of trading and for carrying losses forward. So providing a more generous mechanism for companies to obtain tax relief on their end-of-field-life decommissioning costs, in the same way that they can get relief for start-up costs, removes a potential anomaly and is a concession proportionate with the higher rates of corporation tax applied to North Sea profits since April 2002.

Small Firms' Impact Test

The extension of loss carry back will afford benefits to all companies involved in North Sea oil and gas extraction ranging from large integrated operations operating across a range of oil and gas fields on the UKCS through to small and medium-sized businesses with interests in only one field or in onshore developments.

Specific Impact Tests: Checklist

Use the table below to demonstrate how broadly you have considered the potential impacts of your policy options.

Ensure that the results of any tests that impact on the cost-benefit analysis are contained within the main evidence base; other results may be annexed.

Type of testing undertaken	***Results in Evidence Base?***	***Results annexed?***
Competition Assessment	Yes	No
Small Firms Impact Test	Yes	No
Legal Aid	No	No
Sustainable Development	No	No
Carbon Assessment	No	No
Other Environment	No	No
Health Impact Assessment	No	No
Race Equality	No	No
Disability Equality	No	No
Gender Equality	No	No
Human Rights	No	No
Rural Proofing	No	No

Summary: Intervention & Options

Department /Agency:	Title:	
HM Treasury and HM Revenue and Customs	**Impact Assessment of change to Petroleum Revenue Tax obligations.**	
Stage: Implementation	**Version:** 1	**Date:** Budget 2008

Related Publications: : Securing a Sustainable Future: A Consultation on the North Sea Fiscal Regime

Available to view or download at:

http://www.hm-treasury.gov.uk/consultations_and_legislation/consult_liveindex.cfm

Contact for enquiries: Mike Crabtree **Telephone:** 0207 438 6576

What is the problem under consideration? Why is government intervention necessary?

Under the Petroleum Revenue Taxation (PRT) regime all fields liable to PRT are required to make a PRT return. However many fields, although liable to PRT, neither pay, nor are ever likely to pay PRT. The completion of PRT returns therefore represents an unnecessary administrative burden. There is also a question as to whether the existence of PRT on these fields has a negative impact on investment decisions, even though PRT is not actually paid. Following the legislative changes made in 2006 concerning the valuation of North Sea oil sold other than at 'arms length' it has also become apparent that elements of certain of the PRT returns (PRT 1A in particular) are no longer necessary, and again continuing to require such information represents an unnecessary administrative burden.

What are the policy objectives and the intended effects?

Reduction in unnecessary information and administrative obligations placed on companies operating fields subject to PRT and in the burden of form filling. Facilitation of asset trade and investment through removing from the PRT regime those fields never likely to pay PRT.

What policy options have been considered? Please justify any preferred option.

1) Do nothing and persist with collecting information that is no longer required, and imposing an obligation that is never likely to result in the payment of tax.

2) Act now to remove redundant information obligations, and to lift an administrative burden in respect of fields that may never pay PRT.

When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects?

The impact of the proposed policy measures is likely to be included in any review of the measures implemented following the HM Treasury December 2007 Consultation on North Sea Taxation.

Ministerial Sign-off For final proposal/implementation stage Impact Assessments:

> ***I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) the benefits justify the costs.***

Signed by the responsible Minister:

.... Date: 24 February 2008

Summary: Analysis & Evidence

Policy Option:	Description:

COSTS

ANNUAL COSTS		Description and scale of **key monetised costs** by 'main affected groups'
One-off (Transition)	**Yrs**	
£ -		
Average Annual Cost (excluding one-off)		
£ -		**Total Cost** (PV) **£**

Other **key non-monetised costs** by 'main affected groups' Some costs may be incurred by companies in dismantling their existing PRT obligation systems, and by others in amending their systems to exclude information previously required for the PRT1A returns.

BENEFITS

ANNUAL BENEFITS		Description and scale of **key monetised benefits** by 'main affected groups'
One-off	**Yrs**	On-going annual total North Sea industry compliance saving in respect of the removal of 'Category 1' oils from the PRT1A return (until such time as the relevant fields cease production).
£ 0		
Average Annual Benefit (excluding one-off)		
£ 50K - 100K		**Total Benefit** (PV) **£ 75k**

Other **key non-monetised benefits** by 'main affected groups' Savings arising from the removal of fields from the scope of PRT (the timing and extent of which will depend on whether and when agreements can be reached with the various participating companies).

Key Assumptions/Sensitivities/Risks Estimate of the saving from PRT1A made with reference to the PRT administrative costs contained in the Standard Cost Model. Some 60 of the 100 or so pre March 1993 PRT liable fields are currently not paying tax because their gross profits are covered by expenditure, allowable losses, or oil allowance.

Price Base Year 2005	Time Period Years	**Net Benefit Range** (NPV) **£ 50k - 100k**	**NET BENEFIT** (NPV Best estimate) **£ 75k**

What is the geographic coverage of the policy/option?			UK Continental Shelf	
On what date will the policy be implemented?			Royal Assent 2008	
Which organisation(s) will enforce the policy?			HMRC	
What is the total annual cost of enforcement for these organisations?			£	
Does enforcement comply with Hampton principles?			Yes	
Will implementation go beyond minimum EU requirements?			N/A	
What is the value of the proposed offsetting measure per year?			£ 0	
What is the value of changes in greenhouse gas emissions?			£ 0	
Will the proposal have a significant impact on competition?			No	
Annual cost (£-£) per organisation (excluding one-off)	Micro	Small	Medium	Large
Are any of these organisations exempt?	No	No	N/A	N/A

Impact on Admin Burdens Baseline (2005 Prices) (Increase - Decrease)

Increase of £ 0 Decrease of £ 75K **Net Impact** £ - 75K

Key: **Annual costs and benefits: Constant Prices** **(Net) Present Value**

Evidence Base (for summary sheets)

Rationale for intervention

The UK Government remains committed to promoting a healthy and prosperous UK oil and gas industry and has a stated objective to maximise the economic recovery of the UK's oil and gas reserves. Whilst the underlying geology and future oil and gas prices are the dominant drivers of investment, and hence ultimate recovery, Government has a crucial role to play in ensuring that the fiscal regime helps deliver the best possible future for oil and gas production from the UK Continental Shelf (UKCS). A careful balance must be struck between promoting investment and production, whilst ensuring a fair return for the UK taxpayer from our national resources.

Following the 2005 Pre-Budget report the Government has engaged with the oil and gas industry and other interested stakeholders to discuss wider structural concerns over areas of the North Sea fiscal regime which were viewed as running counter to the above policy objectives. Following those discussions Government is undertaking a package of reforms to the North Sea fiscal regime to help encourage investment, reduce the impact of the fiscal regime on investment decisions, help facilitate asset trade, increase certainty and stability, remove anomalies and simplify the fiscal regime and reduce the administrative burden it imposes. This measure forms part of that package.

Policy Objective

Conversations on the wider future of the Petroleum Revenue Tax (PRT) regime are still ongoing between Government and industry as part of the wider discussions on the North Sea fiscal regime. However despite this Government believes that where appropriate changes should be made to the existing regime to ensure that it is effective and efficient and continues to meet the Government's objectives for the North Sea fiscal regime. For the changes outlined here the objective is to simplify the PRT regime by reducing companies' administrative obligations and decreasing the compliance burden. As part of the ongoing conversations with industry over the future of PRT it has also become clear that for those fields that are liable to PRT, but do not, nor are expected ever to, pay due to the system of reliefs and allowances, there are still perceived barriers to asset trading and investment. Government has therefore sought to create a mechanism whereby such fields can be removed from PRT altogether.

Policy proposals

Petroleum Revenue Tax was abolished for fields given development consent on or after 16 March 1993. A number of fields that were given development consent before that date, whilst falling within the PRT regime, will never actually pay any PRT during their productive life. This is because of the interaction of the various reliefs and allowances within the regime.

HMRC has recognised the compliance burden this imposes on companies that have interests in such fields (the legislation refers to them as 'participators'), in so far as they are required to comply with the mechanics of the PRT regime, via the various returns, whilst not actually being PRT-payers. In recent years HMRC has reduced the regulatory requirements on such companies by allowing companies to defer submitting returns where, because of the lack of practical tax impacts, neither HMRC nor the companies would obtain any benefit from the submission of the returns.

However companies have made the point that despite the relaxed regulatory regime, the potential liability for PRT remained as long as the company was a taxable field for PRT purposes and that this had some impact on asset transfers.

The proposal therefore is, that where the participators can satisfy HMRC that they will be 'never payers' in the future in respect of particular fields (usually because of the amount of oil allowance available to them), that HMRC will make such fields non-taxable fields for PRT purposes. There will, of course, be circumstances where participators wish to stay within the scope of PRT even if they are not going to pay tax on a particular field, for example in order that they can utilise any unrelievable field losses generated. In such situations, the fields will remain within PRT.

The other changes relate to the amount of information that is required on PRT returns submitted to HMRC. Form PRT1A is one of a number of returns that participators in a field are required to complete and submit to HMRC (the information required on the return is listed in section 62 Finance Act 1987).

As a result of legislation enacted in Finance Act 2006, oil produced in the North Sea was split into two categories – Category 1 and Category 2. The change in the law means that HMRC only now requires information on Category 2 oils from companies when they complete form PRT1A. We therefore wish to amend section 62 FA 1987 to reflect this. This will result in compliance savings for the companies, inasmuch as they have to submit less information to HMRC and also provide for processing savings for HMRC.

Benefits

The Government expects there to be an on-going annual total North Sea industry compliance saving in respect of the removal of 'Category 1' oils from the PRT 1A return (available at www.hmrc.gov.uk/forms/prt1a_booklet.pdf) until such time as the relevant fields cease production.

The compliance savings is estimated to be between £50k - £100k, giving rise to a central figure of £75k. The basis for estimating the cost saving is a 2006 study, based on the Standard Cost Model methodology, into the administrative burdens on businesses. The relevant report on PRT can be found at http://www.hmrc.gov.uk/better-regulation/part20.pdf. These reports itemise the administrative burdens in various ways, including by form type, and it has been possible from an analysis of the underlying granular data to derive an estimate for the cost to companies of completing the PRT 1A, and hence make an estimate of the saving to companies in respect of no longer having to report 'Category 1' oils. These oils are known to account for the bulk of transactions reported on the PRT1A.

There are also likely to be savings arising from the removal of fields from the scope of PRT. But the timing and extent will depend on whether and when agreements can be reached with the various participating companies and it is therefore not possible to put a precise figure on what the savings might be across the industry as awhole on an annual basis.

Costs

Some small one-off costs may be incurred by companies in dismantling their existing PRT obligation systems, and by others in amending their systems to exclude 'Category 1' oils as previously required on PRT1A returns. However the Standard Cost Model does not provide a means for estimating what such one-off costs might be, albeit that they are likely to be modest in relation to the accumulating annual savings.

Consultation

In the 2005 Pre-Budget report the then Chancellor announced that the Government would open discussions with the oil and gas industry to examine wider structural concerns over areas of the North Sea fiscal regime. These discussions would cover any areas of the fiscal regime which either Government or industry felt could potentially undermine ongoing stability, and impact on the Government's objective to maximise the economic recovery of the UK's oil and gas reserves.

The initial round of discussions lasted from January 2006 though to September 2006 and provided a forum within which UKCS stakeholders could discuss any aspect of the fiscal regime with officials from HM Treasury, HM Revenue and Customs and BERR. A large number of stakeholders took advantage of this opportunity and meetings were held with a wide range of delegates from oil and gas companies, representative bodies, academics, the supply chain and other stakeholders.

At Budget 2007 Government published "The North Sea Fiscal Regime: a discussion paper". This discussion paper summarised the discussions that had occurred up to September 2006, and set out the conclusions that had been drawn from those. It also announced that discussions would continue, with the paper forming the basis for further, more focussed discussions through to the end of September 2007.

The issues outlined above were raised during the two rounds of discussions. The Government's proposals to remedy those were then set out in "Securing a sustainable future: a consultation on the North Sea Fiscal Regime" that was released in December 2007. Where possible draft legislation was published alongside the consultation document to allow interested parties to comment on the exact detail of the proposed measures. The consultation period lasted through to the end of January 2008.

Competition Assessment

These proposed changes will reduce the compliance cost disparity between North Sea oil and gas fields subject to PRT and those fields outside its scope. The removal of potentially PRT paying fields from PRT will also facilitate the sale of North Sea assets by removing uncertainty over future liability to PRT.

Small Firms' Impact Test

There are no small businesses involved in North Sea oil and gas extraction that are affected by Petroleum Revenue Tax.

Specific Impact Tests: Checklist

Use the table below to demonstrate how broadly you have considered the potential impacts of your policy options.

Ensure that the results of any tests that impact on the cost-benefit analysis are contained within the main evidence base; other results may be annexed.

Type of testing undertaken	***Results in Evidence Base?***	***Results annexed?***
Competition Assessment	Yes	No
Small Firms Impact Test	Yes	No
Legal Aid	No	No
Sustainable Development	No	No
Carbon Assessment	No	No
Other Environment	No	No
Health Impact Assessment	No	No
Race Equality	No	No
Disability Equality	No	No
Gender Equality	No	No
Human Rights	No	No
Rural Proofing	No	No

Summary: Intervention & Options

Department /Agency: HM Treasury and HM Revenue and Customs	**Title:** Impact Assessment of Extending 100% First Year Capital Allowances (FYA) within ring fence trades	
Stage: Implementation	**Version:** 1	**Date:** Budget 2008

Related Publications: : Securing a Sustainable Future: A Consultation on the North Sea Fiscal Regime

Available to view or download at:

http://www.hm-treasury.gov.uk/consultations_and_legislation/consult_liveindex.cfm

Contact for enquiries: Rob Douglas **Telephone:** 0207 270 5000

What is the problem under consideration? Why is government intervention necessary?

Most capital expenditure within the North Sea ring-fence, whether in putting plant and machinery in place, or in dismantling it at the end of the life of an oil field, currently qualifies for 100% First Year Allowances (FYAs). This allows these costs to be written off for tax purposes in the period in which the expenditure is incurred. However, there are some areas where different rules apply and currently, expenditure on long-life assets and mid-life decommissioning do not qualify for 100% FYAs.

What are the policy objectives and the intended effects?

By extending 100% FYAs to all decommissioning and long-life asset expenditure it is aimed to: Improve the simplicity, cohesiveness and consistency of the North Sea fiscal regime and help move the whole regime closer to a resource rent cash flow tax system.

Remove a potential tax distortion on the timing of decommissioning and allow industry to undertake decommissioning at the optimum economic point. This may also act to reduce the overall maintenance costs by allowing the removal of redundant platforms etc. rather than having to keep them in a safe state for future removal.

What policy options have been considered? Please justify any preferred option.

1) Do nothing

2) 100% capital allowances for mid-life decimmissioning and long-life assets. This is the preferred option as it acts to remove the distortion on the timing of decommissioning and ensures a more simple and consistent treatment of capital expenditure.

When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects?

The impact of the proposed policy measures is likely to be included in any review of the measures implemented following the HM Treasury December 2007 Consultation on North Sea Taxation.

Ministerial Sign-off For final proposal/implementation stage Impact Assessments:

I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) the benefits justify the costs.

Signed by the responsible Minister:

.... Date: 24 February 2008

Summary: Analysis & Evidence

Policy Option:	Description:

COSTS			
ANNUAL COSTS		Description and scale of **key monetised costs** by 'main affected groups'	
One-off (Transition)	**Yrs**		
£ -			
Average Annual Cost (excluding one-off)			
£ -		**Total Cost** (PV)	**£**

Other **key non-monetised costs** by 'main affected groups' Affected North Sea companies will have to amend their existing systems to allow for additional accelerated capital allowance claims, which in the absence of any future changes will apply until such time as affected oil & gas fields cease production.

BENEFITS			
ANNUAL BENEFITS		Description and scale of **key monetised benefits** by 'main affected groups'	
One-off	**Yrs**		
£ -			
Average Annual Benefit (excluding one-off)			
£ -		**Total Benefit** (PV)	**£**

Other **key non-monetised benefits** by 'main affected groups' Accelerated capital allowance claims will enable affected North Sea companies to secure a tax relief timing advantage and possibly give them scope to rationalise their overall capital allowance computations.

Key Assumptions/Sensitivities/Risks These measures aim to accelerate the timing of capital allowance claims for asset expenditure not already within the existing 100% first year allowance arrangement and as such will not involve anything new or novel.

Price Base Year	Time Period Years	**Net Benefit Range** (NPV) £	**NET BENEFIT** (NPV Best estimate) £

What is the geographic coverage of the policy/option?			UK Continental Shelf	
On what date will the policy be implemented?			Royal Assent 2008	
Which organisation(s) will enforce the policy?			HMRC	
What is the total annual cost of enforcement for these organisations?			£	
Does enforcement comply with Hampton principles?			Yes	
Will implementation go beyond minimum EU requirements?			N/A	
What is the value of the proposed offsetting measure per year?			£ 0	
What is the value of changes in greenhouse gas emissions?			£ 0	
Will the proposal have a significant impact on competition?			No	
Annual cost (£-£) per organisation (excluding one-off)	Micro	Small	Medium	Large
Are any of these organisations exempt?	No	No	N/A	N/A

Impact on Admin Burdens Baseline (2005 Prices)					(Increase - Decrease)
Increase of	£ negligible	Decrease of	£ negligible	**Net Impact**	**£** negligible

Key: **Annual costs and benefits: Constant Prices** **(Net) Present Value**

Evidence Base (for summary sheets)

Rationale for intervention

The UK Government remains committed to promoting a healthy and prosperous UK oil and gas industry and has a stated objective to maximise the economic recovery of the UK's oil and gas reserves. Whilst the underlying geology and future oil and gas prices are the dominant drivers of investment, and hence ultimate recovery, Government has a crucial role to play in ensuring that the fiscal regime helps deliver the best possible future for oil and gas production from the UK Continental Shelf (UKCS). A careful balance must be struck between promoting investment and production, whilst ensuring a fair return for the UK taxpayer from our national resources.

Following the 2005 Pre-Budget report the Government has engaged with the oil and gas industry and other interested stakeholders to discuss wider structural concerns over areas of the North Sea fiscal regime which were viewed as running counter to the above policy objectives. Following those discussions Government is undertaking a package of reforms to the North Sea fiscal regime to help encourage investment, reduce the impact of the fiscal regime on investment decisions, help facilitate asset trade, increase certainty and stability, remove anomalies and simplify the fiscal regime and reduce the administrative burden it imposes. This measure forms part of that package.

Policy Objective

These proposals aim to:

- Improve the simplicity, cohesiveness and consistency of the North Sea fiscal regime and help move the whole regime closer to a resource rent cash flow tax system.
- Remove a potential tax distortion on the timing of decommissioning and allow industry to undertake decommissioning at the optimum economic point. This may also act to reduce overall maintenance costs by allowing the removal of redundant assets rather than having to keep them in a safe state for future removal.

Policy proposals

The oil industry is very capital intensive and large amounts of money is spent on infrastructure such as pipelines, platforms etc. Most expenditure, whether on putting the plant and machinery in place, or in dismantling at the end of the life of the oil field, currently qualifies for 100% First Year Allowances (FYA), allowing the costs to be written off for tax purposes in the accounting period in which the expenditure is incurred.

The specific proposals are to:

- Extend the availability of immediate 100% relief to all expenditure incurred in decommissioning redundant installations and equipment during the life of a field. Currently, immediate 100% relief is not available in respect of decommissioning (the term "abandonment" is also commonly used) expenditure that is not incurred for the purposes of, or in connection with, the closing down of an oil field, and wholly or substantially, to comply with an abandonment programme under S163 (2) (a) and (3) CAA 2001.
- Allow all expenditure on plant and machinery, for use wholly in a ring fence trade, to qualify for FYA of 100%. Currently, expenditure on long-life assets (assets with a useful economic life of at least 25 years) used in a ring fence trade only qualifies for immediate 24% relief (S52 Capital Allowances Act (CAA) 2001) and, in respect of the remaining expenditure, an annual allowance of 6% (S102 CAA 2001), on a reducing balance basis.

100% FYAs for mid-life decommissioning

Different areas of the North Sea are licensed to companies to enable them to produce oil and gas. Sometimes one company will be the sole licensee for a field, for other fields there will be a number of licensee companies. When the field comes to the end of its economic life, the licensees are obliged to decommission the infrastructure – pipelines, platforms etc, to return the area, broadly to its natural state. Assets are decommissioned under an 'abandonment programme' agreed with BERR (the Department for Business, Enterprise and Regulatory Reform). The programme will be drawn up in respect of specific assets – so there may be one programme for the oil platform and another for the pipeline – rather than being for 'the field' as such.

The companies have to meet all their decommissioning costs, but these are relievable for tax purposes. Most of the expenditure is capital in nature and qualifies for 100% First Year Allowances (FYA), enabling the cost of decommissioning to be written off in the year in which it is incurred.

Currently, however, immediate 100% relief is not available in respect of decommissioning (the term "abandonment" is also commonly used) expenditure that is not incurred for the purposes of, or in connection with, the closing down of an oil field, and wholly or substantially, to comply with an abandonment programme under S163 (2) (a) and (3) CAA 2001.

Typically, the costs that will not qualify for immediate 100% relief are mid-life decommissioning costs, which by their very nature will not normally satisfy the conditions in S163 CAA 2001. In the circumstances we are considering, some infrastructure is being decommissioned, but the field is continuing to produce, so the expenditure is not related to the closing down of the field.

100% FYAs for long-life asset expenditure

Currently, expenditure on long-life assets (assets with a useful economic life of at least 25 years) used in a ring fence trade qualifies for immediate 24% relief (S52 Capital Allowances Act (CAA) 2001) and, in respect of the remaining expenditure, an annual allowance of 6% (S102 CAA 2001), on a reducing balance basis.

However, because of the hostile environment in the North Sea, there are in fact few assets where it is reasonable to expect a useful economic life of at least 25 years from new. This proposal is therefore a simplification measure to disapply the long-life asset regime, for expenditure on plant and machinery used wholly in a ring fence trade, with the result that all such expenditure will qualify for FYA of 100%.

Costs and Benefits

It is expected that accelerated capital allowance claims will enable affected North Sea companies to secure a tax relief timing advantage and possibly give them scope to rationalise their overall capital allowance computations. There may be costs in so far as affected North Sea companies will have to amend their existing systems to allow for additional accelerated capital allowance claims, which in the absence of any future changes will apply until such time as affected oil & gas fields cease production.

The Government expects the net impact of these measures on the admin burden on business to be negligible.

Consultation

In the 2005 Pre-Budget report the then Chancellor announced that the Government would open discussions with the oil and gas industry to examine wider structural concerns over areas of the North Sea fiscal regime. These discussions would cover any areas of the fiscal regime which either Government or industry felt could potentially undermine ongoing stability, and impact on the Government's objective to maximise the economic recovery of the UK's oil and gas reserves.

The initial round of discussions lasted from January 2006 though to September 2006 and provided a forum within which UKCS stakeholders could discuss any aspect of the fiscal regime with officials from HM Treasury, HM Revenue and Customs and BERR. A large number of stakeholders took advantage of this opportunity and meetings were held with a wide range of delegates from oil and gas companies, representative bodies, academics, the supply chain and other stakeholders.

At Budget 2007 Government published "The North Sea Fiscal Regime: a discussion paper". This discussion paper summarised the discussions that had occurred up to September 2006, and set out the conclusions that had been drawn from those. It also announced that discussions would continue, with the paper forming the basis for further, more focussed discussions through to the end of September 2007.

The issue outlined above was raised during the two rounds of discussions. The Government's proposal to remedy it were then set out in "Securing a sustainable future: a consultation on the North Sea Fiscal Regime" that was released in December 2007. Draft legislation for this measure was published alongside the consultation document to allow interested parties to comment on the exact detail of the proposed measures. The consultation period lasted through to the end of January 2008.

Competition Assessment

These measures will help to level the playing field between companies who decommission mid-life and those who decommission at cessation of production. It will also break down the division between assets that for tax purposes are treated as long life and those that are not.

Small Firms' Impact Test

The extension of one hundred percent first year allowances will afford benefits to all companies involved in North Sea oil and gas extraction ranging from large integrated operations operating across a range of oil and gas fields on the UKCS through to small and medium-sized businesses with interests in only one field or in onshore developments.

Specific Impact Tests: Checklist

Use the table below to demonstrate how broadly you have considered the potential impacts of your policy options.

Ensure that the results of any tests that impact on the cost-benefit analysis are contained within the main evidence base; other results may be annexed.

Type of testing undertaken	***Results in Evidence Base?***	***Results annexed?***
Competition Assessment	Yes	No
Small Firms Impact Test	Yes	No
Legal Aid	No	No
Sustainable Development	No	No
Carbon Assessment	No	No
Other Environment	No	No
Health Impact Assessment	No	No
Race Equality	No	No
Disability Equality	No	No
Gender Equality	No	No
Human Rights	No	No
Rural Proofing	No	No

Summary: Intervention & Options

Department /Agency:	**Title:**	
HM Treasury and HM Revenue and Customs	**Impact Assessment of the extension of Corporation Tax (CT) post cessation period**	
Stage: Implementation	**Version:** 1	**Date:** Budget 2008

Related Publications: : Securing a Sustainable Future: A Consultation on the North Sea Fiscal Regime

Available to view or download at:

http://www.hm-treasury.gov.uk/consultations_and_legislation/consult_liveindex.cfm

Contact for enquiries: Rob Douglas **Telephone:** 0207 270 5000

What is the problem under consideration? Why is government intervention necessary?

Following the cessation of the ring-fence trade current legislation allows a three-year period, during which decommissioning expenditure can be allocated to the final period of trading. It has been argued that this time limit is insufficient to give companies full tax relief for the cost of decommissioning and will be likely to impact on companies' approaches to decommissioning, with either premature decommissioning or unnecessarily costly decommissioning programmes occurring as a result. Such situations could potentially lead to oil and gas reserves being left in the ground.

What are the policy objectives and the intended effects?

The objective of this proposal is to further support the Government's aim to maximise the economic recovery of oil and gas from the North Sea through encouraging renewed investment and facilitating asset trade. More specifically, this proposal aims to reduce the impact of the fiscal regime on decisions as to the timing of decommissioning and help ensure decommissioning is undertaken at the point at which fields become uneconomic, and in the most efficient and effective manner.

What policy options have been considered? Please justify any preferred option.

1) Do nothing.

2) Extend the post cessation period from from 3 to 7 years.

3) Tie the post cessation period to the completion of decommissioning requirements set out in the Petroleum Act. Following consultaton with industry this option has been preferred as the most effective means to ensure that the period during which decommissioning expenditure can be allocated to the final period of trading will match the period over which decommissioning is undertaken.

4) Extend the post cessation period indefinitely.

When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects?

The impact of the proposed policy measures is likely to be included in any review of the measures implemented following the HM Treasury December 2007 Consultation on North Sea Taxation.

Ministerial Sign-off For final proposal/implementation stage Impact Assessments:

I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) the benefits justify the costs.

Signed by the responsible Minister:

.... Date: 24 February 2008

Summary: Analysis & Evidence

Policy Option:	Description:

COSTS

ANNUAL COSTS		Description and scale of **key monetised costs** by 'main affected groups'	
One-off (Transition)	**Yrs**		
£ -			
Average Annual Cost (excluding one-off)			
£ -		**Total Cost** (PV)	**£**

Other **key non-monetised costs** by 'main affected groups' May be small information costs associated with the retention of records concerning CT liabilities falling after the current 3 year period until such time as field decommissioning is completed. Scale of computations may also become more complex

BENEFITS

ANNUAL BENEFITS		Description and scale of **key monetised benefits** by 'main affected groups'	
One-off	**Yrs**		
£ -			
Average Annual Benefit (excluding one-off)			
£ -		**Total Benefit** (PV)	**£**

Other **key non-monetised benefits** by 'main affected groups' Measure will provide companies with more certainty as regards receiving tax relief on their decommissioning costs. It may also produce a saving in compliance costs in so far as it may save companies from unnecessary diversification in order to maximise the sideways use of losses.

Key Assumptions/Sensitivities/Risks

Price Base Year	Time Period Years	**Net Benefit Range** (NPV) £	**NET BENEFIT** (NPV Best estimate) £

What is the geographic coverage of the policy/option?	UK Continental Shelf
On what date will the policy be implemented?	Royal Assent 2008
Which organisation(s) will enforce the policy?	HMRC
What is the total annual cost of enforcement for these organisations?	£
Does enforcement comply with Hampton principles?	Yes
Will implementation go beyond minimum EU requirements?	N/A
What is the value of the proposed offsetting measure per year?	£ N/A
What is the value of changes in greenhouse gas emissions?	£ N/A
Will the proposal have a significant impact on competition?	No

	Micro	Small	Medium	Large
Annual cost (£-£) per organisation (excluding one-off)				
Are any of these organisations exempt?	No	No	N/A	N/A

Impact on Admin Burdens Baseline (2005 Prices) (Increase - Decrease)

Increase of	£ negligible	Decrease of	£ negligible	**Net Impact**	**£** negligible

Key: **Annual costs and benefits: Constant Prices** **(Net) Present Value**

Evidence Base (for summary sheets)

Rationale for intervention

The UK Government remains committed to promoting a healthy and prosperous UK oil and gas industry and has a stated objective to maximise the economic recovery of the UK's oil and gas reserves. Whilst the underlying geology and future oil and gas prices are the dominant drivers of investment, and hence ultimate recovery, Government has a crucial role to play in ensuring that the fiscal regime helps deliver the best possible future for oil and gas production from the UK Continental Shelf (UKCS). A careful balance must be struck between promoting investment and production, whilst ensuring a fair return for the UK taxpayer from our national resources.

Following the 2005 Pre-Budget report the Government has engaged with the oil and gas industry and other interested stakeholders to discuss wider structural concerns over areas of the North Sea fiscal regime which were viewed as running counter to the above policy objectives. Following those discussions Government is undertaking a package of reforms to the North Sea fiscal regime to help encourage investment, reduce the impact of the fiscal regime on investment decisions, help facilitate asset trade, increase certainty and stability, remove anomalies and simplify the fiscal regime and reduce the administrative burden it imposes. This measure forms part of that package.

Policy Objective

Oil fields have an unusual profits pattern - following heavy initial investment, large profits are made in the early days of production but tail off as the field ends its productive life. Under the current arrangements companies may not be able to obtain full tax relief for all of their decommissioning costs if they run fields to the point where production ceases to be economic.

Evidence submitted by industry during the consultation supports the assertion that under the current legislation companies may be unable to decommission within the 3 year period due to availability of decommissioning resources, or may be forced to incur a higher cost, with knock on effects for UK taxpayers, than would be required if the post cessation period was tied to the completion of decommissioning.

Policy proposals

The specific proposal here is to:

- Change the definition of "post cessation period" (S165 (2) CAA 2001), during which abandonment expenditure can be allocated to the appropriate pool for the chargeable period in which the former trade ceased to carry on the ring fence trade, from one defined by a time limit to one that is deemed to last until BERR has approved the statutorily required close out report that companies are required to submit following decommissioning completion.

This proposal has been developed following a period of extensive consultation with the oil and gas industry between January 2006 and January 2008, aimed at addressing a range of issues. Although these proposals are aimed specifically at reducing the uncertainty over the treatment of decommissioning liabilities, they will also act to encourage renewed investment, facilitate asset trade and reduce the impact of the fiscal regime on investment decisions.

The proposals allow companies to allocate the decommissioning costs incurred after the trade ceases to the final period of trading and then fully relieved, either in that period, or in earlier periods under the corporation tax (CT) carry-back rules. This will allow companies to secure tax relief on their decommissioning costs at a rate comparable with the rate at which their North Sea profits have been taxed. Also, it should be possible to implement these changes for relatively low HMRC system costs and should ensure that the proposal is compliant with State aid rules.

The extension of the post cessation period from 3 to 7 years or indefinitely was considered but, due to the reasons above, and following the consultation with industry it was concluded that an extension of the post cessation period in line with the decommissioning requirements under the Petroleum Act, was likely to be the best option.

Costs and Benefits

The Government expects this measure to provide companies with more certainty as regards receiving tax relief on their decommissioning costs. It may also produce a saving in compliance costs in so far as it may save companies from unnecessary diversification in order to maximise the sideways use of losses. There may be small information costs associated with the retention of records concerning CT liabilities falling after the current three years until such time as field decommissioning is completed. The scale of computations may also become more involved once decommissioning starts and slots have to be found for losses carried back.

The net impact of these measures on the admin burden on business is expected to be negligible.

Consultation

In the 2005 Pre-Budget report the then Chancellor announced that the Government would open discussions with the oil and gas industry to examine wider structural concerns over areas of the North Sea fiscal regime. These discussions would cover any areas of the fiscal regime which either Government or industry felt could potentially undermine ongoing stability, and impact on the Government's objective to maximise the economic recovery of the UK's oil and gas reserves.

The initial round of discussions lasted from January 2006 though to September 2006 and provided a forum within which UKCS stakeholders could discuss any aspect of the fiscal regime with officials from HM Treasury, HM Revenue and Customs and BERR. A large number of stakeholders took advantage of this opportunity and meetings were held with a wide range of delegates from oil and gas companies, representative bodies, academics, the supply chain and other stakeholders.

At Budget 2007 Government published "The North Sea Fiscal Regime: a discussion paper". This discussion paper summarised the discussions that had occurred up to September 2006, and set out the conclusions that had been drawn from those. It also announced that discussions would continue, with the paper forming the basis for further, more focussed discussions through to the end of September 2007.

The issue outlined above was raised during the two rounds of discussions. The Government's proposal to remedy it were then set out in "Securing a sustainable future: a consultation on the North Sea Fiscal Regime" that was released in December 2007. Draft legislation for this measure was published alongside the consultation document to allow interested parties to comment on the exact detail of the proposed measures. The consultation period lasted through to the end of January 2008.

In the consultation document it was originally proposed to extend the three-year post cessation period to seven years. However following consultation with industry and the presentation of further evidence these proposals were modified to those set out above.

Competition Assessment

This change will potentially apply to all companies operating within the North Sea ring fence.

More generous treatment than is afforded to other businesses subject to corporation tax is appropriate since North Sea oil and gas extraction is a non-continuing business and once the reserves are depleted there is no further means of trading and for carrying losses forward. So providing a more generous mechanism for companies to obtain tax relief on their end-of-field-life decommissioning costs, in the same way that they can get relief for start-up costs, removes a potential anomaly and is a concession proportionate with the higher rates of corporation tax applied to North Sea profits since April 2002.

Small Firms' Impact Test

The extension of the post cessation period will afford benefits to all companies involved in North Sea oil and gas extraction ranging from large integrated operations operating across a range of oil and gas fields on the UKCS through to small and medium-sized businesses with interests in only one field or in onshore developments.

Specific Impact Tests: Checklist

Use the table below to demonstrate how broadly you have considered the potential impacts of your policy options.

Ensure that the results of any tests that impact on the cost-benefit analysis are contained within the main evidence base; other results may be annexed.

Type of testing undertaken	***Results in Evidence Base?***	***Results annexed?***
Competition Assessment	Yes	No
Small Firms Impact Test	Yes	No
Legal Aid	No	No
Sustainable Development	No	No
Carbon Assessment	No	No
Other Environment	No	No
Health Impact Assessment	No	No
Race Equality	No	No
Disability Equality	No	No
Gender Equality	No	No
Human Rights	No	No
Rural Proofing	No	No

Summary: Intervention & Options

Department /Agency: **HMRC**	**Title:** **Impact Assessment of Reduction of Administrative Burden of Stamp Duty**	
Stage: FINAL	**Version:** 1	**Date: 14 February 2008**
Related Publications:		

Available to view or download at:

http://www.hmrc.gov.uk

Contact for enquiries: Miles Harwood **Telephone:** 020 7147 2801

What is the problem under consideration? Why is government intervention necessary?

Standard Cost Model research in 2005 assessed the costs to business of complying with stamp duty legislation as £49m annually, of which 85% (£41m) is attributed to 'applications for authorisation', the main burden of which is the requirement to present instruments legally transferring shares to the Stamp Office within HMRC for stamping. Some 350,000 documents are presented each year, but the majority of these are chargeable only with the minimum £5 stamp duty. Reducing the administrative burden on business will improve economic efficiency and contributes towards Budget 2006 targets.

What are the policy objectives and the intended effects?

The policy objective is to remove as many as possible of these low value instruments from the stamping process with the aim of drastically reducing the burden on business, because the documents would not then need to be seen by the Stamp Office. They may therefore be sent directly to the Company Registrar in order to amend the company's share register to reflect the change of ownership. As well as reducing costs and simplifying the process for business, there will also be cost savings for HMRC.

What policy options have been considered? Please justify any preferred option.

Two options considered: 1. Do nothing; and 2. acting to reduce administrative burdens caused by Stamp Duty by: (a) Removing the £5 fixed charge applying to some instruments; and (b) introducing a consideration threshold below which instruments would be exempt from duty. After weighing the saving in administration burdens against the possible avoidance risk to Stamp Duty yield, the consideration threshold was set at £1,000.

When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects? Costs and benefits will be routinely reviewed after 1-3 years

Ministerial Sign-off For final proposal/implementation stage Impact Assessments:

I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) the benefits justify the costs.

Signed by the responsible Minister:

Angela Eagle

....Date: 1 March 2008

Summary: Analysis & Evidence

Policy Option:	Description:

COSTS

ANNUAL COSTS		Description and scale of **key monetised costs** by 'main affected groups'
One-off (Transition)	**Yrs**	
£ 0		
Average Annual Cost (excluding one-off)		
£ 0		**Total Cost** (PV) **£ 0**

Other **key non-monetised costs** by 'main affected groups'

BENEFITS

ANNUAL BENEFITS		Description and scale of **key monetised benefits** by 'main affected groups'
One-off	**Yrs**	This policy reduces the administrative burden on businesses, which improves economic efficiency. The estimates are based on elimination of the administrative burden for a small number of transactions currently liable to Stamp Duty.
£		
Average Annual Benefit (excluding one-off)		
£ 15.5 million		**Total Benefit** (PV) **£**

Other **key non-monetised benefits** by 'main affected groups'

Key Assumptions/Sensitivities/Risks This measure may slightly increase opportunities for avoidance. However, we do not believe that the risks are significant in this instance.

Price Base Year 2008	Time Period Years	**Net Benefit Range** (NPV) £	**NET BENEFIT** (NPV Best estimate) £

What is the geographic coverage of the policy/option?			UK	
On what date will the policy be implemented?			Budget Day	
Which organisation(s) will enforce the policy?			HMRC	
What is the total annual cost of enforcement for these organisations?			£ 0	
Does enforcement comply with Hampton principles?			Yes	
Will implementation go beyond minimum EU requirements?			No	
What is the value of the proposed offsetting measure per year?			£	
What is the value of changes in greenhouse gas emissions?			£ N/A	
Will the proposal have a significant impact on competition?			No	
Annual cost (£-£) per organisation (excluding one-off)	Micro	Small	Medium	Large
Are any of these organisations exempt?	No	No	N/A	N/A

Impact on Admin Burdens Baseline (2005 Prices) (Increase - Decrease)

Increase of £ Decrease of £ 13.8 m **Net Impact** £ 13.8 m

Key: **Annual costs and benefits: Constant Prices** **(Net) Present Value**

Evidence Base (for summary sheets)

The Issue/Situation

There are two processes by which shares, marketable securities and certain partnership interests can be transferred – by means of a formal instrument of transfer, or electronically. Electronic transactions attract Stamp Duty Reserve Tax ('SDRT') at a rate of 0.5% of the consideration, whereas paper-based transactions are subject to Stamp Duty (not SDRT) at the rate of 0.5%. The paper instrument is physically stamped by HMRC when Stamp Duty is paid on the transaction. Instruments transferring shares or securities otherwise than on sale, which attract a £5 fixed Stamp Duty charge, also need to be physically stamped.

In 2005, standard cost model research measured all the administrative burdens imposed by the UK tax system (http://www.hmrc.gov.uk/better-regulation/kpmg1.pdf). This included an assessment of the administrative burden of Stamp Duty, estimated at £49 million in 2005 prices (http://www.hmrc.gov.uk/better-regulation/part21.pdf). £41m (85%) is due to 'applications for authorisation' and its 'requirement to present the legal transfer document to the Stamp Office within HMRC for stamping'. Approximately 900,000 paper share transfer forms are completed each year. Transfers fall into one of three categories:

1. Exempt Instrument
   550,000 transactions are 'self-certified' as not being chargeable with Stamp Duty. They do not need to be presented to the Stamp Office and the stock transfer forms to reallocate ownership of shares can be sent directly to the company registrar. Examples are gifts of shares and transfers from estates of deceased persons.

2. £5 Fixed Stamp Duty
   This category includes instruments transferring shares otherwise than on sale. Declarations of trust (provided they do not constitute a sale) and replacement or second copies of instruments (so that each party has his own copy) also fall within this category.

3. *Ad valorem* Stamp Duty
   This includes any instrument (including a court order) that transfers shares on sale to a purchaser and hence is chargeable with ad valorem Stamp Duty. The rate is 0.5% of the chargeable consideration which can consist of cash, shares or debt, and the charge is rounded up to the nearest £5 above – i.e. presently any qualifying instrument where the consideration is less than £1,000 will attract Stamp Duty of £5.

Policy objectives and intended effects

The aim is to remove from the process of physical stamping the vast majority of transfer instruments that currently attract the minimum charge of £5. The effect of so doing will be to enable such instruments to be passed directly to the company registrar (who is responsible for amending the register of shareholders to reflect changes of ownership) without first having to be presented to the Stamp Office for the impression of a physical stamp. This will simplify the process and reduce the costs for both business and HMRC.

The Options

1. Do nothing

Stamp Duty places a disproportionate strain upon businesses that use paper based rather than electronic stock transfer. This is mainly due to the customer groups having to arrange to get each document stamped; in many cases involving visiting the Stamp Office. As part of decreasing these administrative burdens on business, HMRC has examined risks involved. This is an area of tax in which great reductions in administrative burdens can be gained without a high risk of abuse, as will be shown later. Therefore to do nothing would undermine the view that HMRC is looking forward and trying to aid business by reducing their administrative burdens.

2. Exempting from Stamp Duty instruments that presently attract only £5 fixed stamp duty and introduce a consideration threshold of £1,000 beneath which instruments will no longer be chargeable with stamp duty

Removal of the £5 fixed duty charges would decrease the administrative burden on business by £0.8m (1.6%). It would include all types of instruments that currently attract the fixed £5 duty. Examples are transfers of the legal ownership of shares from one nominee to another, and transfers of shares as security for a loan.

Currently 5% of all transactions fall to be charged the fixed £5 duty. So by extending the definitions of exempt instruments, there would be a negligible impact on yield. There is a low risk to the change in behaviour of business if HMRC were to do this. Also, HMRC's opportunity to challenge disguised changes of beneficial ownership attracting *ad valorem* duty would be lost. The risk is, however, regarded as very low (estimated loss of yield between £0.2m – £2.1m) and would not prohibit the removal of the £5 fixed duty charge, and thus the potential savings outweigh the risks to revenue.

The administrative savings to business if a consideration threshold of £1,000 was introduced would be £13m (26.6%). It removes the need for approximately 220,000 documents to be presented to HMRC annually, but comes at a cost to the Exchequer of £1.1m per annum.

There is a potential risk of avoidance – whereby there is 'fragmentation' of a transaction into smaller parcels each falling below the threshold and therefore becoming exempt. This will be countered in part by a requirement to certify that a transaction is not part of a larger transaction or series of transactions. In addition, some transactions might be removed from the electronic system ('materialisation') to take advantage of the threshold. However, the threshold is low enough that it would not be cost effective to do this. HMRC will also retain the power to inspect registrars' records and to impose a penalty upon any person who, with intent to defraud the Crown, registers an instrument in which all the facts and circumstances affecting the liability of the instrument to duty are not fully and truly set forth in the instrument.

Costs and Benefits

Based on a survey of Stamp Duty transactions, it was estimated that 5% of transactions pay the £5 fixed charge that applies to certain instruments, 63% pay £5 ad valorem and the remaining 32% of transactions pay ad valorem Stamp Duty above £5. Of these transactions, the fixed charge transactions account for only 0.03% of Stamp Duty yield and the £5 ad valorem charges account for only 0.34% of yield, with the remaining 99.63% of yield coming from ad valorem charges above £5. As such, 68% of Stamp Duty transactions raise only 0.37% of Stamp Duty yield and it is possible to significantly reduce administrative burdens on business with minimal loss of tax revenues.

Given that these transactions are low in value, it is likely that the main administrative burden has fallen on nano and small businesses, which tend to have lower administrative burdens per Stamp Duty transaction in absolute terms, although the burden tends to be high compared to the amount of tax. This means that the 68% of transactions affected represent considerably less than 68% of the administrative burden. Based on the research data and removing an estimated 230,000 of the smallest Stamp Duty transactions per annum, the estimated saving in administrative burden is £13.8 million in 2005 prices. Based on RPI inflation since May 2005, it is estimated that this saving will represent approximately £15.5 million mid-2008 prices.

Based on the survey data used for the administrative burden savings, the accompanying direct loss of tax yield associated with exempting these transactions was estimated at around £1.2 million per annum. In economic terms, this represents a transfer rather than a cost or benefit, so it is not included in the Analysis and Evidence Summary above.

Lastly, there may also be an indirect loss of tax yield if there is a behavioural response to introducing the threshold whereby other transactions changed their economic form to attempt to avoid paying Stamp Duty. For example, larger transactions could fragment into a number of small transactions in order to attempt to avoid Stamp Duty. This risk was assessed as low with a £1,000 consideration threshold but rises considerably with a higher threshold with even a consideration threshold of around £10,000 likely to put tens of millions of tax revenue at risk despite relatively low incremental reductions in administrative burdens. On this basis, setting a consideration threshold of £1,000 achieves a high saving in administrative burden whilst maintaining the integrity of the tax system.

Economic Impact Tests

1. Competition Assessment

This measure will have little or no effect on competition within the markets to which it applies namely company registrars. They do not affect any firms substantially more than any others. Although there is a direct loss of yield for HMRC, there are no additional costs for businesses. In fact, the opposite is true, but this still will not effect competition.

2. Small Firms Impact Test

The introduction of a consideration threshold and the increase in exempt instruments will mean that all firms no longer have to present to the Stamp Office within HMRC stock transfer forms for transactions under £1,000, thus reducing the administrative burden and saving time. This measure provides a more expedient and efficient way for business to perform stock transfer when dealing with low value transactions.

3. Legal Aid Impact Test

There will be no need for a new criminal sanction or civil penalty.

Environmental/Social/Sustainable Development Impact Tests

There are no other issues relating to this measure that need to be addressed.

Implementation

This measure was announced as part of the Pre-Budget Report 2007 on simplification. The measures will take effect from midnight on Budget Day 2008. They will be introduced by primary legislation. HMRC is discussing necessary changes to the stock transfer form with the publishers of those forms. Guidance for customers and registrars will be placed on the HMRC website.

Post-Implementation Review

Through the SD/SDRT Working Together Steering Group, HMRC continues to work with all the key stakeholders of Stamp Duty. Within these groups, stakeholders continually assess the performance of the Stamp Duty regime, suggest ideas for improvements and evaluate changes that have already been made. This is a vital tool for gauging the effectiveness of any changes in the Stamp Duty system and has already provided useful insights to further change.

HMRC will conduct a post-implementation review with reference to the operational impacts of this new process within a controlled timescale. It is currently anticipated that this will be between one and three years from the date of implementation. The review will cover the impacts for practitioners and the anticipated positive impact on transaction timescales for both practitioners/taxpayers and HMRC. It will also endeavour to see what impact it has upon tax avoidance and errors made.

Enforcement, Sanction and Monitoring

These new measures will be closely monitored to gather information as to whether an increase in consideration threshold is viable. Monitoring will also permit HMRC to establish if the risks were assessed properly and correctly. Close contacts have been maintained throughout with our user groups via the SD/SDRT Working Together Steering Group. This will permit HMRC to gather information and help in administering the change, as well as seeking what the legislative requirements are. These channels of communication will continue to enable HMRC to evaluate their effectiveness almost immediately.

Summary

The proposed extension to the categories of exempt instruments and the introduction of a £1,000 consideration threshold was announced as part of the simplification package in PBR 2007. The measures will take effect from Budget Day 2008. In total the savings will be £13.8m (28.2%) of administrative burdens for business, with a reduction in yield of around £1.1m. Initial consultation shows this measure has been well received by HMRC's customer groups, as it goes some way to reducing their administrative burdens.

Specific Impact Tests: Checklist

Use the table below to demonstrate how broadly you have considered the potential impacts of your policy options.

Ensure that the results of any tests that impact on the cost-benefit analysis are contained within the main evidence base; other results may be annexed.

Type of testing undertaken	***Results in Evidence Base?***	***Results annexed?***
Competition Assessment	Yes	No
Small Firms Impact Test	Yes	No
Legal Aid	Yes	No
Sustainable Development	Yes	No
Carbon Assessment	Yes	No
Other Environment	Yes	No
Health Impact Assessment	Yes	No
Race Equality	Yes	No
Disability Equality	Yes	No
Gender Equality	Yes	No
Human Rights	Yes	No
Rural Proofing	Yes	No

Summary: Intervention & Options

Department /Agency:	**Title:**	
HM Revenue & Customs	**Impact Assessment of the review of the Insurance Premium Tax (IPT) tax representative provisions**	
Stage: Final Proposal	**Version:** 1.0	**Date: 12 March 2008**

Related Publications: Insurance Premium Tax (IPT) - Consultation on the tax representative requirements for overseas insurers

Available to view or download at:

http://www.hmrc.gov.uk

Contact for enquiries: Nicola Garrod **Telephone:** 020 7147 0268

What is the problem under consideration? Why is government intervention necessary?

The insurance industry inform us that the current UK IPT rules, which require an overseas insurer to appoint a joint and severally liable tax representative, cause an increase in compliance costs, administrative burdens and unfair competition. Recent ECJ judgments have also caused the UK to reflect on areas of law which impose personal liability on third parties for others fiscal debts.

Government intervention is necessary to amend the legislation to relax the rules, and ensure compliance with EC Treaty freedoms.

What are the policy objectives and the intended effects?

To ensure the insurance industry does not face undue regulatory and compliance burdens, to ensure domestic insurers do not face unfair competition from non compliant overseas insurers and to reduce the barriers to cross border trade.

What policy options have been considered? Please justify any preferred option.

1. Removal of requirement to appoint a tax representative for all overseas insurers with no business establishment in the UK. This is the preferred option as it fully achieves the objectives, in the most strightforward way, without the addition of complicated legislation.
2. Removal of requirement to appoint a tax representative for all EU insurers.
3. Removal of joint and several liabilty requirement.
4. Introduction of an IPT registration threshold.

When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects? Compliance costs are routinely reviewed after one to three years.

Ministerial Sign-off For final proposal/implementation stage Impact Assessments:

I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) the benefits justify the costs.

Signed by the responsible Minister:

Jane Kennedy .... Date: 24 February 2008

Summary: Analysis & Evidence

Policy Option:	Description:

COSTS

ANNUAL COSTS		Description and scale of **key monetised costs** by 'main affected groups'
One-off (Transition)	**Yrs**	
£ Negligible		
Average Annual Cost (excluding one-off)		
£ Negligible		**Total Cost** (PV) **£ Negligible**

Other **key non-monetised costs** by 'main affected groups'

BENEFITS

ANNUAL BENEFITS		Description and scale of **key monetised benefits** by 'main affected groups'
One-off	**Yrs**	Foreign insurers will no longer have to meet the cost of tax representatives with joint and several liability.
£ Nil		
Average Annual Benefit (excluding one-off)		
£ £1.4m to £3.5m		**Total Benefit** (PV) **£ £1.4m to £3.5m**

Other **key non-monetised benefits** by 'main affected groups'

The reduction in the cost of compliance for foreign insurers addresses the problem of unfair competition raised by the UK insurance industry.

Key Assumptions/Sensitivities/Risks

The consultation failed to produce any information on the cost of a joint and severally liable tax representative. The annual benefits have been calculated using a broad range for the average cost saving to foreign insurers registered for IPT. The range is subject to some uncertainty.

Price Base Year	Time Period Years	**Net Benefit Range** (NPV) £	**NET BENEFIT** (NPV Best estimate) £

What is the geographic coverage of the policy/option?	UK			
On what date will the policy be implemented?	Royal Assent			
Which organisation(s) will enforce the policy?	N/A			
What is the total annual cost of enforcement for these organisations?	£ N/A			
Does enforcement comply with Hampton principles?	N/A			
Will implementation go beyond minimum EU requirements?	N/A			
What is the value of the proposed offsetting measure per year?	£ N/A			
What is the value of changes in greenhouse gas emissions?	£ N/A			
Will the proposal have a significant impact on competition?	No			
Annual cost (£-£) per organisation (excluding one-off)	Micro **Nil**	Small **Nil**	Medium **Nil**	Large **Nil**
Are any of these organisations exempt?	No	No	N/A	N/A

Impact on Admin Burdens Baseline (2005 Prices) (Increase - Decrease)

Increase of Negligible Decrease of £ **Net Impact** £ Negligible

Key: **Annual costs and benefits: Constant Prices** **(Net) Present Value**

Evidence Base (for summary sheets)

Background

Insurance Premium Tax (IPT) is a tax payable by insurers on premiums received under taxable insurance contracts in respect of risks located in the UK. IPT applies to both UK-based and overseas insurers. As there is no IPT registration threshold, every insurer writing taxable risks located in the UK is required to register for IPT. Insurers with no business establishment in the UK are required to appoint a tax representative. The tax representative is, by law, jointly and severally liable with the insurer for compliance with the IPT rules and for the tax due.

The requirement to appoint a tax representative for IPT has been unchanged since the tax was introduced in 1994. It was modelled on a similar requirement for VAT, which had been in force since the introduction of that tax in 1973. The requirement for overseas businesses to appoint a tax representative with joint and several liability for VAT debts was removed from UK legislation in 2002 so that the requirement no longer applied to persons in the EU, and only by direction to non-EU persons. This followed the extension of the Mutual Assistance provisions (now known as Administrative Cooperation) on exchange of information and recovery of debt to VAT. These provisions were extended to IPT in 2004 and apply to all EU resident insurers.

Furthermore, the UK has been considering the tax representative requirements in the light of recent European Court judgments concerning infringement of Treaty provisions on the freedom to provide services and freedom of establishment. A very recent Belgian case (C-522/04 Commission v Belgium) has caused the European Commission to request member states to reflect on the judgment which found that provisions which imposed the appointment of fiscal representatives with personal liability contravened these Treaty principles.

Rationale for Government intervention

Representations from the insurance sector have raised questions around the continued need for the appointment of an IPT tax representative, focussing in particular on the difficulties caused by the requirement that the tax representative has joint and several liability for the payment of unpaid taxes. The concerns were that the requirement was ineffective and resulted in

- An increase in compliance costs for overseas insurers
- Unfair competition between UK insurers and overseas insurers who do not comply with the requirements and consequently do not account for the tax.

Government intervention is required to analyse these claims and to make any necessary changes to the legislation to ensure these concerns are addressed.

Policy objective

The Government is keen to ensure that, in the collection of tax due in the UK, it does not impose unnecessary and burdensome requirements on businesses. It also wants to ensure that domestic insurers do not face unfair competition from non compliant overseas insurers, while at the same time reducing the barriers to cross border trade. The effect of the preferred option following the consultation will achieve this objective by removing the requirement for all overseas insurers to appoint a joint and severally liable tax representative, and ensuring the rules on collection of tax from third parties are fully compliant with the EU Treaty principles on freedom to provide services, and freedom of establishment.

Policy options

1. Removal of requirement to appoint a tax representative for all overseas insurers.

The preferred option is the removal of the requirement to appoint a tax representative in its entirety. A non-UK based insurer writing insurance risk located in the UK will still be required to register for IPT, but will no longer have the additional burden of appointing a joint and severally liable tax representative, and requesting HMRC approval for the tax representative. Instead, the overseas insurer, once registered with HMRC, can choose to manage its IPT affairs directly with HMRC, or it may appoint a tax agent, who does not have the joint and several liability requirment, to act on its behalf.

Expected Impact

The expected impact of the measure will be to remove the burdensome requirement for overseas insurers to appoint a tax representative who has joint and several liability for the tax due from the insurer. This reduction in real and administrative burden costs should mean there are less barriers to overseas insurers registering for IPT in the UK and paying the tax due, meaning a removal of barriers to trade, and a removal of the unfair competition currently in place from non compliant overseas insurers.

Sectors affected

The main impact of the removal of the requirement for foreign insurers to have a tax representative with joint and several liability risks will be a reduction in the compliance costs of foreign insurers. The reduction in compliance costs may also mean that currently non-compliant foreign insurers register for IPT.

Costs

The main impact on the administrative burdens baseline is likely to be through an increase in the number of companies on the IPT register. The number of additional foreign insurers that will register for IPT is not known, but some 700 foreign insurers are currently registered. If between 30 and 70 additional insurers register, the annual increase in the administrative burden baseline is estimated to be in the range £6,000 to £14,000. This estimate is based on HMRC's Standard Cost Model methodology. It takes account of the cost of registering and submitting IPT returns, the saving in the cost of seeking approval for a tax representative and the saving in the cost of notifying the cessation of being a tax representative.

An increase in the number of insurers on the register will increase the administrative costs of HMRC.

Benefits

Overseas insurers will benefit from no longer having to meet the cost of sourcing and funding joint and severally liable tax representatives. The costs of registration and of submitting returns will not be affected, and there may also be costs of using tax agents, but the use of tax representatives will no longer be obligatory.

The consultation failed to produce any information on the cost of appointing a joint and severally liable tax representative. Information is only available on the annual cost of a tax representative without joint and several liability, which is believed to average around £2,000. If the average cost saving to a registered foreign insurer through the removal of the requirement for a joint and severally liable tax representative is between £2,000 and £5,000, and 700 foreign insurers benefit from the saving, the total benefit is in the range £1.4m to £3.5m.

An improvement in compliance will have a favourable Exchequer effect.

Risks

There are no risks associated with the chosen option.

Consultation

Following the consultation, and the seminar which was held which had speakers from both HMRC and industry, HMRC have published a summary of responses document, setting out in detail the summary of responses received, and HMRC's response to these. This document can be found on the HMRC website.

Implementation Plan

Budget 2008 announced new legislation to remove the existing tax representative requirements for IPT, and to update HMRC's powers on recovery of tax from the insured party in the case of a non compliant non-EU insurer. The legislation will be enacted in Finance Bill 2008, with an implementation date of the date of Royal Assent. Draft guidance will be issued for consultation prior to any changes coming into force, and any consequential amendments to secondary legislation will also be made with an implementation date of Royal Assent. HMRC will contact all participants to the consultation document to ensure they are aware of the new rules, and to give them an opportunity to comment on the revised draft guidance. As the consultation responses included representatives from the insurance sector, advisors, and tax representatives themselves, this should ensure a wide coverage.

Small Firms

The removal of the requirement for foreign insurers to have a tax representative with joint and several liability does not affect small firms negatively.

Competition

The requirement to have a tax representative with joint and several liability may limit the number of foreign insurers writing business that covers UK risks. Accordingly, the removal of the requirement may have a favourable effect on competition, but the Government does not anticipate any material impact.

2. Removal of requirement to appoint tax representative for all EU insurers

This option was considered as part of the consultation exercise as an alternative option to the preferred option. It would have meant amending the current rules for EU insurers, but retaining the full tax representative provisions for non-EU insurers. Whilst this option could be justified on the basis that the Mutual Assistance provisions for recovery of debt would not apply to non-EU based insurers therefore there was the risk that the UK would not be able to recover any tax due from a non compliant non-EU insurer, it would have meant retaining, and indeed adding to, the tax legislation. As one of the stated objectives is to reduce rather than increase the regulatory and compliance burdens on businesses, this made this option unattractive. Further, as existing IPT legislation contains the power to assess the insured party for any tax due from a non compliant overseas insurer, this would enable HMRC to recover any tax due from a non-EU insurer, arguably making the full tax representative provision disproportionate for a non-EU insurer. Another point in favour of discounting this option was the additional complexity that would be required to target a very small trader population. There are only approximately 500 IPT registered non-EU insurers.

The law relating to liability of the insured party will be updated to ensure it is restricted to overseas businesses outside the EU who have no Mutual Assistance or similar provisions with the UK. This ensures compliance with the EU treaty principles, provides security for the collection of the tax in the case of non compliance from non-EU insurers, in the simplest and least burdensome way.

3. Removal of joint and several liabilty requirement

It was clear from the responses to the consultation that the main element of appointing a tax representative which caused difficulties for overseas insurers was the requirement that the tax representative be jointly and severally liable with the insurer for compliance with the IPT rules and for the tax due. Questions were also raised as to the legality of the requirement for EU based insurers, given the provions of the Mutual Assistance Directives on exchange of information and recovery of debt.

HMRC therefore considered the option of retention of the requirement to appoint a tax representative for all overseas insurers, but with the removal of the joint and several liability requirement.

HMRC have reviewed the Mutual Assistance provisons, along with the relevant ECJ case law – in particular the recent Belgian case (C-522/04 Comission v Belgium) which considered provisions which imposed personal iability for debts of others upon fiscal representatives, and whether these provisions contravened Treaty principles of freedom of establishment, and freedom to provide services. HMRC have concluded, that whilst the UK could support a reasonable argument for the imposition of the joint and several liability rule as proportionate measure to preserve the effectivess of fiscal supervision, given the extension of the Mutual Assistance provisions to IPT there is no longer a requirement to retain this provision for EU based insurers.

This left the question as to what to do with non-EU based insurers who are not covered by such arrangements, and therefore unpaid tax by non compliant non-EU insurers was potentially at risk. We considered retaining a power to direct a joint and severally liable tax representative for these businesses, but concluded that there may be some limitations to HMRC's power to enforce any such direction given the restricted numbers of tax representatives in the market. Also , as IPT legislation contains the power to assess the insured party for any tax due by a non compliant overseas insurer, it was considered it was best to tackle any non compliance using this power.

The law relating to liability of the insured party will be updated to ensure it is restricted to overseas businesses outside the EU who have no Mutual Assistance or similar provisions with the UK. This ensures compliance with the EU treaty principles, provides security for the collection of the tax in the case of non compliance from non-EU insurers, in the simplest and least burdensome way.

4. Introduction of an IPT registration threshold

We have decided against introducing a registration threshold for IPT at this point in time.

There is currently no registration threshold for IPT. Any business writing taxable insurance risks in the UK is required to register for IPT. Part of the consultation asked for respondents' views on the possible introduction of an IPT registration threshold as a means of easing the administrative burdens encountered by insurers writing small amounts of UK insurance.

However, the responses to the consultation made it clear that a registration threshold was not a solution to the burdens incurred, and a reduction could be better achieved by alternative changes to the IPT system. Problems identified with a registration threshold included ongoing monitoring requirements, links with the current extra statutory de minims concession, additional complications for co-insurance, and distortion of business.

Therefore, HMRC will consider further the possibility of taking forward some of the alternative suggestions put forward, as well as considering the use of the de minimis concession.

Specific Impact Tests: Checklist

Use the table below to demonstrate how broadly you have considered the potential impacts of your policy options.

Ensure that the results of any tests that impact on the cost-benefit analysis are contained within the main evidence base; other results may be annexed.

Type of testing undertaken	***Results in Evidence Base?***	***Results annexed?***
Competition Assessment	No	No
Small Firms Impact Test	No	No
Legal Aid	No	No
Sustainable Development	No	No
Carbon Assessment	No	No
Other Environment	No	No
Health Impact Assessment	No	No
Race Equality	No	No
Disability Equality	No	No
Gender Equality	No	No
Human Rights	No	No
Rural Proofing	No	No

Summary: Intervention & Options

Department /Agency:	**Title:**	
HMRC	**Impact Assessment of Reduction of Administrative Burden of Stamp Duty Land Tax**	
Stage:	**Version:** 1	**Date:** 30 January 2008
Related Publications:		

Available to view or download at:

http://www.hmrc.gov.uk

Contact for enquiries: Diana Endsor **Telephone:** 0207 147 2793

What is the problem under consideration? Why is government intervention necessary?

£45m was spent in 2005 by businesses on the administrative burdens and compliance costs of Stamp Duty Land Tax (SDLT), plus there was also an estimated £300 million total compliance cost for individuals. Of this, 60% (£27m) was for the 'preparation and submission of the land transaction return'. In order to reduce the £27m figure, close scrutiny of the processes involved was required, along with how these could be minimised. In particular, HMRC looked at the notification threshold at which Land transaction returns must be filled. The current notification threshold is held at £1,000 for residential and £nil for commercial transactions.

What are the policy objectives and the intended effects?

HMRC wanted to make the SDLT system as efficient and easy for its customers and their legal representative to engage with, in order to reduce the administrative burdens and compliance costs to businesses. The objective of this policy is to contribute towards the reduction of HMRC's administrative burdens by 10% for the completion of forms/returns and by 15% for audits and inspections.

What policy options have been considered? Please justify any preferred option.

1. Do nothing; 2. Act to reduce administrative burdens and compliance costs by: (a) raising the notification threshold for residential property to £40,000; (b) introducing a notification threshold for commercial transactions at this level; (c) abolishing self-certificates below the notification threshold ; (d) increasing take-up of online filing; (e) reducing administrative burdens and compliance costs due to correcting land transaction returns.

When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects? Costs and benefits will be routinely reviewed after 1-3 years

Ministerial Sign-off For final proposal/implementation stage Impact Assessments:

I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) the benefits justify the costs.

Signed by the responsible Minister:

Jane Kennedy .... Date: 13 February 2008

Summary: Analysis & Evidence

Policy Option: 2	Description: Reduction of Administrative Burden of Stamp Duty Land Tax

COSTS			
ANNUAL COSTS		Description and scale of **key monetised costs** by 'main affected groups'	
One-off (Transition)	**Yrs**		
£ negligible	1		
Average Annual Cost (excluding one-off)			
£ 0		**Total Cost** (PV)	**£ 0**

Other **key non-monetised costs** by 'main affected groups'

BENEFITS			
ANNUAL BENEFITS		Description and scale of **key monetised benefits** by 'main affected groups'	
One-off	**Yrs**	This policy reduces the administrative burden on businesses and compliance costs for individuals, which improves economic efficiency.	
£			
Average Annual Benefit (excluding one-off)			
£ 80 m		**Total Benefit** (PV)	**£**

Other **key non-monetised benefits** by 'main affected groups'

Increased activity in the shared ownership market for residential homes due to removing the tax disadvantage caused by the "£600 rule".

Key Assumptions/Sensitivities/Risks

The key assumption is that Standard Cost Model estimates of the administrative burden on business can inform estimates of the compliance costs of individuals.

Price Base Year 2008	Time Period Years	**Net Benefit Range** (NPV) £	**NET BENEFIT** (NPV Best estimate) £

What is the geographic coverage of the policy/option?			UK	
On what date will the policy be implemented?			Budget Day	
Which organisation(s) will enforce the policy?			HMRC	
What is the total annual cost of enforcement for these organisations?			£ 0	
Does enforcement comply with Hampton principles?			Yes	
Will implementation go beyond minimum EU requirements?			No	
What is the value of the proposed offsetting measure per year?			£ 0	
What is the value of changes in greenhouse gas emissions?			£ N/A	
Will the proposal have a significant impact on competition?			No	
Annual cost (£-£) per organisation (excluding one-off)	Micro	Small	Medium	Large
Are any of these organisations exempt?	No	No	N/A	N/A

Impact on Admin Burdens Baseline (2005 Prices)					(Increase - Decrease)
Increase of	£	Decrease of	£ 16.2 m	**Net Impact**	**£** 16.2 m

Key: **Annual costs and benefits: Constant Prices** **(Net) Present Value**

Evidence Base (for summary sheets)

Background

In 2005, standard cost model research by KPMG measured all the administrative burdens imposed by the UK tax system (http://www.hmrc.gov.uk/better-regulation/kpmg1.pdf). This included an assessment of the administrative burden of Stamp Duty Land Tax (SDLT), estimated at £45m in 2005 prices (http://www.hmrc.gov.uk/better-regulation/part22.pdf). Of this, 60% (£27m) was for the 'preparation and submission of the land transaction return'. It is HMRC's commitment to reduce these administrative burdens by 10% for the completion of forms/returns and by 15% for audits and inspections.

The current notification threshold is held at £1,000 for residential and £nil for non-residential transactions. Yet the first threshold for tax is £125,000 for residential transactions (£150,000 in disadvantaged wards) and £150,000 for non-residential transactions. This means that some of the Land transaction returns are submitted even though no tax is due. However, this information is currently used to support the Valuation Office Agency (VOA) in its statutory duties in preparing and maintaining the non-domestic ratings and council tax lists. Data is also used for inheritance tax, capital gains tax, and undertaking compliance work by various parts of HMRC. Subsequently, the information is also passed onto other government departments, like DEFRA and DCLG.

Even when no SDLT 1 return form is required there is still a requirement to submit a certificate confirming that no land tax return is required. This takes the form of a short 2 page form, the SDLT 60 , which is sent directly to land registries who use the data they get from the forms to get information on transactions where there is little or no payment made. The information can also be used by HMRC to check against their data and establish if it was correct that no payment or SDLT1 should have been submitted for that transaction.

Options

1. Do nothing

Land transaction returns place a burden upon the customer groups, and they find it an irritant as a recent report showed **(http://www.hmrc.gov.uk/better-regulation/part22.pdf, page 13)**. They "did not understand why this was necessary", and hence found the process laborious and superfluous. This may cause continued frustration with HMRC and lead to a feeling of misunderstanding. In addition, it is costly for HMRC to provide this service and the information gained can be sought from alternative sources already available.

2. Act to Reduce Administrative Burdens and Compliance Costs

(a) Increase notification threshold to £40,000 for residential transactions

Introducing a notification threshold of £40,000 on residential transactions would remove 190,000 transactions (12% of all residential transactions). This will reduce an irritant to businesses, but would not affect the administrative burden placed upon businesses undertaking property transactions. In addition, it would also impact upon VOA. When they receive notification of a sale, it "triggers" maintenance of the council tax and non-domestic tax lists. For transactions below the notification threshold, this would no longer occur. Consultation with HMLR is required so that VOA will be alerted of sales below the HMRC notification threshold.

The possibility of a higher threshold was considered but dismissed on two grounds. Firstly, a higher threshold could open up opportunities for tax avoidance or evasion, both of which create losses in welfare by increasing tax rates for compliant taxpayers. Secondly, a notification threshold causes a loss of data for

VOA, as mentioned above. With a higher notification threshold, this loss of data collection might compromise VOA's ability to operate effectively.

Based on the number of transactions that will fall under the notification threshold rather than a land transaction return this will reduce compliance costs for individuals by an estimated £38m per annum. The compliance cost for individuals is based on KPMG's estimates of the administrative burden for very small businesses that outsource the completion of SDLT forms on the basis that very small businesses are the closest comparison for individuals and the vast majority of individuals outsource completion of the land transaction return to their solicitor. These costs are estimated as a saving of £200 per taxpayer under the notification threshold due to not having to complete an SDLT1, of which there will be an estimated 190,000 per annum.

(b) Increase notification threshold to £40,000 for non-residential transactions

By enlarging the scope of the threshold to also include non-residential transactions, this would mean HMRC will remove the need for an additional 80,000 Land transaction returns (approximately 51% of all non-residential transactions). This simple to implement measure will save business £12.7m (28.2% of the burden) due to a reduction in the number of transactions that will have to complete an SDLT 1.

The figure of £40,000 is well placed within the structure of SDLT, as the first threshold for tax is a lot higher, as shown above. This means that the notification threshold is sufficiently low enough that there can be no opportunity to exploit this measure for tax avoidance purposes.

An increase in the notification threshold may not impact on SDLT yield, but it will mean another decrease in the information given to HMRC and, therefore, VOA. This impacts upon their statutory duties in other tax areas such as capital gains tax, inheritance tax and working with other governmental departments. For example, VOA would be unable to support compliance work across a range of taxes where the transaction is low value and below the notification threshold. Whilst most of this information can be supplied through HMLR, unfortunately VOA may need to create their own forms for new commercial leasehold transactions.

(c) Abolishing self-certificates below the notification threshold

Traditionally a property title cannot be changed without a certificate showing that either tax has been paid or there is no tax payable. Once the notification threshold has been changed to £40,000, customer groups would then have to use the SDLT 60 (self-certification form) instead of the SDLT form to show that no tax is payable. This would lead to an estimated increased SDLT 60 administrative burden of around £7m per annum that would reduce the benefits of the £12.7m saving identified above. However, by abolishing the need for an SDLT 60 below the notification threshold, this increase in administrative burdens can be avoided.

(d) Increase Up-take of Online Filing

It is believed that by increasing the take-up of online filing from around 0-5% at the time of the KPMG measurement of admin burden to 50% within the next year. Of this, it is difficult to estimate the proportion that is attributable to HMRC's efforts to increase uptake over-and-above making the service available. However, on an indicative basis, it is assumed that one half is due to these efforts. This will reduce the cost to business of complying with SDLT by 3.3% (£1.5m) per year due to the additional online filing achieved. Online filing reduces the difficulty of completing SDLT forms by providing immediate checks for inconsistency, removing irrelevant fields, highlighting missing information and saving on postage costs. HMRC has been actively promoting the uptake of online filing due to the reduced administrative burden. The HMRC Outreach Team, for example, has also been continuing their efforts by speaking to Law Societies and customers who have registered but not yet activated their accounts, and the Problem Transactions team has been informing customers of the benefits of online filing in cases where there is customer contact.

For individuals, the equivalent estimate is £10m, which reflects the much higher number of residential transactions relative to commercial transactions, with a current ratio of 8:1.

(e) Reducing administrative burdens and compliance costs due to correcting land transaction returns.

There are a number of operational changes being implemented to reduce the costs of correcting land transaction returns, designed to reduce the number of returns that need to be corrected, reduce customer contact in those cases that do and to reduce the administrative burden and compliance costs where customer contact is still required. These operational improvements include:

1. A reduction in the number of SDLT 8s (which are issued by HMRC when incorrect details are submitted on a return and requesting correction) issued due to increases in online filing, whereby with online filing it is not possible for a transaction to generate an SDLT8 due to internal data validation carried out when the form is first completed;
2. Reducing the proportion of paper transactions that generate an SDLT8 from historically 16-20% (note that a central estimate of 18% is used below);
3. Correcting around 80% of incorrect land transaction returns without further customer contact;
4. Correcting the remaining 20% of incorrect land transaction returns initially via telephone call rather than by sending a paper SDLT8 to the customer; and
5. In cases where there is customer contact, this enables HMRC to inform users of the online filing system (where it is impossible to submit an incorrect return).

The SDLT 8 burden was not separately measured as part of the KPMG research. Instead it is incorporated in the admin burden for the land transaction return. It is estimated that the admin burden per transaction is increased by 50% if a paper SDLT 8 is required, i.e. the admin burden of an SDLT 8 is 50% of that of a land transaction return, other things being equal.

Based on the central estimate of 18% of transactions historically generating a paper SDLT 8, this implies that of the £27m baseline cost for the land transaction return, £24.8m is associated with the main return and £2.2m is the admin burden for SDLT 8s.

It is estimated that of this £2.2m administrative burden, there will be an estimated reduction of £2.0m, based on: (i) online filing rising to 50% in 2008 from 0% at the time of the baseline admin burden measurement; and (ii) 80% of land transaction returns that require correcting being corrected without customer contact. This results in a 90% fall in the administrative burden of correcting land transaction returns. For individuals' compliance costs, the equivalent estimate is a reduction of £15m, which reflects the much higher number of residential transactions relative to commercial transactions, with a current ratio of 8:1.

Summary

The simplification package above has a cumulative estimated impact of reducing administrative burdens on business by £16.2m in 2005 prices, equal to around £18m in 2008 prices, and reduces the overall compliance costs faced by individuals by an estimated £63m, although the compliance cost impact should be viewed as indicative because it uses Standard Cost Model estimates of the administrative burden faced by business to estimate compliance costs faced by individuals. This £16.2m saving in administrative burdens is comprised of a £12.7m saving due to the introduction of the notification threshold, a £1.5m saving due to increasing uptake of online filing and a £2m saving from improved operational procedures in dealing with problem transactions. The £63m compliance cost saving consists of a £38m saving due to raising the notification threshold, a £10m saving from increasing uptake of online filing and a £15m saving from improving how we deal with problem transactions. The total saving in administrative burdens and compliance costs is an estimated £80m annually to the nearest £10m.

Lastly, it should be noted that there will be no change in HMRC's operating costs, with instead only a reallocation of existing resources and funding.

Economic Impact Tests

1. Competition Assessment
This measure will have little or no effect on competition within the markets to which it applies namely conveyancers, VOA and other government departments. The measure does not affect any firms substantially more than any others. The only additional cost that can be foreseen with this change is how VOA, etc, gain the information if they still require it.

2. Small Firms Impact Test
The raise in notification threshold will mean that all firms will no longer have to fill out paperwork for transactions under £40,000, thus reducing the administrative burden and saving time. In addition, if practitioners use the online facility for filing returns then all forms will be completed fully and accurately; thereby, reducing the need for further contact between HMRC and its customers. This measure provides a more expedient and efficient way for HMRC to deliver a Land Transaction Certificate to the practitioners.

With the help of the SDLT Working Together Steering Group, and its sub-groups, HMRC will able to assess opinion and concerns on the introduction of a £40,000 notification threshold.

3. Legal Aid Impact Test
There will be no need for a new criminal sanction or civil penalty.

Environmental/Social/Sustainable Development Impact Tests

There are no other issues relating to this measure that need to be addressed.

Implementation and Delivery

This measure was announced at the Pre-Budget Report 2007, with implementation occurring on Budget Day 2008.

Exceptions
Not all of the transactions below the £40,000 threshold can be self-certified and therefore will still need the completion of an SDLT 1 form. These exceptions concern leasehold properties, whereby notification is required if the lease:
– is for a period of seven years or more and the grant is made for a chargeable consideration;
– is granted for periods of less than seven years, but tax is chargeable at a rate of 1% or higher on either or both any premium or rent paid; or
– would have been tax chargeable at a rate of 1% or higher but for the availability of a relief.

Consultation
A full consultation was undertaken with practitioners to both ensure that the measure was properly understood and that the processes are in place to take advantage of the measure. It also provided time to those who will no longer receive the necessary information from the SDLT forms to find an alternative.

Post-Implementation Review

Through the SDLT Working Together Steering Group, and its sub-groups, HMRC continues to work with all the key stakeholders of SDLT. Within these groups, stakeholders continually assess the performance of the SDLT regime, suggest ideas for improvements and evaluate changes that have already been made. This is a vital tool for gauging the effectiveness of any changes in the SDLT system and has already provided useful insights to further change.

HMRC will conduct a post-implementation review with reference to the operational impacts of this new process within a controlled timescale. It is currently anticipated that this will be between one and three years from the date of implementation. The review will cover the impacts for practitioners and the anticipated positive impact on transaction timescales for both practitioners/taxpayers and HMRC. It will also endeavour to see what impact the VOA, etc, have had on the cessation of information from HMRC for transactions below the £40,000 threshold.

Enforcement, Sanction and Monitoring

SDLT has been continually monitored since its introduction in December 2003. As well as feedback through the help-lines, several surveys have been conducted on practitioner's experiences of the new tax. Close contacts have been maintained throughout with practitioners' representatives and the law societies via the SDLT Working Together Steering Group. These channels of communication will continue to enable HMRC to evaluate their effectiveness almost immediately.

Summary

A notification threshold of £40,000 has been introduced as part of the Budget 2008 package, with it taking effect from Budget Day itself. Coupled with increase up-take of on-line filing and improvements in correcting returns, the related saving for administrative burden is around 36% (£16m). There will also be a reduction of compliance costs for individuals, estimated at around £63m. Consultation has shown that this measure has been well received by HMRC's customer groups, as it goes some way to reducing administrative burdens and compliance costs. Consultation with VOA and HMLR will need to continue to solve any problems surrounding the loss of information that HMRC will face.

Specific Impact Tests: Checklist

Use the table below to demonstrate how broadly you have considered the potential impacts of your policy options.

Ensure that the results of any tests that impact on the cost-benefit analysis are contained within the main evidence base; other results may be annexed.

Type of testing undertaken	***Results in Evidence Base?***	***Results annexed?***
Competition Assessment	Yes	No
Small Firms Impact Test	Yes	No
Legal Aid	Yes	No
Sustainable Development	Yes	No
Carbon Assessment	Yes	No
Other Environment	Yes	No
Health Impact Assessment	Yes	No
Race Equality	Yes	No
Disability Equality	Yes	No
Gender Equality	Yes	No
Human Rights	Yes	No
Rural Proofing	Yes	No

Summary: Intervention & Options

Department /Agency:	**Title:**	
HMRC	**Impact Assessment of changes to indirect taxes Voluntary Disclosure arrangements**	
Stage: Final/Implementation	**Version:** 4.0	**Date:** 29 February 2008
Related Publications:		

Available to view or download at:

http://www.hmrc.gov.uk/better-regulation/ia.htm

Contact for enquiries: Jenny Turton **Telephone:** 0151 703 8526

What is the problem under consideration? Why is government intervention necessary?

Voluntary disclosure is the mechanism by which businesses are required to notify errors made on previously submitted indirect tax returns. The arrangements apply to VAT, Insurance Premium Tax, Air Passenger Duty, and environmental taxes. The Administrative Burdens Advisory Board (ABAB) and the Joint VAT Consultative Committee (JVCC) identified the existing financial thresholds applicable to voluntary disclosures as a major irritant for large businesses. HMRC consulted during the autumn on options for change.

Intervention is necessary to help reduce burdens on business.

What are the policy objectives and the intended effects?

To ensure that the procedure for disclosing errors on returns remains fit for purpose, that is that the system remains easily understood, continues to offer businesses the opportunity to claim overpaid tax, ensures that business does not face disproportionate costs in declaring errors, that HMRC are able to adequately assess the validity of claims and risks associated with significant errors.

Intended effects: Reduce the requirement for separate disclosure of all but the largest errors, while retaining the facility of taxpayers to claim repayments early.

What policy options have been considered? Please justify any preferred option.

Consultation identified 4 options. Option 1 (simple increase in current financial limit) cannot address large business concerns without jeopardising other policy objectives. Option 2 (different limits for different sized businesses) is the preferred short term option as it meets all policy objectives. It is supported by business representative bodies.

Options 3 (allow all errors to be declared on returns) and 4 (the development of a generic model to be used across all business taxes), are not acheivable in the short term. HMRC intend to look at these in more detail, consulting as appropriate.

When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects?

HMRC will conduct a Post Implementation Review of the new arrangements within 2 years of implementation. The review will seek the views of taxpayers.

Ministerial Sign-off For final proposal/implementation stage Impact Assessments:

I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) the benefits justify the costs.

Signed by the responsible Minister:

.................................Jane Kennedy................................. Date: 6 March 2008

Summary: Analysis & Evidence

Policy Option: [Final]	Description: Increase the current indirect tax £2,000 voluntary disclosure limit to the greater of £10,000 or 1% of turnover, to a max £50,000.

COSTS

ANNUAL COSTS		Description and scale of **key monetised costs** by 'main affected groups'	
One-off (Transition)	**Yrs**	One off compliance cost arising from familiarisation with the new proposal. Actual population likely to incur cost is unknown; likely maximum value calculated.	
£ 2,500,000 (max)	1		
Average Annual Cost (excluding one-off)			
£ 0		**Total Cost** (PV)	**£ 2,500,000 (max)**

Other **key non-monetised costs** by 'main affected groups'

None. Consultation suggests there are no extra costs expected from the turnover element of the proposal. No operational costs are expected for HMRC.

BENEFITS

ANNUAL BENEFITS		Description and scale of **key monetised benefits** by 'main affected groups'	
One-off	**Yrs**	Administrative burden saving from the estimated number of disclosures no longer submitted to HMRC.	
£ 0			
Average Annual Benefit (excluding one-off)			
£ 33,000		**Total Benefit** (PV)	**£ 33,000**

Other **key non-monetised benefits** by 'main affected groups'

No other benefits are expected.

Key Assumptions/Sensitivities/Risks

Risk: Behavioural assumptions may be too cautious or otherwise inaccurate. Other information: also a one-off VAT cash receipts cost of around £5 million, and negligible cost from foregone default interest.

Price Base Year	Time Period Years	**Net Benefit Range** (NPV) £	**NET BENEFIT** (NPV Best estimate) £

What is the geographic coverage of the policy/option?			National	
On what date will the policy be implemented?			1 July 2008	
Which organisation(s) will enforce the policy?			HMRC	
What is the total annual cost of enforcement for these organisations?			£ 0	
Does enforcement comply with Hampton principles?			Yes	
Will implementation go beyond minimum EU requirements?			No	
What is the value of the proposed offsetting measure per year?			£ Nil	
What is the value of changes in greenhouse gas emissions?			£ Nil	
Will the proposal have a significant impact on competition?			No	
Annual cost (£-£) per organisation (excluding one-off)	Micro	Small	Medium	Large
Are any of these organisations exempt?	No	No	N/A	N/A

Impact on Admin Burdens Baseline (2005 Prices)					(Increase - Decrease)
Increase of	£ 0	Decrease of	£ 30,000	**Net Impact**	**£** -30,000

Key: **Annual costs and benefits: Constant Prices** **(Net) Present Value**

Evidence Base (for summary sheets)

Background

Voluntary disclosure arrangements are in place for VAT, Insurance Premium Tax, Air Passenger Duty, Landfill Tax, Climate Change Levy and Aggregates Levy. Errors in excess of a de minimis limit of £2,000 (net errors in VAT) must be separately notified to HMRC. Any errors below the de minimis limits may be included in ther next tax return to be submitted.

An independent report on the tax administrative burden on business in the United Kingdom noted that the current voluntary disclosure arrangements are viewed by large business as an irritant. The report findings were confirmed by both the Administrative Burdens Advisory Board (ABAB) and the Joint VAT Consultative Committee (JVCC). HMRC therefore published a consultation document on 1 August 2007 called "A Review of the Voluntary Disclosure Arrangements for Notification of Errors of VAT, Insurance Premium Tax, Air Passenger Duty and Environmental Taxes".

The consultation document sought the views of micro, small, medium and large business, as well as their advisers, on the existing voluntary disclosure arrangements. It also set out a number of possible options for change to the current arrangements and invited views on the merits and drawbacks of each, as well as welcoming other ideas on the way forward. The consultation period ran from 1 August 2007 to 31 October 2007.

Consultation objectives and options

The objectives behind the consultation were to:

- identify the strengths and weaknesses of the current arrangements;
- ensure that the procedure for disclosing errors on returns supports the compliant taxpayer, is simple, easy to operate, imposes the minimum administrative burden on business, whilst safeguarding the interests of all taxpayers;
- for errors that result in a refund to a business, to ensure that the procedure remains sufficiently flexible to enable repayments to be claimed, and made, at the earliest opportunity;
- safeguard the interests of all taxpayers by ensuring that corrections of significant errors provide sufficient information to enable HMRC to adequately assess the validity and completeness of the disclosure and, where a refund is sought, consider whether 'unjust enrichment' of the business would occur, i.e. put the business in a better economic position than would have been the case if they had not made the error; and
- ensure that the process includes an appropriate level of reassurance for taxpayers concerning the application of penalties (where their errors have resulted in an underpayment) whilst safeguarding the interests of compliant taxpayers.

Four options were consulted on:

- Increase the present financial limit for the mandatory notification of errors/net errors.
- Have different de minimis limits for nano, micro, small, medium and large business.
- Remove the requirement for separate notification of errors exceeding £2,000 and allow all adjustments to be entered on the next tax return.
- Develop a generic model for dealing with error or mistake claims across all indirect and direct tax regimes.

The above options were not considered to be exclusive or exhaustive and other suggestions, that would alleviate the administrative burden of the voluntary disclosure arrangements, were invited.

Responses to the consultation

During the consultation period HMRC received 40 written responses and held meetings with 11 companies/representative bodies. The responses were mainly from representative bodies, large business and their professional representatives. The views of micro and small business were represented in particular by the Institute of Chartered Accountants England and Wales, the VAT Practitioners Group, the Chartered Institute of Taxation and the Association of Accounting Technicians.

Detailed responses on the current arrangements and on options for change are contained in "A review of the Voluntary Disclosure arrangements for notification of errors of VAT, IPT, APD and Environmental taxes. Responses to the 1 August Consultation Document", published today with this Impact Assessment.

In summary, respondents welcomed the simplicity and flexibility of the current arrangements, the certainty that errors have been declared at an early stage, and the fact that overpayments of tax can usually be recovered more quickly via the disclosure system than via later tax returns. This latter facility is of particular benefit to micro and small businesses. The overwhelming majority of adverse comment on the current regime, from businesses of all sizes, related to the £2,000 de minimis limit. All find it too low, whilst large business and VAT groups in particular find the current limit a major irritant and disproportionate in relation to the size and volume of transactions they undertake.

Some of the procedures for making disclosures were also highlighted as an irritant. Examples included the layout of the declaration form, and the lack of an online declaration facility. Comments on these have been passed to systems owners within HMRC for consideration.

Views on the options

Comments from individual respondents are contained in the responses report published today. These may be summarised as follows.

Option 1: The overwhelming majority of respondents would welcome an increase in the £2,000 de minimis limit. Suggested increases ranged from £5,000 to £250,000. However, there was widespread recognition that any increase would have to be set at a level that did not pose a significant risk to the Exchequer, with only a few respondents, mainly micro and small, viewing this as the preferred option. The majority thought that it would be difficult to agree a single financial limit that reflected the size and complexity of all businesses.

Option 2: The majority of medium and large respondents favoured different limits for businesses of different size. However, there was a considerable divergence of views on the most appropriate method to define the requisite groupings. Suggestions included using the European Union definitions of micro, small, medium and large, or setting our own limits based on a percentage of throughput or sales turnover. Some respondents thought different limits would add complexity and had the potential to cause confusion.

Option 3: A significant number of respondents thought that this was the ideal long term solution. Benefits identified included allowing payments/repayments to be dealt with through the next VAT return and removal of the need for any limits. The option would entail the introduction of an additional two boxes on the VAT return. This was not seen by some as unduly onerous, although a number of respondents saw the introduction of additional boxes as a retrograde step, particularly in view of the effort over recent years to reduce the number of boxes on the return to nine. They noted that it appeared to run counter to HMRC's simplification process, and result in the need for changes to IT systems of both business and HMRC.

Option 4: Respondents generally thought a standard error notification model for all taxes would be of benefit in the long term. However, a number thought it had the potential to be administratively more burdensome. There was a consensus that any proposals within this option would need to be subject to further, detailed consultation.

HMRC view

In light of those responses HMRC will continue to explore the longer term solutions for disclosure of errors through the indirect tax return and development of a generic error correction system across all business taxes (Options 3 and 4). In due course we will consult further with business on any proposals for change that arise from this longer term work.

We accept that the current limit is too low, is a major irritant to large business and that, in the mean time, a short term solution is required. We are keen to ensure that the procedure for disclosing errors is simple, easy to operate and imposes the minimum administrative burden on business. However, to safeguard the interests of all taxpayers, HMRC needs to ensure that significant errors can be identified to enable an adequate assessment of the validity and completeness of the disclosure and, where a refund is sought, that it would not constitute unjust enrichment, i.e. put the claimant in a better economic position than would have been the case if they had not made the error.

Option 1 can be implemented within a few weeks. It merely involves increasing the de minimis level below which businesses are not required to notify errors separately to HMRC. Raising the limit in this way to will reduce significantly the numbers of errors requiring separate notification, but in order to make any significant impact on the administrative burden the regime imposes on large business, the limit would have to be set at a figure that would severely inhibit HMRC's ability to identify and intervene quickly in cases of potential revenue risk.

Option 2 can also be implemented within the same timeframe. In order to meet all the policy objectives of the Voluntary Disclosure regime, the current limit of £2,000 would have to be raised significantly, but be capped at a level that provides HMRC with information on significant errors, and the opportunity to intervene where appropriate. Of course what is significant in a small business may not be significant in a larger concern, and HMRC have looked at how the size of an error in relation to the size of the business concerned might be incorporated into the disclosure mechanism.

Option 3 involves withdrawing the present arrangements and allowing all adjustments to be made via tax returns. While this option would undoubtedly simplify the error correction process for some, the continuing need for HMRC to be able to identify significant errors means that the various return forms would probably have to include additional boxes specifically for recording errors. Such a step would be viewed by some taxpayers as a retrograde step. Changing forms and the systems capturing the data recorded on them is something that could not be done in the short term. Option 4 goes further, in that it envisages an entirely new model that deals with errors across all taxes administered by HMRC. Again, such a system could not be implemented in the short to medium term. HMRC are keen to explore the feasibility of options 3 and 4, and will take the work forward in due course. This process will include further consultation with the business community.

The proposed solution for now is to increase the current £2,000 de minimis limit to the greater of £10,000 or 1% of 'turnover' (Box 6 figure for the VAT return period in which the disclosure is made) subject to an upper limit of £50,000.

All net errors under £10,000 can be declared on the taxpayer's next return, although in the case of repayment claims businesses will still be able to use the disclosure regime if they wish. All net errors over £50,000 must be separately notified to HMRC, as all errors over this amount are considered to be significant. Net errors between £10,000 and £50,000 may be included on the taxpayer's next return, subject to measurement of the error against the turnover of the business concerned. HMRC believe that all but a handful of businesses covered by voluntary disclosure arrangements are VAT registered, and therefore have systems in place enabling them to calculate their turnover, including exempt outputs, for inclusion in box 6 of the VAT return. In those rare cases that a business is not registered for VAT but is required to submit other indirect tax returns, the limit for correcting errors on the next return due will be capped at £10,000.

Introducing a new de minimis limit of £10,000 will potentially reduce the numbers of errors **requiring** separate notification by around 17,500 per year, although we believe that the true reduction would be nearer to 6,000 annually because those businesses due a refund may still choose to request it via separate disclosure rather than wait until their next return falls due. The new arrangements for errors between £10,000 and £50,000 are estimated to further reduce the number of voluntary disclosures by up to an additional 2,000.

The proposal has been scrutinised by business representatives from the JVCC, VAT in Business Group, trade associations connected with the environmental tax regimes, and some individual businesses. In considering the proposal, HMRC asked those consulted to consider 5 questions;

Q1. The proposals seek to maintain the simplicity of the current system for users, while providing additional flexibility for medium and larger businesses. Do they achieve these aims?

Q2. Is the proposal to measure business size through the use of the box 6 turnover figures on VAT returns a reasonable method?

Q3. If not, what other measurement should we use?

Q4. Will the proposals add to your business costs or the costs of those you represent? If so, we would appreciate some estimation of the actual costs involved in activities such as additional calculations, possible advance calculation of box 6 figures, staff familiarisation and training time, any accounting system adjustments, and any other resulting business changes.

Q5. When should we introduce the changes? We see advantages in doing so as soon as possible, but wonder whether businesses might prefer a short delay in order to train relevant staff.

HMRC received responses from a number of taxpayer groups, including the CBI, the British Retail Consortium, the VAT in Industry Group, the Tax Faculty of the Institute of Chartered Accountants in England and Wales, the Chartered Institution of Wastes Management, and the British Aggregates Association, as well as from some individual large businesses.

Detailed responses are included as an annex to this impact assessment. In summary, all respondents agreed that the proposals achieved the aims of maintaining the simplicity of the current system while increasing flexibility, although one trade association felt that the proposals should make additional provision for errors up to £100,000. HMRC do not consider there is a strong argument for introducing a further layer of complexity at this time, but will consider the issue as part of the post implementation review.

All respondents agreed that using VAT turnover as the basis of measurement was reasonable. And, in response to question 3, no alternative method was suggested. The response to question 4 was particularly encouraging, with respondents suggesting that the measure would not increase business costs. Some suggested the measure could actually lead to a small cost reduction. Finally, all those consulted wished to see the new arrangements introduced as soon as possible.

Supporting Analysis and Evidence

HMRC's analysis is based on a complete set of data on VAT voluntary disclosures for 2006; VAT has been the focus, since around 99% of all disclosures and therefore impacts of this measure will relate to VAT. Summary analysis for previous years shows that 2006 is broadly typical of recent trends, and is therefore an appropriate year upon which to base the analysis. Our data shows the following basic statistics on VAT voluntary disclosures:

Table 1: Size (absolute net amount) breakdown of voluntary disclosures

Disclosure size band	No. of voluntary disclosures, 2006	% of voluntary disclosures, 2006
Under £2,000	8,250	22%
£2,000 to £10,000	17,600	48%
£10,000 to £50,000	7,250	20%
Over £50,000	3,600	10%
Total	36,700	100%

Table 1 shows the maximum number of disclosures (on current trends) that might be affected by this proposal. Nearly a quarter of voluntary disclosures currently submitted are for net amounts below the current threshold of £2,000. These disclosures can be said to be *truly* voluntary, and their existence suggests that many businesses will still choose to submit voluntary disclosures even after an increase in that threshold - particularly if it is in their interest to do so. The 3,600 disclosures for amounts greater than £50,000 would never be affected by this measure.

Around 17,600 disclosures were in the range £2,000 to £10,000 in 2006; if these proposals were in place in 2006, all these would no longer be required to be disclosed, and could be accounted for via return adjustments. The 7,250 or so disclosures in the range from £10,000 to £50,000 could also no longer be required, if the turnover criteria is met as well. In all, this measure *could* affect around 25,000 voluntary disclosures per year.

Although HMRC's administrative VAT data do not equate directly with mainstream measurements of business size (which tend to be based on employee numbers rather than turnover), that information does show that most disclosures are submitted by smaller businesses. As such, small businesses in particular may benefit from this measure.

It is stated above that around 25,000 voluntary disclosures *could* be affected per year. However, our analysis leads us to a much more cautious view. It is clear from the data that there are already a large number of truly voluntary disclosures; as shown in table 1, around a quarter of disclosures submitted at present are below the current £2,000 de minimis limit. There are several reasons why this occurs. We know that small businesses use the current arrangements as a way of obtaining refunds more quickly than would normally be the case if credits are claimed on the next tax return. Other reasons might include taxpayer concerns about "getting it right" fuelling a desire to inform HMRC of any error at the earliest opportunity, or perhaps they may be approaching their year end and wish to set off refunds against other liabilities in the current financial year. Whatever the reasons, all the evidence suggests that disclosures will continue to be submitted even though they need not be.

We see five different types of voluntary disclosures in the data, each of which should have different behavioural responses. These are:

- *Disclosures below £2,000 of any type.* These are already submitted voluntarily in the strictest sense of the word. As such, we do not see any reason why a further increase in the disclosure limit would lead to a reduction in disclosure numbers amongst this group. We have assumed that all of these disclosures would continue to be submitted under any proposal here.
- *Disclosures above £2,000 (as relevant to the option threshold) which seek repayment from HMRC.* As making an adjustment on the return would mean receipt of the amount later than would be the case with a voluntary disclosure, we assume that most errors of this kind would continue to be submitted by a voluntary disclosure. There would be a marginal impact if businesses see voluntary disclosures as a significant burden, and may see admin burden benefit/cash flow cost as a worthwhile trade-off, but we assume that 90% of this group would still submit disclosures.
- *Disclosures above £2,000 (as relevant to the option threshold) which makes a payment to HMRC, but without interest.* Since return adjustments and payments would occur later, there is a stronger incentive to stop correcting these types of errors as voluntary disclosures. However, this is purely a cash flow bonus to the business, and we think it wise to assume there will still be a fair proportion of disclosures submitted within this group (as evidenced by the smallest disclosure size band once again). We have cautiously assumed that around 75% of businesses might still choose to submit disclosures even if they have the option of not doing so.
- *Disclosures above £2,000 (as relevant to the option threshold) which makes a payment to HMRC, but with interest.* This group has a much stronger incentive not to submit disclosures; in addition to the cash delay bonus, they would also not have to make interest payments if adjusting for the error on their next return. As such we have assumed that only one third of these disclosures would still be submitted.
- *Disclosures for zero net amounts.* There are not many of these in the data, but they should relate to tax point errors. They are by definition for amounts less than £2,000 so in accordance with the point above we assume that all of these will continue to be submitted under the proposals.

These assumptions are all felt to be fairly cautious, as appropriate to the estimation of impacts of Budget measures. The true effect in terms of disclosures no longer submitted under this proposal may be greater than we are allowing for. Table 2 below gives a summary of the behavioural effects that we are assuming. Table 3 shows how this relates to numbers of disclosures, using the 2006 dataset. Please note that the size band “over £50,000” is included in the tables below for completeness, but this measure does not propose to affect these since the maximum limit proposed is £50,000. These rows are greyed out in the tables below.

Table 2: Summary of assumed behavioural effects – share of baseline voluntary disclosures *still submitted* under an option, if the option affects that size band.

Disclosure size band	Repayments from HMRC	Payments to HMRC, no interest	Payments to HMRC, with interest	Zero net amounts
Under £2,000	100%	100%	100%	100%
£2,000 to £10,000	90%	75%	33%	100%
£10,000 to £50,000	90%	75%	33%	100%
Over £50,000	100%	100%	100%	100%

Note: the over £50,000 band will not be affected by any option.

Table 3: disclosure numbers when factoring in the behavioural assumptions.

Disclosure size band	Repayments from HMRC	Payments to HMRC, no interest	Payments to HMRC, with interest	Zero net amounts	Total
Total disclosures					
Under £2,000	4,875	2,850	150	375	8,250
£2,000 to £10,000	9,100	1,650	6,850	0	17,600
£10,000 to £50,000	4,225	900	2,100	0	7,225
Over £50,000	2,200	700	725	0	3,625
Total	20,400	6,100	9,825	375	**36,700**
Still submitted					
Under £2,000	4,875	2,850	150	375	8,250
£2,000 to £10,000	8,200	1,250	2,250	0	11,700
£10,000 to £50,000	3,800	675	700	0	5,175
Over £50,000	2,200	700	725	0	3,625
Total	19,075	5,475	3,825	375	28,750
No longer submitted					
Under £2,000	0	0	0	0	0
£2,000 to £10,000	900	425	4,600	0	**5,925**
£10,000 to £50,000	425	225	1,400	0	**2,050**
Over £50,000	0	0	0	0	0
Total	1,325	650	6,000	0	**7,975**

Note: all figures are rounded independently and may not sum to totals.

What this aims to show is that on the basis of the assumptions used, we can estimate that:

- If there was just an increase in the disclosure limit to £10,000 then there might be around 6,000 fewer voluntary disclosures submitted to HMRC in practice.
- If there was just an increase in the disclosure limit to £50,000 then there might be around 8,000 fewer disclosures.
- With the turnover criteria coming into play for disclosures between £10,000 and £50,000 - some of the additional 2,000 disclosures will meet the criteria and some will not, so there should be between 6,000 and 8,000 fewer disclosures.

With respect to the latter point, the proposal is for the limit for any particular disclosure for amounts between £10,000 and £50,000 to be equivalent to one per cent of turnover in the accounting period in which the error would be disclosed or adjusted. If one per cent of turnover is less than £10,000 then the lower limit of £10,000 would apply automatically. If one per cent of turnover is greater than £50,000 then the limit is capped at £50,000.

Further analysis of the 2006 data suggests that around 95 per cent of disclosures for amounts between £10,000 and £50,000 would still face the lower limit of £10,000 because their turnover is too low. The remaining five per cent would either face a 'personal' disclosure limits set by their turnover level, or face the highest £50,000 limit. However, it is likely that even in these latter cases, a majority of disclosures would still be for amounts above these higher limits and would still have to be submitted to HMRC.

Our analysis therefore suggests that based on the 2006 data there would effectively be a £10,000 limit in most cases. The actual number of disclosures no longer submitted, even with the turnover element in place, is therefore likely to be closer to 6,000 than 8,000 per year. However, the overall caveat is that this is according to the 2006 dataset. Future disclosures may be able to make more use of the turnover system, leading to a greater reduction in disclosure numbers. It is also important to note that our behavioural assumptions are deliberately cautious, since they also feed into the Budget 2008 revenue impact estimates where caution is required.

Using a figure of around 6,000 fewer VAT voluntary disclosures per year (a reduction of around 15 per cent), administrative burden savings are likely to be around £33,000 per year in total or around £5.50 for a smaller business, rising to £9 for a larger business. These are as measured by the Standard Cost Model, uprated to 2008 values. One voluntary disclosure is assumed to take a small business around 25 minutes, up to around 40 minutes for a larger business.

In terms of revenue impact, there will be a cash timing effect from the potential delay between receiving errors from voluntary disclosures within an accounting period to having those adjustments made at the end of an accounting period, when the VAT return is due. As we have assumed that those disclosures requiring payment back to HMRC will be more prone to adjustment on the return instead, there will be a one-off net cash cost to HMRC's VAT revenues upon the implementation of this measure. The measure could also lead to an amount of default interest no longer being due on those errors now corrected on returns.

In terms of wider compliance costs, we only foresee an impact from VAT registered businesses having to familiarise themselves with the new criteria for voluntary disclosures. Although disclosures can potentially be used by all VAT registered businesses, the new system will only be of direct interest to businesses handling their own VAT affairs or to accountants and advisors. Based on the size of the current VAT register and drawing on assumptions in the Standard Cost Model about the rates of outsourcing for VAT purposes, we estimate that around 1,100,000 businesses may need to familiarise themselves with the proposals, at least in passing.

Familiarisation is unlikely to take long; most businesses will only have to recognise that the disclosure limit has increased. We assume and that each of the estimated 1,100,000 businesses will only need an average of 10 minutes to note the proposed changes. This gives an absolute maximum compliance cost of around £2.5 million in total, or around £2 for a smaller business rising to £3 for a larger business. While we cannot predict how many businesses will actually choose to read about this proposal, it is felt that this total cost is a safe maximum. A further mitigating factor that could rive down this cost is that many businesses may already be familiar with the broad nature of the proposals from consultation exercise.

We estimate the one-off cash effect for VAT to be a cost of around £5 million in 2008-09, and the (ongoing) effect from lost interest to be negligible. As VAT disclosures account for around 99 per cent of all indirect tax disclosures, all impacts from this measure on the other indirect taxes are estimated to be negligible.

Table 4: summary of estimated impacts from a disclosure limit system with a lower threshold of £10,000 an upper limit of £50,000 and turnover-based limits for disclosures between these.

	Reduction in number of disclosures	Admin burden saving	Wider compliance costs	Cash receipts effect	Interest effect
VAT	Approx 6,000 (15%)	£33,000 (15%)	£2.5m (max)	-£5m	Negligible (cost)
Other indirect taxes	Negligible	Negligible	Negligible	Negligible (cost)	Negligible (cost)

Note: cash effects are a one-off in 2008-09, interest effects will be ongoing per annum. All monetary amounts are measured in 2008-09 values.

Small firms may benefit from this measure particularly. There should be no impact on competition as a result of this proposal.

Conclusion

HMRC are of the view that these proposals achieve the balance they seek between business facilitation and the need to monitor taxpayer compliance. Smaller businesses in particular will benefit from the proposals, as the new £10,000 limit will ensure that most will no longer have to make separate disclosures to HMRC, yet they retain the right to make early claims for overpaid tax. Medium and larger businesses will also benefit from the new de minimis level and, subject to the turnover test, enjoy additional flexibility by being able to declare errors up to £50,000 on tax returns.

The proposals have no implications for competition and have no environmental, development, racial, gender, rural or HR impacts.

Specific Impact Tests: Checklist

Ensure that the results of any tests that impact on the cost-benefit analysis are contained within the main evidence base; other results may be annexed.

Type of testing undertaken	***Results in Evidence Base?***	***Results annexed?***
Competition Assessment	Yes	No
Small Firms Impact Test	Yes	No
Legal Aid	No	No
Sustainable Development	No	No
Carbon Assessment	No	No
Other Environment	No	No
Health Impact Assessment	No	No
Race Equality	No	No
Disability Equality	No	No
Gender Equality	No	No
Human Rights	No	No
Rural Proofing	No	No

REPRESENTATIVE COMMENTS FROM EXTERNAL ORGANISATIONS ON HMRC DISCLOSURE PROPOSALS

Q1. The proposals seek to maintain the simplicity of the current system for users, while providing additional flexibility for medium and larger businesses. Do they achieve these aims?

- The proposals achieve the stated aims. A limit of £100k / 1% would have been preferable for very large businesses, but £50k / 1% should cover many ordinary adjustments.
- We very much welcome the proposals, but are disappointed about the upper limit set. Whilst the proposals will achieve your aims of maintaining the simplicity of the current system for users, while providing additional flexibility for medium businesses, we feel greater flexibility could have been achieved without loss of Revenue for larger businesses.
- Yes, the proposals maintain the simplicity of the current system, while providing additional flexibility for larger businesses
- In our view the proposals do maintain the simplicity of the current system for users whilst providing additional flexibility for medium and larger business.
- We believe that these aims will be achieved in many cases. However, this could be further improved by setting a de minimis limit for individual errors, below which an individual error would not be taken into account when determining if the new limit had been exceeded. We suggest that a de minimis limit of £1,000, below which an individual error could be ignored. This could achieve a significant administrative saving, particularly for large groups.
- Yes. The changes are very simple to understand and implement for both small/ micro business (turnover of less than £1M) and large businesses (turnover of more than £5M) and provide some flexibility for small and medium sized businesses, although with a little more complexity for businesses where the turnover falls between these values, but this should be minimal. The £50,000 upper threshold may have a limited impact on larger businesses whose errors are more likely to be

greater than this amount, and may not therefore materially reduce the number of voluntary disclosures they are required to make.

- The proposals do maintain the simplicity of the current system. The opportunity to separate large/medium businesses from smaller business through the increase in the threshold and the introduction of a higher threshold goes some way to providing flexibility for business, particularly medium size business. However, since our members operate through VAT groups the threshold is triggered at group level, so the increase in limit will not change the fact that each entity will need to report through to group. Most members do not anticipate the upper limit reducing the number of errors they are required to disclose. An upper limit of £100K for each VAT registered legal entity, which would apply the limit to each VAT group member would make a difference to large businesses.

- The £10,000 limit should be sufficient to take a large number of small businesses out of the need to make disclosures and, to that extent, the changes will provide some much needed simplicity. They will not do anything for very large businesses, where errors of £50,000 and above could be quite common.

Q2. Is the proposal to measure business size through the use of the box 6 turnover figures on VAT returns a reasonable method?

- This is reasonable and easily applied.

- We consider the proposal to measure business size through the use of the Box 6 turnover figures as very reasonable, although for a limited number of smaller cyclical businesses this may give an additional complication in checking they comply on each VAT return particularly at low points in their cycle.

- HMRC already use turnover as a measure of business size in other areas, therefore this would be a reasonable criterion to use as applied to voluntary disclosure limits.

- We are comfortable with the proposal to measure business size, the box 6 turnover figures.

- Yes. However, it should be noted that the figure in box 6 can be difficult to arrive at for complex businesses, especially those with international operations. There is also the complication of having to try to estimate what the box 6 figure will be during an accounting period, to know whether to separately disclose the error. This could be difficult to do and would not be an exact science.

For businesses where the 1% of turnover test may result in a moving upper threshold from quarter to quarter, some clarity will be needed about when errors are discovered i.e. are they discovered when an accountant within the organisation becomes aware of the error (which may be one VAT return period) or when the VAT/tax department is notified (which may be in a different VAT return period).

- We think that if a turnover test is the favoured option, the VAT return turnover test is suitable for VAT errors but feel it would be more appropriate for other indirect taxes to have a separate (if parallel) test based on their individual returns.

- Turnover is a reasonable method for an established business. However, with run off companies or start-ups would past or projected turnover be acceptable measures? We anticipate that for businesses where the 1% of turnover test may result in a moving upper threshold from quarter to quarter, some clarity will be needed about when errors are discovered and which periods turnover they are to be measured against, i.e. are they discovered when an accountant within the organisation becomes aware of an issue which needs to be investigated (which may be in one VAT return period) or when the VAT/tax department is notified (which may be in a different VAT return period), or when the disclosure is made to HMRC?

- The proposal will probably be workable in most cases but a problem arises in some, eg in a business where the trade is largely seasonal or where a business is likely to be very large but is in a start-up position and therefore has very little or no turnover.

Q3. If not, what other measurement should we use?

- We think you have identified an acceptable measure.

- We have no alternative suggestions to make in the limited time available to consider this point.

- Any introduction of a separate test, not used elsewhere, will introduce fresh scope for misunderstanding, error and correction, particularly if return statistics are incorrect or by concession are not fully reported. However, in the context of VAT the proposed method seems the most appropriate.

- As this measure is to apply to IPT, APD and environmental taxes we see no alternative that would be as consistent as turnover.

- It is difficult to suggest other options without complicating matters but, of course, one possibility is to measure the size of an error by reference to the amount of expenditure.

Q4. Will the proposals add to your business costs or the costs of those you represent? If so, we would appreciate some estimation of the actual costs involved in activities such as additional calculations, possible advance calculation of box 6 figures, staff familiarisation and training time, any accounting system adjustments, and any other resulting business changes.

- We consider that the proposals will not add to business costs for large businesses and for small businesses any additional cost should be insignificant.

- I do not see this measure adding to business costs given it takes advantage of information already available.

- No, the proposals will not add to business costs, and may actually reduce costs due to the reduced administrative burden of less voluntary disclosures.

- We do not believe that the proposals will add to business costs. In most cases, subject to the penalty issue, they should be reduced.

- For small/ micro and large companies there should be no incremental costs in having to calculate their voluntary disclosure limit. For medium business with turnover between £1M and £5M the cost in calculating their voluntary disclosure limit should be minimal, so long as the method for calculation remains simple (e.g. Box 6 from VAT return as proposed), although a need to estimate box 6 in advance would increase costs. Businesses that for whatever reason conduct themselves through a number of individual companies that are not members of a VAT group would, however, would need to spend time monitoring this (we assume that the rules will apply to taxable persons rather than individual companies). Overall there should be cost savings to both business and HMRC by reducing the number of voluntary disclosures made and processed.

- For fairly small businesses, the £10,000 limit will have no impact on costs and may, in fact, save costs because there will be no need to record the details. Larger businesses will probably still have to monitor error levels, but we have not had sufficient response to comment in any detail on this.

Q5. When should we introduce the changes? We see advantages in doing so as soon as possible, but wonder whether businesses might prefer a short delay in order to train relevant staff.

- As soon as possible, NO to the short delay. .

- The changes should be introduced as soon as possible. We do not consider that any formal staff training will be required as the changes can be picked up "on the job".

- Introduce it as soon as possible i.e. before the new behaviour based penalties regime.

- The changes should be introduced as soon as possible; there is very little required in the way of additional staff training, and the procedure itself has not changed, simply the de minimis limit.

- In practice, in relation to APD, the number of individuals involved in dealing with APD returns is very limited, and it seems therefore no reason why any changes cannot be introduced forthwith. We suspect there will be more impact in relation to VAT, and if Government wishes to introduce all the changes at one time, there may be more a need to delay the implementation date. However, that need does not arise in relation to APD.

- We believe that the changes should be introduced with immediate effect. There appears to be no downside to this, as any business following the old rules will merely make a voluntary disclosure that is unnecessary.

- As soon as is practicable. As there is very little complexity within the proposed changes, it does not seem necessary to delay introduction to provide for staff training. The risk of delay would be that it may encourage businesses to defer making voluntary disclosures now which would not nee to be made in future.

- If introduced and provided clear guidance is available in advance from HM Revenue and Customs, we do not consider a significant lead in time would be necessary.

- The overwhelming response to this question is there is no advantage in delaying and the proposal should be introduced immediately. There is a strong view that any internal communication and training could be effected in a matter of weeks. Our members still favour the medium term option of a box on the VAT return to disclose errors that have been included.

Summary: Intervention & Options

Department /Agency:	**Title:**	
HMRC	**Impact Assessment of repeal of obsolete anti-avoidance legislation**	
Stage: Final	**Version:** One	**Date: 12 March 2008**

Related Publications: Anti-avoidance Simplification Review: Simplifying Anti-avoidance Legislation

Available to view or download at:

http://www.hmrc.gov.uk

Contact for enquiries: Richard Thomas **Telephone:** 020 7147 2558

What is the problem under consideration? Why is government intervention necessary?

The Government announced a simplification review of anti avoidance legislation in its 2007 Pre-Budget Report. The preliminary work on this review identified four pieces of anti avoidance legislation which are now obsolete and which could therefore be repealed, removing unnecessary burdens on businesses and charities.

What are the policy objectives and the intended effects?

The policy objective is to reduce the burden on businesses and charities from their obligation to comply with rules under which there is no longer any significant tax at risk.

What policy options have been considered? Please justify any preferred option.

(1) "Bond Washing" : repeal the relevant legislation at sections 731 to 735 and at section 736 of the Income and Corporation Taxes Act 1988. The repeal will have no measurable tax consequence and will reduce charities' annual administrative costs by around £400,000.

(2) "Dividend Stripping": repeal section 704, paragraph B of the Taxes Act 1988 and its equivalent in the Income Tax Act 2007.

(3) "Employment Securities": repeal 7 pages of legislation to deal with cases where securities were acquired at times before 26 October 1987 where liabilities are now unlikely to arise

When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects? Anti avoidance legislation is kept under constant review as new circumstances arise. Compliance costs are routinely reviewed 1-3 years after implementation.

Ministerial Sign-off For final proposal/implementation stage Impact Assessments:

I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of this policy, and (b) the benefits justify the costs.

Signed by the responsible Minister:

.... Date: 11 March 2008

Summary: Analysis & Evidence

Policy Option: 1	Description: Repeal of obsolete anti-avoidance legislation

COSTS

ANNUAL COSTS		Description and scale of **key monetised costs** by 'main affected groups'	
One-off (Transition)	**Yrs**		
£ 0			
Average Annual Cost (excluding one-off)			
£ 0		**Total Cost** (PV)	**£ 0**

Other **key non-monetised costs** by 'main affected groups' These reforms should not impose any costs on either businesses or charities, nor on HMRC.

BENEFITS

ANNUAL BENEFITS		Description and scale of **key monetised benefits** by 'main affected groups' The primary saving will be in reduced compliance costs for large charities and certain insurance companies. This is because they will no longer have to routinely run extensive internal audits of financial assets in order to check that they are complying with these aspects of the CT legislation.	
One-off	**Yrs**		
£			
Average Annual Benefit (excluding one-off)			
£ 400k		**Total Benefit** (PV)	**£ 400k**

Other **key non-monetised benefits** by 'main affected groups' This will strengthen the perception among charities that we are sensitive to their business needs and will act quickly when issues are raised with HMRC.

Key Assumptions/Sensitivities/Risks The estimates of potential compliance savings are based on the known costs of recent audits by some very large incorporated charities. These costs have been extrapolated to the full population of charities and trusts that may be affected in order to arrive at the total potential saving

Price Base Year 2008	Time Period Years 0	**Net Benefit Range** (NPV) £	**NET BENEFIT** (NPV Best estimate) **£ 400k**

What is the geographic coverage of the policy/option?				
On what date will the policy be implemented?				
Which organisation(s) will enforce the policy?				
What is the total annual cost of enforcement for these organisations?			£ not applicable	
Does enforcement comply with Hampton principles?			Yes	
Will implementation go beyond minimum EU requirements?			Not applicable	
What is the value of the proposed offsetting measure per year?			£ not applicable	
What is the value of changes in greenhouse gas emissions?			£ not applicable	
Will the proposal have a significant impact on competition?			No	
Annual cost (£-£) per organisation (excluding one-off)	Micro	Small	Medium	Large
Are any of these organisations exempt?	No	No	No	No

Impact on Admin Burdens Baseline (2005 Prices) (Increase - Decrease)

Increase of £ 0 Decrease of £ 0 **Net Impact** £ 0

Key: **Annual costs and benefits: Constant Prices** **(Net) Present Value**

Evidence Base (for summary sheets)

Background

1. Introducing anti-avoidance legislation into the direct tax system is nothing new. The settlements legislation, which was the subject of the Arctic Systems case, dates from 1922 and other legislation from the 1930s is still on the statute book. More of the current anti-avoidance legislation dates from the 1960s. Some of this was in response to the then approach of the courts which was to take an extremely literal view of tax law and there were also major changes in the taxation system.

2. We have concentrated in our review on legislation dating from periods up to 1970: this is because in many cases tax law has changed so much that many of the provisions from then no longer seem to have any useful part to play, at least in the form they currently stand.

3. There are three areas we have looked at. They relate to transactions in shares (often referred to as 'bond washing'), primarily by financial dealing companies like banks, insurance companies and share dealers or as employment rewards. Each of these areas is considered in turn below.

Bond washing

4. A particular issue of concern was the ability of a financial dealer to (a) buy shares which were "cum-div" (i.e. on the point of paying a dividend) (b) receive the dividend and (c) sell the shares. Shares which pay a dividend generally decrease in value as a result by an amount roughly equal to the dividend.

5. Before 1973 dividends were received after income tax had been deducted but the drop in value was usually greater than the net dividend received. The transaction therefore would usually give rise to a small loss pre-tax.

6. But at that time dividends were not taxable on a financial dealer and so, for tax purposes, the dealer could claim a loss equal to the difference between the cost of the shares and their sale price, without taking the dividend into account. It could then claim to set that loss against the dividend and claim back the tax that had been deducted. In this way its after-tax result was higher than its pre-tax result and the company made a profit at the government's expense.

7. Legislation was introduced to prevent this. But in 1997 all dividends received by financial dealers in the course of their business (with the exception of some insurance companies) became chargeable to tax. The earlier legislation therefore became completely unnecessary.

8. In addition there were provisions preventing a body which was exempt from tax (pension fund or charity for example) from buying shares cum-div, receiving the dividend and reclaiming the tax. This activity also no longer works since payable tax credits were abolished in July 1997. This legislation, however, actually imposes a charge to tax on exempt funds - but the burden of showing this requires the examination of all share transactions, some of which may have been carried out by different investment managers, and is an enormous burden on exempt bodies for very little result.

9. The repeal will take about 1 page of Finance Bill space but will remove 12 pages and take away major compliance burdens from exempt funds (mainly charities) and financial dealing companies.

"Transactions in securities"

10. This is a targeted anti-avoidance rule dating from 1960. The 1950s saw a great deal of extremely complex and detailed anti-avoidance legislation to deal with transactions involving shares and securities. These transactions were generally known as "dividend stripping". In 1960 the Government decided on a then radical course of introducing what it described as a "general anti-avoidance rule" relating to transactions in securities.

11. These provisions were identified as being among the most complex and difficult to understand legislation; and, in particular, being legislation which imposes a huge compliance burden on business. The reason for this is that the legislation is cast in extremely wide terms, but contains a let-out for genuine commercial transactions not entered into for a tax avoidance purpose and a clearance procedure to enable HMRC to say that a transaction will not be affected. As a result a very large number of clearance applications are made purely as a precaution.

12. We have examined the legislation to see if there are any provisions which can be repealed, primarily with a view to reducing the compliance burden.

13. The legislation sets out five circumstances in which it might apply. There are three circumstances which apply to all companies and deal with specific types of transaction including dividend stripping; and there are two others which deal with much more general transactions involving the conversion of what would be income receipts into a non-taxable capital receipt. These latter provisions apply only to companies under the control of five or fewer people.

14. We think these latter provisions still have a role to play. The dividend stripping etc. provisions seem to have a far narrower field of application. We have identified one circumstance where it is clear that the legislation is now wholly redundant and we are repealing that alongside the repeal of the bond-washing legislation.

Employment securities rules

15. We have a modern system of taxation of securities obtained in the course of employment in Part 7 of the Income Tax (Earnings and Pensions) Act 2003. It is now very effective, especially following the Paymaster-General's announcement of 2 December 2004 which threatened to close down schemes that exploit it retrospectively.

16. The current system replaced two previous ones – one dating from 1972 and one dating from 1987. However, some of the provisions of the first system still remain on the statute book to deal with cases where securities were acquired at times before 26 October 1987. Given the negligible likelihood of employment-related securities of this age having yet to give rise to an income tax charge, we feel these are now wholly redundant.

Costs/benefits

17. There are no significant costs to either taxpayers or HMRC

18. Anecdotally we are aware that one large charity incurred a compliance cost in the region of £100,000 to establish that it had a liability of only £10,000 arising from the application of the bond-washing legislation

19. There could be up to 200 large incorporated charities and trusts that this legislation may affect or have affected at one time or another. Hence the potential benefits of removing this legislation may be significant. We have assumed a tentative (and slightly conservative) estimate of a £400,000 reduction in aggregate compliance costs per annum. There is no impact on HMRC's admin burden baseline as measured by the Standard Cost Model.

Specific Impact Tests: Checklist

Use the table below to demonstrate how broadly you have considered the potential impacts of your policy options.

Ensure that the results of any tests that impact on the cost-benefit analysis are contained within the main evidence base; other results may be annexed.

Type of testing undertaken	***Results in Evidence Base?***	***Results annexed?***
Competition Assessment	No	No
Small Firms Impact Test	No	No
Legal Aid	No	No
Sustainable Development	No	No
Carbon Assessment	No	No
Other Environment	No	No
Health Impact Assessment	No	No
Race Equality	No	No
Disability Equality	No	No
Gender Equality	No	No
Human Rights	No	No
Rural Proofing	No	No

Note: HMRC has considered each of the above tests, but none of the issues mentioned is significantly affected by this reform.

Summary: Intervention & Options

Department /Agency:	Title:	
HMRC	Impact Assessment of the decision to allow specified Northern Rock customers to reinvest withdrawn ISA funds.	
Stage: Implementation Stage	**Version:** Final	**Date:** 11 February 2008
Related Publications:		

Available to view or download at: http://www.hmrc.gov.uk

Contact for enquiries: David Ensor **Telephone:** 0207 147 2838

What is the problem under consideration? Why is government intervention necessary?

From 13th to 19th September 2007 (inclusive), some Individual Savings Account (ISA) holders withdrew money from their ISA held with the Northern Rock bank. By withdrawing their funds in cash, these individuals lost their ISA tax advantages for money deposited both in 2007/08 and in earlier years. Under existing ISA rules, if they had wished to transfer their funds to a different ISA provider, to keep their tax advantages, they should have arranged for Northern Rock to transfer their investment formally to another ISA provider.

What are the policy objectives and the intended effects?

Government is introducing legislation that will let HMRC amend its ISA regulations retrospectively, to allow affected individuals to put their withdrawn Northern Rock funds back into any cash ISA with any provider, but no later than 5 April 2008. The regulations will reinstate the ISA tax advantages that these individuals enjoyed before they withdrew their money.

What policy options have been considered? Please justify any preferred option.

The options were whether or not to allow individuals who withdrew their Northern Rock ISA funds in this period to reinvest these funds in another ISA. The Government decided that protecting the financial interests of these savers - in these exceptional circumstances - justified a departure from the usual transfer rules. On 18 October 2007 the Economic Secretary announced that funds withdrawn from 13th to 19th September (inclusive) could be put back into any cash ISA with any provider, by no later than 5 April 2008.

When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects?

The impact of the measure will be monitored under HMRC's broader plans for monitoring trends and developments in the savings and investment sector.

Ministerial Sign-off For final proposal/implementation stage Impact Assessments:

I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) the benefits justify the costs.

Signed by the responsible Minister:

.... Date: 22 February 2008

Summary: Analysis & Evidence

Policy Option:	Description:

COSTS

ANNUAL COSTS		
One-off (Transition)	**Yrs**	Description and scale of **key monetised costs** by 'main affected groups' We estimate a total cost of £75,000 for Northern Rock to produce and send out certificates with details of ISA withdrawals. There will also be a small marginal cost for Government of auditing the new process (alongside regular audits) and for other providers of inputting these payments.
£ 75,000	1	
Average Annual Cost (excluding one-off)		
£ Nil		**Total Cost** (PV) **£ 75,000**

Other **key non-monetised costs** by 'main affected groups' Nil.

BENEFITS

ANNUAL BENEFITS		
One-off	**Yrs**	Description and scale of **key monetised benefits** by 'main affected groups' The benefits of the measure to investors and banks/building societies are difficult to value but likely to be small in aggregate.
£ 0		
Average Annual Benefit (excluding one-off)		
£ Small		**Total Benefit** (PV) **£ Small**

Other **key non-monetised benefits** by 'main affected groups' Northern Rock customers who withdrew ISA funds will benefit from being able to reinvest back into an ISA, and so retain the tax free status of their deposits. Some banks and building societies may also benefit to the extent that they are able to attract ISA deposits that would otherwise have remained with the Northern Rock.

Key Assumptions/Sensitivities/Risks The cost to the exchequer (in lost tax) is zero on the basis that these funds were previously held in ISAs and therefore were tax free.

Price Base Year	Time Period Years	**Net Benefit Range** (NPV) £	**NET BENEFIT** (NPV Best estimate) **£ Small (positive)**

What is the geographic coverage of the policy/option?			National	
On what date will the policy be implemented?			13th September 2007	
Which organisation(s) will enforce the policy?			HMRC	
What is the total annual cost of enforcement for these organisations?			£ Negligible	
Does enforcement comply with Hampton principles?			Yes	
Will implementation go beyond minimum EU requirements?			No	
What is the value of the proposed offsetting measure per year?			£ None	
What is the value of changes in greenhouse gas emissions?			£ n/a	
Will the proposal have a significant impact on competition?			No	
Annual cost (£-£) per organisation (excluding one-off)	Micro N/A	Small N/A	Medium N/A	Large N/A
Are any of these organisations exempt?	No	No	N/A	N/A

Impact on Admin Burdens Baseline (2005 Prices) (Increase - Decrease)

Increase of £ 0 Decrease of £ 0 **Net Impact** £ 0

Key: Annual costs and benefits: Constant Prices (Net) Present Value

Evidence Base (for summary sheets)

Purpose and Intended Effects of the Measure

Background

1. On 18 October 2007 the Economic Secretary to the Treasury announced that the Government would allow individuals who withdrew cash from Individual Savings Accounts (ISAs) held at Northern Rock during the financial market disruption – losing their ISA tax advantages in the process – to re-deposit that money into a cash ISA with Northern Rock or with any other provider (by 5 April 2008), so restoring the tax advantages. This would apply to any withdrawals made between the 13th and the 19th September 2007 inclusive. To provide the correct legal framework for this measure, HMRC needs to amend its regulations, and the Government needs to pass legislation allowing HMRC to do this retrospectively.

2. This measure was devised as the best way to protect this group of savers, because it offered the individuals affected a choice of providers to reinvest their money with, while remaining focused on the target group (that is to say, those ISA holders at Northern Rock who withdrew their funds between 13th and 19th September inclusive). The British Bankers Association (BBA) and the Building Societies Association (BSA) were consulted about the proposed process and they confirmed that the option was workable. They assured the Government that their members would be able to put administrative changes in place to cope with the transfers from Northern Rock customers, and that some or all members would be willing to do this.

Rationale for Government Intervention

3. The Government also considered taking no action and not allowing these individuals to reinvest their withdrawn funds in an ISA. In this case a number of former ISA holders would have lost the protective tax wrapper around their money, as they would not have been able to put more than the annual subscription allowance back into ISAs.

4. The Government decided the circumstances were so very exceptional that a departure from the strict transfer rules would on this occasion be justified.

A more detailed cost-benefit analysis of the measure is laid out below.

Sectors and Groups Affected by the Measure

5. This measure affects the following groups:
    - Northern Rock
    - Other cash ISA providers
    - Northern Rock ISA holders who withdrew their funds between 13th and 19th September inclusive without following the ISA transfer procedures.
    - Her Majesty's Revenue and Customs.

Costs

6. **For Northern Rock:**
   - For compliance purposes, Northern Rock wrote to all customers affected with certificates stipulating the date the money was taken out, the amount taken out and the account details. We do not have any direct evidence on how much it cost Northern Rock to write to its affected customers, but based on plausible assumptions we estimate that the Northern Rock may have incurred a one-off cost of around £75,000.

7. **For other providers:**
   - In order to accept these ISA payments, other providers needed to ensure that they registered them through their system for transfers (rather than for subscriptions). They may also have needed to intervene clerically due to the irregular nature of the transfer. Consultation with the BBA and the BSA revealed that providers were broadly content to do this for marginal cost. Moreover, no provider was obliged to accept these subscriptions, and they will only have done so if the benefits out-weighed the costs.

8. **For the affected individuals:**
   - Individuals who wanted to reinstate their tax advantages needed to follow the process for reinstating their ISA as set out in the terms of the Economic Secretary's announcement. This measure conferred no costs on individuals.

9. **For Government:**
   - The Government will incur a small cost in auditing the additional process put in place, but this will take place alongside the existing audits on ISA providers.

Benefits

10. **For Northern Rock:**
    - This measure allows customers to reinstate their ISA with Northern Rock.

11. **For other providers:**
    - This measure also offers other providers the chance to benefit from the business of the ISA customers who withdrew their accounts from Northern Rock, and to receive their investments as a transfer. However, this benefit is very hard to quantify exactly as it cannot be predicted how many former Northern Rock customers will have reinvested their ISAs, and if so, what proportion of the amount withdrawn will have been reinvested.

12. **For the affected individuals:**
    - The affected individuals will be able to reinstate their tax advantages that they lost when withdrawing their funds without using the proper ISA transfer procedures. Savers will simply need to hand in the certificate which Northern Rock sent them in order to open the new ISA.
    - They will also be able to choose from a variety of ISA providers with whom to re-invest their withdrawn money.

13. **For Government:**
    - The measure is not intended to generate any specific benefits for the Government.

Small firms impact test

14. This measure impacted on all cash ISA providers who chose to accept the irregular ISA transfers.

15. These providers will have required some level of clerical intervention in order to over-ride their normal ISA systems as these transfers will not be done through the established process for transferring ISAs. However, as with all ISA transfers, no provider was obliged to accept such a transfer.

Competition Assessment

16. Due to the limited scope of the measure, it is unlikely to have any significant effect on competition in the ISA market. As with all ISA transfers, providers are able to choose whether or not to accept them.

Compliance risks

17. The general rules governing ISA transfers mean that transfers may only be made between providers themselves. This rule enables HMRC to monitor and enforce the cash ISA annual subscription limit of £3,000 and so minimise non-compliance with the ISA regime. In the limited number of cases affected by the measure, this rule is effectively being relaxed for a short period of time.

18. The terms of the Economic Secretary's announcement stipulated that providers should allow individuals to reinvest funds with them only if they gave to the new provider a certificate from Northern Rock confirming the withdrawal of their ISA funds from their Northern Rock ISA during the required period. This process was similar to the previous HM Revenue and Customs rules on matured Tax Exempt Special Savings Accounts (TESSAs), whereby individuals were allowed to roll over into ISAs. The new ISA provider will retain the certificate so that it could not be used again, thereby minimising any risk of non-compliance.

19. HMRC will continue to carry out their audits of financial institutions operating the ISA scheme and as part of the usual audit practice HMRC will specifically audit the certificates.

20. Any minimal compliance risk that does exist has been further reduced by the limited lifespan of the measure, given that it affects only withdrawals from Northern Rock ISAs between 13th and 19th September 2007, and that final transfers will have had to be done by the end of the 07-08 tax year as set out under the terms of the EST announcement.

Specific Impact Tests: Checklist

Use the table below to demonstrate how broadly you have considered the potential impacts of your policy options.

Ensure that the results of any tests that impact on the cost-benefit analysis are contained within the main evidence base; other results may be annexed.

Type of testing undertaken	***Results in Evidence Base?***	***Results annexed?***
Competition Assessment	Yes	No
Small Firms Impact Test	Yes	No
Legal Aid	No	No
Sustainable Development	No	No
Carbon Assessment	No	No
Other Environment	No	No
Health Impact Assessment	No	No
Race Equality	No	No
Disability Equality	No	No
Gender Equality	No	No
Human Rights	No	No
Rural Proofing	No	No

Summary: Intervention & Options

Department /Agency:	Title:	
HMRC	**Impact Assessment of Technical Improvements for Taxation of Pension Schemes**	
Stage: Final Proposal	**Version:** 1.0	**Date:** 10 March 2008
Related Publications:		

Available to view or download at:

http://www.hmrc.gov.uk

Contact for enquiries: Anne Stubbs **Telephone:** 020 7147 2844

What is the problem under consideration? Why is government intervention necessary?

The introduction of the simplified regime for tax-privileged pension savings from 6 April 2006 has swept away much of the structural complexity under which pension schemes previously operated. However, discussions with the pensions industry have identified several areas of the new regime where the application of the rules could be improved or simplified to reduce compliance burdens for industry.

What are the policy objectives and the intended effects?

The objective is to ensure that the Pension Simplification reforms introduced from 6 April 2006 work as intended. The Government also seeks to simplify aspects of the Pension Simplification legislation that are found to unduly hamper industry in applying the new rules.

What policy options have been considered? Please justify any preferred option.

There are four specific areas where options for reform of the current rules are being considered: (i) Lifetime Allowance Test - Benefit Crystallisation Event 3 test; (ii) Tax Free Lump Sums; (iii) Scheme Investments, and (iv) Lifetime Allowance Test - Dependant's Scheme Pensions. Further details on these areas are presented in Annex 1. In each case, we have considered a number of options to address the problem, including a 'do nothing' option. In the three areas where changes are proposed, the preferred option seeks to lessen the burden under the current rules.

When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects?

The impact of the changes will be assessed as part of HMRC's more general plans for monitoring and evaluation the impact of the Pension Simplification reforms.

Ministerial Sign-off For final proposal/implementation stage Impact Assessments:

I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) the benefits justify the costs.

Signed by the responsible Minister:

....Date: 10 March 2008

Summary: Analysis & Evidence

Policy Option:	Description: Technical Improvements

COSTS

ANNUAL COSTS		Description and scale of **key monetised costs** by 'main affected groups'
One-off (Transition)	**Yrs**	There are no new costs arising from the measure, as it is aimed at enabling pension schemes to apply the rules with greater ease. In particular, we anticipate that scheme administrators will accommodate the change in the rules as part of their updating of IT systems following the introduction of Pension Simplification.
£ 0		
Average Annual Cost (excluding one-off)		
£ 0		**Total Cost** (PV) **£ 0**

Other **key non-monetised costs** by 'main affected groups'

BENEFITS

ANNUAL BENEFITS		Description and scale of **key monetised benefits** by 'main affected groups'
One-off	**Yrs**	Defined Benefit scheme administrators will benefit from lower admin burdens generated by an easement in obligations for calculating and reporting chargeable events.
£ Neg		
Average Annual Benefit (excluding one-off)		
£ 0		**Total Benefit** (PV) **£ Negligible**

Other **key non-monetised benefits** by 'main affected groups'

The clarification of the rules also gives the industry more certainty about the circumstances under which pension schemes must undertake certain calculations and report information to HMRC.

If the 'Do Nothing' option was taken, the cost to firms would build up to around £20m p.a. after 10 years.

Key Assumptions/Sensitivities/Risks

The estimates above are based on plausible modelling assumptions, though a lack of robust quantifiable evidence and difficulty in modelling behaviourable effects imply a degree of uncertainty.

Price Base Year	Time Period Years	**Net Benefit Range** (NPV) **£ Negligible**	**NET BENEFIT** (NPV Best estimate) **£ Negligible**

What is the geographic coverage of the policy/option?			UK	
On what date will the policy be implemented?			Royal Assent 2008	
Which organisation(s) will enforce the policy?			HMRC	
What is the total annual cost of enforcement for these organisations?			£ Neg change	
Does enforcement comply with Hampton principles?			Yes	
Will implementation go beyond minimum EU requirements?			N/A	
What is the value of the proposed offsetting measure per year?			£ N/A	
What is the value of changes in greenhouse gas emissions?			£ N/A	
Will the proposal have a significant impact on competition?			No	
Annual cost (£-£) per organisation (excluding one-off)	Micro 0	Small 0	Medium	Large
Are any of these organisations exempt?	No	No	N/A	N/A

Impact on Admin Burdens Baseline (2005 Prices) (Increase - Decrease)

Increase of £ 0 Decrease of £ 0 **Net Impact** £ 0

Key: **Annual costs and benefits: Constant Prices** **(Net) Present Value**

Evidence Base (for summary sheets)

Evidence Base

In each of the four specific areas where options for reform of the current rules are being considered, we have assessed the impact on industry – in particular the effect the proposals are likely to have on the administrative burdens of pension schemes. In aggregate, we envisage that the proposals will generate a significant saving in the administrative burdens of pension schemes over time, compared with if the rules were not amended. The overall savings are estimated at around £20 million per annum after 10 years. The changes to the rules should also make it easier for HMRC to undertake its obligations (including engaging with schemes about their submitted returns) but without any signficant impact on its costs. Further details of our assessment for each proposal are presented below.

(i) Lifetime Allowance Test - Benefit Crystallisation Event 3 (BCE3) test

Rationale of Intervention

At the Pre Budget Report in December 2006, the Government announced a consultation that aimed to identify any improvements that could be made to two lifetime allowance tests one of which was the Benefits Crystallisation Event 3 (BCE3) test. The purpose of the consultation was to assist scheme flexibility, provide greater clarity to scheme administrators and members, to smooth the operation of the new pensions tax regime for both pension schemes and their members and so reduce costs.

The BCE 3 test aims to prevent people avoiding the lifetime allowance charge by deliberately taking an initially small pension which is then greatly increased. The rule works by counting these increases as well as the initial pension against the available lifetime allowance an individual has, so ensuring that a charge applies to any excess. But the rules are complex and the in-built filters don't always eliminate enough of the vast majority of pension scheme members who are not attempting any abuse. Pension schemes have therefore been finding administration of this rule costly.

Policy Options

Following the consultation exercise, the responses were analysed and the three options were considered.

<u>Option 1 – Do nothing</u>

This option does not provide any of the objectives identified at the start of the consultation process. Administrative burdens on schemes would not be reduced.

<u>Option 2 – Legislative changes</u>

Four key changes were identified during the consultation exercise which could ease administrative burdens and costs whilst maintaining the integrity of the rules. They are

- Widening the circumstances in which schemes are exempt from the test. Currently, large schemes paying the same increase to all scheme members at the same time are exempt. Widening this exemption to apply where at least 20 members have been paid the same increase at the same time. This should allow more flexibility for schemes without losing the deterrent effect.
- Exempting increases in pensions from the test as long as they don't exceed a normal rate of increase in a pension in a 12 month period – using the standard measure of "normal" increases as 5%, or RPI if higher. This change would better focus the rule on abnormal increases, where there is risk of abuse.

- Changing the reference month for RPI used, so that schemes don't have to wait for official RPI figures to come out for the actual month in which the pension is increased before deciding whether the test is needed. Schemes can use the figure for the RPI to any month, which is within 12 months before the increase in pensions. This should ease administration of the rule.
- A limit on annual increases in pension whereby if the annual increase in pension was less than £250 they will be removed from the requirement to test

All of these changes should assist scheme flexibility by reducing the number of times schemes are required to carry out BCE3 tests. This should reduce their costs and make the rules easier to understand for administrators.

All of these changes however will require changes in legislation. In addition a technical defect around how relief is given for previous BCE3's could be corrected as well as indexation of previous crystallisation events being introduced.

<u>Option 3 – Accept all of consultation responses</u>

In addition to those key changes in option 2 above, a number of other changes were discussed with industry as follows;

- A specific carve out of GMP/statutory increases from the BCE3 test.
- BCE 3 test would not be required where the level of pension remains below a de minimis figure after the increase.
- Rebasing rate of pension after each increase over the permitted margin.
- The purchase price of a scheme pension plus any pre-commencement lump sum is valued/tested against the lifetime allowance at the outset.
- Averaging of 5%/RPI increases over say a 5 year period.
- Standard crystallisation factors greater than 20:1 to allow for higher increases than 5% to be allowed for at the time of the original BCE to remove the need for any BCE3 tests.

The changes in option 2 remove the advantages that these other options would bring on their own. In addition, some of the options, for example the suggested de minimis figure change could lead to avoidance of the lifetime allowance charge in larger funds through fragmentation.

Decision

The recommendation was that the Government pursue option 2. These changes would meet all of the objectives set out in the consultation document by being de-regulatory, reducing administration burdens, increasing the flexibility of scheme and overall ensuring the benefits of pension simplification are realised.

Costs and Benefits

There are currently around 15,000 Defined Benefit pension schemes in operation with around 16 million active (and deferred) members. A majority of these will be affected to some extent by the current requirement to apply the BCE 3 test. The proposal for widening the circumstances in which schemes are exempt from applying a test will mean that the majority no longer face an administrative burden from this aspect of the pensions legislation. The new rules will mean that a test will only need to be applied in case where the increases are outside excepted circumstances or exceeds a 'normal' rate of increase (the proposal is for a test to apply in cases where the rate of increase exceeds 5%). As part of the proposed changes to the rules, the new test for cases where the increase in pensions exceeds the proposed 'normal' rate will be made less onerous for affected pension schemes to comply with.

The precise scale of savings in pension schemes' administrative burdens is difficult to predict at this stage, given we have no firm evidence of the current burdens faced by those affected, or how these would develop in the absence of any change in the rules. However, on a range of plausible assumptions, we estimate that the aggregate savings to industry could be of the order of £20 million per annum after 10 years (relative to the costs businesses would incur in the absence of the proposed rule changes).

Further details on estimated admin burden savings

- HMRC have completed an analysis of the admin burdens of the UK tax system based on Standard Cost Methodology assumptions (details available at www.hmrc.gov.uk/better-regulation/kpmg.htm).
- Among the regulations on pensions tax relief, the current estimate for admin burdens associated with schemes submitting details to HMRC of any 'chargeable event' in a tax year is around £1 million. This admin burden relates to an estimated 10,000 occupation pension schemes.
- In 2005 there were around 15,500 private sector Defined Benefit (DB) occupation pension schemes out of a total 70,000 (around 22%). But the distribution of scheme members was heavily weighted toward DB schemes - around 16 million were in DB schemes (87%) out of a total of 18.5 million active and deferred members in all private sector occupational schemes. There are also a further 7 million active and deferred members in public sector DB pension schemes.
- We assume that in practice, in the absence of any change to the rules, scheme administrators would need to undertake a BCE3 test computation for determining a chargeable event in (a) around 750,000 new cases each year (assuming roughly 1/30th of 23 million DB scheme members have a benefit crystallisation each year); and (b) all DB members receiving an increase in their pension. The aggregate number of members getting a DB pension in payment since April 2006 and in receipt of a subsequent increase in their pension will grow year by year. We estimate that the total number of scheme members for whom scheme administrators would need to do a BCE3 test computation could reach up to 7.5 million within 10 years.
- We have no hard evidence on the cost to schemes with cases requiring a Benefit Crystallisation Event 3 (BCE3) test. The actual cost to schemes will generally depend on the number of cases involved and their specific characteristics. However, in estimating the aggregate burden of the proposed reform to the existing rules, we assume that in the absence of any change to the rules the average cost across all scheme providers would be around £3 per case. This reflects a view that larger scheme administrators would most likely invest in IT to significantly reduce their costs of complying with their obligations, relatively to the practice of manual calculations. This average cost also equates roughly to a quarter of a man hour per case expended at the average wage of a office/wage clerk (based on HMRC Standard Cost Model rates).
- On this basis, we tentatively estimate that in the absence of the proposed rule changes the admin burden to business from the BCE3 test would be around £22 million per annum in 'steady-state' (and 'steady-state' would be reached in around 10 years from the implementation of Pension Simplification, April 2006). The cost in 2006-07 would be around £2.5 million (750,000 cases at roughly £3 per case).
- HMRC's proposed changes will mean that, in most cases, scheme administrators will no longer need to produce a calculation at all. Also, for those cases in which a calculation is still required, the average burden should be much less than at present. Assuming henceforth only around 25% of DB scheme members require a BCE3 computation (i.e. around 190,000 new cases per annum) and that the time and resources scheme administrators must devote to this activity falls by around 80% of the current estimated burden (i.e. to £1 per case), the total saving in industry admin burdens is estimated around £20 million per annum in steady-state (i.e. after 10 years). In addition, the corresponding saving in 2006-07 estimated admin burdens would be around £2 million.

(ii) Tax Free Lump Sums

Rationale of Intervention

Under the new tax regime the maximum value of the tax-free lump sum, generally taken on retirement, is standardised at 25% of the pension fund. However, before A day some members of occupational schemes were entitled to lump sums of more than 25% and these rights are protected in the new regime. The rules also allow such an individual an additional tax-free sum on the basis of 25% of any accruals of pension rights since 5 April 2006.

Representations have been received that this rule is complicated to apply for defined benefit schemes. Often these lump sums are paid to lower paid workers and the application of the rule means that scheme administration is complex leading to potential mistakes in calculating lump sums.

Policy Options

Option 1 – Do nothing

This option would mean that complicated calculations remain with the possibility of schemes making errors and paying pensions the wrong tax free lump sums.

Option 2 – Legislative changes

A straightforward change would make calculations simpler and thereby give administrative easements to large occupational pension schemes. The revision would remove the condition of further benefit accrual when calculating an entitlement to any additional tax free lump sum built up after 5 April 2006.

Decision

The recommendation was that the Government pursue option 2 as it will remove potential unfairness for some individuals as well as reduce the administrative burden on schemes. The change should not lead to any increase in costs nor should it open up any significant areas of abuse.

The Government's proposals cover all schemes however they should make it easier, in particular, for the administrators of Defined Benefit schemes to undertake the necessary calculations in cases where scheme members have protected rights to a tax free lump sum in excess of the standard 25% permitted under Pension Simplification. The revision to the rules will remove the condition of an entitlement to an additional tax free lump sum that is built up after 5 April 2006 from the calculation.

Costs and Benefits

We do not know precisely how many cases of this sort are currently being handled by pension schemes, but it is only likely to be a concern in a relatively small fraction of private sector DB scheme cases where members are approaching retirement. The number of cases should also reduce over time as no new entitlement to a tax free lump sum in excess of 25% is granted under Pension Simplification. Accordingly, while firms affected may experience a genuine saving from this change, the overall impact on industry admin and compliance burdens will be small. The analysis summarised below indicates an estimated admin and compliance burden saving of around £25,000 per annum.

Further details on estimated admin burden savings

- There are an estimated 16 million active and deferred members of private sector Defined Benefit occupational pension schemes (members of public sector schemes are unlikely to have a tax free lump sum in excess of 25%).
- Based on typical working lifespans (30-40 years), there could around 500,000 members of private sector schemes approaching retirement. Only a very small fraction of this group are likely to have preserved rights to a tax free lump sum pension in excess of the 25% limit stipulated under Pension

Simplification. We assume it is no more than around 5% of members approaching retirement – that is, around 25,000 scheme members.

- We do not have any firm evidence of typical costs incurred by pension scheme providers in meeting their obligations under this aspect of the pensions tax rules. A plausible assumption could be to assume a cost per case of around £50 (equating to roughly to 2 man hours expended at the average wage of a tax expert/qualified accountant (based on HMRC Standard Cost Model rates). For 25,000 cases that generates an existing admin burden of around £50,000 per annum.
- The proposed measure should make calculations easier for scheme administrators, who will no long need to factor in any entitlement to an additional tax free lump sum built up after April 2006 in their calculations.
- We assume this change will reduce admin burdens by 50% in each case, implying an aggregate admin burden saving of around £25,000 per annum in steady-state (i.e. 2-3 years from the Pension Simplification start date). The measure also provides pension scheme administrators with clarity about the rules, which may also serve to lessen their overall compliance burden, though this effect is secondary to the main admin burden savings and we assume a negligible overall effect.

In summary, taking the estimated savings for the two above measures in the round, we estimate total admin burden savings of around £20 million per annum in steady-state (i.e. after 10 years).

(iii) Scheme Investments

Rationale of Intervention

The Government introduced legislation in 2006 to remove tax relief from pension scheme investments in taxable property such as residential housing, paintings or vintage cars with potential for private use. It was intended that this will only apply where members could influence what types of property the scheme invests in for their benefit. Representations from the pensions industry have been made that these rules may, in certain circumstances, catch large occupational schemes even though none of their members can influence the scheme to invest in taxable property.

Policy Options

<u>Option 1 – Do nothing</u>

This option may lead to some schemes being inadvertently caught by the rules.

<u>Option 2 – Legislative changes</u>

Repeal the rule which causes the inadvertent impact on large schemes.

Decision

The recommendation was that the Government will pursue option 2. The legislation will then work as intended so that the taxable property legislation will only apply where members can influence what types of property the scheme invests in for their benefit.

Costs and Benefits

The Government's proposal to repeal the existing rule that inadverently catches large pension schemes with investments in property assets should have little net impact on aggregate burdens faced by schemes, given that very few schemes are believed to be currently affected. The estimates reported in the previous section assume a negligible saving from this aspect of the package of reforms.

(iv) Lifetime Alllowance Test - Dependant's Scheme Pensions

Rationale of Intervention

The second part of the consultation announced at Pre Budget Report in December 2006, was aimed at identify any improvements that could be made to Dependants' Scheme Pensions test.

The rule is intended to prevent people avoiding the Lifetime Allowance charge by reducing their own pensions and paying larger dependents scheme pensions. The rule applies to members who die after age 75 with a scheme pension in payment.

The objective of the consultation was to identify any improvements which would assist scheme flexibility, provide greater clarity to scheme members and smooth the operation of the new pensions tax regime.

Policy Options

Option 1 – Do nothing at present

No clear consensus emerged from the consultation and a previous regulatory change means that the rules on dependent scheme pensions only affect scheme pensions commenced after A Day, therefore few current pensions are affected by this rule.

Option 2 – Minor Changes

Some very minor changes could be made to ensure that the rules are operated slightly more efficiently. These changes on their own would not result in administrative easements and leave open the possibility of further changes in the near future.

Decision

The recommendation was that the Government pursue option 1 and allow further time for the responses to the consultation exercise to be considered.

Costs and Benefits

As with the changes to the BCE3 test above, the Government is seeking to remove any unnecessary compliance burdens posed by the Dependant's Scheme rules in relation to the Lifetime Allowance Test. At this stage, there are no firm proposals for reforming the rules in this area. However, the existing test only impacts on a small number of Defined Benefit pension schemes at the moment, and so, accordingly, we have assumed the savings to industry would be negligible at present.

Competition Assessment:

The proposed changes apply to all schemes across the whole economy. Accordingly, the Government does not anticipate any material impact on competition.

Small Firms Impact:

The proposals apply to all pension schemes, though there will be proportionately more scheme members in large pension schemes that are affected. Small firms will not be any worse off as a result of the proposed changes.

Specific Impact Tests: Checklist

Use the table below to demonstrate how broadly you have considered the potential impacts of your policy options.

Type of testing undertaken	***Results in Evidence Base?***	***Results annexed?***
Competition Assessment	Yes	No
Small Firms Impact Test	Yes	No
Legal Aid	No	No
Sustainable Development	No	No
Carbon Assessment	No	No
Other Environment	No	No
Health Impact Assessment	No	No
Race Equality	No	No
Disability Equality	No	No
Gender Equality	No	No
Human Rights	No	No
Rural Proofing	No	No

Summary: Intervention & Options

Department /Agency: HMRC	Title: Impact Assessment of widening the scope of authorised payments that may be made by registered pension schemes	
Stage: Final Proposal	**Version:** 1.0	**Date:** 10 March 07
Related Publications:		

Available to view or download at:

http://www.hmrc.gov.uk

Contact for enquiries: Anne Stubbs **Telephone:** 020 7147 2844

What is the problem under consideration? Why is government intervention necessary?

Finance Act 2004 (FA2004) lists the payments a Registered Pension Scheme is authorised to make to members of the scheme. All other payments are unauthorised and taxable at a rate of up to 70%. The legislation provides the power to describe additional payments as authorised. We have, however, become aware of a number of circumstances where schemes make payments which are currently treated as unauthorised and we would wish to reclassify these as authorised payments. However, the power is not wide enough to describe the tax treatment of these payments. These are payments made in error or small pensions which cannot be trivially commuted.

What are the policy objectives and the intended effects?

To treat tax payers equally and fairly and to ease administrative burdens on pension scheme administrators. To remove from the unauthorised payment rules payments which were not intended to be caught under FA2004, and to ensure these are taxed in the same way as other authorised payments. Changes to the trivial commutation rules should ensure that those at the lower end of income scales would not be adversely impacted. They should not increase exchequer costs and or be open to manipulation designed to avoid the primary purpose of pension saving which is to provide an income in retirement.

What policy options have been considered? Please justify any preferred option.

A number of options were considered to ease the burden on scheme administartors and help prevent stranded pension pots. These included a) do nothing, b) provide regulations under existing powers or c) under new enhanced regulation making powers with retrospective effect. The preferred option c) allows schemes to treat members and/or their dependants fairly by making these payments authorised with effect from 6 April 2006 and provide rules to allow very small stranded pots to be commuted and allow a de minimis limit for occupational schemes.

When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects?

The impact of the changes will be assessed as part of HMRC's more general plans for monitoring and evaluation of the impact of the pension simplification reforms.

Ministerial Sign-off For final proposal/implementation stage Impact Assessments:

I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) the benefits justify the costs.

Signed by the responsible Minister:

.... Date: 10 March 2008

Summary: Analysis & Evidence

Policy Option: C	Description: Provide regulations under new enhanced regulation making powers with retrospective effect

COSTS		
ANNUAL COSTS		Description and scale of **key monetised costs** by 'main affected groups' We assume that the measure results in an additional 20,000 trivial commutations annually for pension schemes and HMRC to deal with. In total, administering these extra trivial commutations is estimated to cost pension schemes & HMRC an extra £0.6m p.a., £0.4m of which is likely to be faced by pension schemes.
One-off (Transition)	**Yrs**	
£		
Average Annual Cost (excluding one-off)		
£ 0.6m		**Total Cost** (PV) **£**
Other **key non-monetised costs** by 'main affected groups'		

BENEFITS		
ANNUAL BENEFITS		Description and scale of **key monetised benefits** by 'main affected groups' Pension schemes should benefit from a reduction in the number of PAYE P14's they have to deal with and lower burdens from a reduced need to check that scheme members qualify for trivial commutation. HMRC also benefits from no longer having to deal with the PAYE P14 returns. The benefit to pension schemes and HMRC combined is estimated to build up from an initial £0.5m to around £8m per year after 20 years. Pension schemes are likely to receive around a quarter of this annual benefit.
One-off	**Yrs**	
£		
Average Annual Benefit (excluding one-off)		
£ 4m		**Total Benefit** (PV) **£**
Other **key non-monetised benefits** by 'main affected groups' Individuals with small, stranded pension pots will be able to take them as lump sums, rather than receiving very small annuities.		

Key Assumptions/Sensitivities/Risks Key assumptions are that the de minimis limit for occupational schemes to unilaterally trivially commute will be set at £2,000 and that under the new rules, HMRC and pension schemes will face similar costs for administering a trivial commutation.

There is uncertainty surrounding the figures used burdens faced by pension schemes from the PAYE P14 process, the old trivial commutation process and the proposed new process.

Price Base Year 2008	Time Period Years	**Net Benefit Range** (NPV) **£**	**NET BENEFIT** (NPV Best estimate) **£**

What is the geographic coverage of the policy/option?			UK	
On what date will the policy be implemented?			Royal Assent 2008	
Which organisation(s) will enforce the policy?			HMRC	
What is the total annual cost of enforcement for these organisations?			£	
Does enforcement comply with Hampton principles?			N/A	
Will implementation go beyond minimum EU requirements?			No	
What is the value of the proposed offsetting measure per year?			£0	
What is the value of changes in greenhouse gas emissions?			£0	
Will the proposal have a significant impact on competition?			No	
Annual cost (£-£) per organisation (excluding one-off)	Micro	Small	Medium	Large
Are any of these organisations exempt?	No	No	N/A	N/A

Impact on Admin Burdens Baseline (2005 Prices)				(Increase - Decrease)
Increase of £ 0.4m		Decrease of £ 2m	**Net Impact**	**£** 1.6m decrease

Key: **Annual costs and benefits: Constant Prices** **(Net) Present Value**

Evidence Base (for summary sheets)

1. There are two specific areas that are being addressed in this Impact Assessment, Trivial Commutation and Unauthorised Payments. The full options considered for each are set out below.

Trivial Commutation

Rationale for intervention

2. Substantial and generous tax reliefs are given to support and encourage pension saving. But in return restrictions also apply to how and when a pension fund can be accessed to ensure it is used for the intended purpose. The fundamental underlying policy behind this is that, in the main, money saved within a registered pension scheme must be used to provide an income in retirement.
3. One area of exception to this general policy is that of the rules relating to trivial commutation. These rules allow schemes to pay out all of the funds relating to a member (or dependant of the member) as a one off lump sum, between certain ages in the case of a member (or in the case of a dependant, before the day on which the deceased member would have attained age 75) and where certain conditions are met. This exception is designed as a practical measure to prevent schemes having to pay out very small pensions that are not economic for the scheme to administer and are too small to be of any significant benefit to the member.
4. HMRC had representation from the industry that the administration of these rules can be unduly burdensome in some circumstances, and as a result the Governments' Pre Budget Report in December 2006 announced that HMRC would discuss the concerns raised by the pensions industry.
5. The purpose of the discussions was to explore the way in which the current rules impact across a range of interests, bearing carefully in mind both the potential impact on individual pensioners, pension savers and pension providers, and the way the rules fit with the Government's wider objectives in encouraging pension saving to produce an income stream in retirement.

Policy options

6. Following the discussions around these concerns, a number of options were considered.

Option 1 – Do nothing

7. This option does nothing to reduce the administrative burden. In certain circumstances very small funds can be stranded in schemes where there is no alternative but to pay these funds out as unauthorised payments with tax charges of up to 70%. This was not the original intention of the trivial commutation tax rules.

Option 2 – Raise the commutation limit

8. At present, small funds can be trivially commuted if the aggregate value of all pension funds held by an individual is less than 1% of the standard lifetime allowance. This equates to £16,000 in 2007/08 and will rise to £18,000 in 2010/11. This figure could be increased by a greater amount than currently allowed for.
9. Trivial commutation is an exception to the general policy that tax-relieved pension savings are used to provide an income in retirement. Raising the commutation limit would be a change in the policy and it would not reduce the administrative burden for schemes where members have small funds stranded in two or more pension schemes as the test would still be against the aggregate value of all pension funds. This would not be in line with the intention of the trivial commutation tax rules.

Option 3 – Return to a scheme specific limit

10. Prior to 6 April 2006, trivial commutation was based on the savings in each scheme, rather than on the aggregate of total pension savings. For occupational schemes, this would be a limit based on the pension savings related to each employment a person has held. If the aggregate of total benefits payable to the employee under all schemes providing benefits in respect of the employment did not exceed the value of a pension of £260 per annum, the pensions the sum could be commuted.

11. For personal pension schemes there was a scheme trivial commutation limit which could be used only once. If the savings did not have any contracted-out rights then the commutation limit was £2,500, whereas if the savings included contracted-out rights, then the commutation limit was whether the funds could buy an annuity of £260 per annum. In addition the member could not be a member of another personal pension scheme or in receipt of an annuity from a personal pension scheme.

12. Such a change back to a scheme specific limit would create a class of losers, many of whom are poorer pensioners. Those with savings in total below the current £16,000 limit but who hold funds in an individual scheme above any new limit would lose the right to trivially commute those pots. This kind of limit would also increase the possibility of savers fragmenting pension savings to ensure that all or part of those savings can be paid out as a lump sum rather than as a pension. This would undermine the policy of pension tax relief being there to produce an income in retirement. In addition, even if the rules could limit the number of pension schemes a person could trivially commute from this would still allow some savers to use pension schemes inappropriately. People could set up a single personal pension scheme with the intention of trivially commuting and taking advantage of the generous reliefs given for pension savings to support non pension savings.

Option 4 – Stranded Pots

13. The current trivial commutation rules can still leave very small pots which schemes are unable to trivially commute – for example where the member has two pension funds where one is over the current limit for trivial commutation.

14. Two alternatives were considered.

a) The first alternative would be to retain the current rules for trivial commutation and then to have a separate additional rule that a pension fund could also be trivially commuted if the funds of an individual in that scheme were below a de minimis level. However personal pension schemes can be set up easily and so under this option there is a very real risk of substantial abuse through fragmentation of savings and using pensions tax relief to fund a general savings vehicle.

b) The second alternative would be to develop regulations which allow these pots to be trivially commuted depending on the particular circumstances that create the problem. This would allow administrative savings without risking abuse through fragmentation of pension savings.

Option 5 – Occupational Pension Schemes

15. Occupational pension schemes have certain features that make trivial commutation more problematic for them.

- It is very much more difficult to transfer funds in connection with a defined benefit occupational scheme. Defined benefit schemes generally do not accept transfers as these add to the funding risks for employers and it is often not advisable to transfer out of a secure defined benefit scheme. This makes dealing with trivial funds more difficult.
- Individuals often have multiple small occupational schemes because of employment patterns rather than as a result of a conscious pattern of saving. If a person has a number of jobs over a working life (perhaps on a part time basis), then a number of small occupational pension schemes may inevitably be built up.

16. It was considered with the pensions industry whether it would be possible to set a separate de minimis limit for occupational pension schemes. This would sit alongside the current overall aggregate limit of £16,000 and would enable small occupational pension schemes to be commuted even if the aggregate amount of pension savings was over £16,000.
17. This would result in cost savings for the occupational pension scheme industry and a simpler way of commuting very small pots that would benefit, mainly low income, pension savers. The current £16,000 limit with aggregation across pots would remain in place to ensure that there were no losers in comparison to the existing system.

Decision

18. The recommendation was that the Government pursue option 5 in conjunction with option 4b to deal with stranded pots. These changes would meet the objectives of the discussions held with the pensions industry reducing the administrative burden on pension schemes whilst at the same time fitting in with the Government's wider objective in encouraging pension saving to produce an income stream in retirement.

Costs and Benefits

19. It is difficult to determine precisely how many individuals with small pension pots will seek to trivially commute their funds as a direct result of this measure. We have inevitably had to make assumptions based on the best available evidence to date. The key assumptions underpinning the estimated costs and benefits are as follows.
20. Firstly, it is assumed that this measure will lead to an extra 20,000 pension pots being trivially commuted each year (based on the number of small pension pots and a £2,000 de minimis limit for occupational pension schemes to trivially commute).
21. Secondly, based on available internal management information, HMRC estimate the cost of administering pensioners' PAYE P14's at around £15 per case per year. On average, it is more costly for HMRC to process P14 forms dealing with pensioners than the average P14 form. This is because pensioners are often multiple income source individuals and are more likely to contact HMRC regarding their tax coding. This means that, on average, more time is spent dealing with a pensioner's P14 form than with a P14 form from a working age individual.
22. Data from HMRC's Standard Cost Model (for further information on the SCM approach to estimating administrative burdens go to www.hmrc.gov.uk/better-regulation/kpmg.htm), indicates that pension schemes face a cost of around £5 per form (based on a the time taken being 15 minutes per case) in submitting and checking P14 returns, giving a combined pensions scheme and HMRC cost of £20 per case. ONS life expectancy statistics also show on average annuities on small private pension pots are paid for around 20 years.
23. Thirdly, HMRC estimate that the cost of administering a trivial commutation is around £10 (again based on internal management information). SCM data indicates that the one-off cost to a pension scheme of administering a trivial commutation is around £20 (based on the process taking schemes an hour in total).
24. Using these assumptions gives the following estimates.

    i. Total Pension Scheme and HMRC cost for administering PAYE P14 returns:

    £20 per case (£5 Pension Schemes and £15 HMRC) **x** 20 years = £400 per case

ii. Total Pension Scheme and HMRC saving on not administering 20,000 extra PAYE P14's by year:

Year	PAYE P14's avoided	Annual Saving
1	20,000	£400,000
2	40,000	£800,000
3	60,000	£1,200,000
4	80,000	£1,600,000
5	100,000	£2,000,000
6	120,000	£2,400,000
7	140,000	£2,800,000
8	160,000	£3,200,000
9	180,000	£3,600,000
10	200,000	£4,000,000
11	220,000	£4,400,000
12	240,000	£4,800,000
13	260,000	£5,200,000
14	280,000	£5,600,000
15	300,000	£6,000,000
16	320,000	£6,400,000
17	340,000	£6,800,000
18	360,000	£7,200,000
19	380,000	£7,600,000
20	400,000	£8,000,000

iii. To calculate the extra cost to HMRC of administering the extra trivial commutations:

20,000 extra trivial commutations **x** £30 per trivial commutation (£20 pension providers, £10 HMRC) = £600,000 p.a.

25. The table above shows that by year 20, there will be an annual reduction of 400,000 PAYE P14's for pension schemes & HMRC to administer, giving an annual saving of £8m. This is assumed to be the steady state level going forward.

26. The estimates of the impacts on the Admin Burden Baseline are calculated as follows:

i. Extra trivial commutations for pension schemes to administer

20,000 **x** £20 = £400,000 p.a.

ii. Reduction in P14 forms to administer (builds up to 400,000 per year after 20 years)

400,000 **x** £5 = £2 million p.a.

Unauthorised Payments

Rationale for intervention

27. Under the tax rules, payments made by registered pension schemes to their members are either authorised or unauthorised. Generally, authorised payments are tax-free or taxable at the member's marginal rate and usually tested against the lifetime allowance, but unauthorised payments are taxable at a rate of up to 70% - designed to ensure that all of the tax reliefs that have built up the fund are reclaimed.

28. Following consultation between HMRC and the pensions industry, a number of situations have been identified where pension schemes make payments, often in innocent error, that are categorised as unauthorised, but which were not intended to be caught as such under the post-A-day rules.

29. The situations identified are:

    i) An overpayment of an ongoing pension

    ii) A pension which continues to be paid after the member has died

    iii) Certain payments made after the member has died where payment before death was not possible

Policy options

30. A number of options for each were considered.

i) An overpayment of an ongoing pension

31. Pension schemes sometimes pay someone too much pension in error. One of the requirements under the new rules is that a "scheme pension" must not reduce from one year to the next, except in certain limited specified circumstances. This is to prevent people artificially inflating the initial amount of their pension to create a higher tax free lump sum. If the scheme does not recoup the overpaid element then that part of the payment is an unauthorised payment. If the scheme treats the increased pension as the members pension and then subsequently reduces the rate of pension to the correct level future pension payments would be 'unauthorised'

32. Recouping overpaid parts of pensions can be difficult, disproportionately costly and sometimes undesirable. When the pensions were originally paid, they would have been treated as normal pension payments and taxed accordingly so a recovery could involve repayment of that tax to the person who accounted for it and then a separate tax charge being levied.

Option 1 – Do nothing

33. The unauthorised payment tax charge can be averted only if the overpayments are recouped. The individuals however, may not have been aware that they were receiving too much pension and these types of errors may not come to light for many months or even years. The do-nothing option risks significant tax charges arising if repayment is not pursued.

Option 2 -Provide regulations under the existing powers

34. The current power under section 164(f) Finance Act 2004 can be used to make the overpayment element and subsequent reduction to the correct level into an authorised payment. This change however could only relate to payments made after the regulation came into force. Any payments made before that date will still be unauthorised payments and taxed as such. Furthermore, any payment which was made authorised regulation would not automatically be taxable in the same way as other authorised payments from pension schemes, so some payments may escape tax all together

Option 3 - Amend the existing regulation making power and draft a regulation under this power to enable the payments to be authorised and taxable in the same way as other payments from a pension scheme

35. This would enable the overpaid pension to be treated as an authorised payment and taxed in the same way as other payment a scheme is authorised to make. This would enable all such payments to be taxed in the same way as other authorised payments from a registered pension scheme from an earlier date.

ii) A pension which continues to be paid after a member has died

36. Often after the death of a pension scheme member there is a delay in reporting this death to the pension payer. This need only be for a short period for payments to continue to be paid after the death of the member. Schemes will sometimes recoup these but often, given the amounts of the payments and the financial circumstances of the deceased's relatives, recouping funds is difficult and undesirable. If the pension instalments paid after death are not recouped, these are unauthorised payments.

Option 1 – Do nothing

37. The unauthorised payment tax charge can be averted only if the overpayments are recouped. However, this type of error is common, and may not come to light for many months. If repayment is not pursued significant tax charges could arise on relatively small amounts.

Option 2 - Provide regulations under the existing powers

38. Existing powers under section 164(f) Finance Act 2004 could be used but these will only relate to payments made after the regulation comes into force. Any payments made before that date will still be unauthorised member payments and taxed as such. Also any such payments that are made authorised will not be taxed in the same way as other authorised payments from pension schemes. This option may result in behavioural changes, for example payments could become a standard tax free bonus on death.

Option 3 - Amend the existing regulation making power and draft a regulation to enable the payments to be authorised and taxable

39. This would treat the payment as if it were the taxable income of the deceased member and would ensure that all such payments were taxed in the same way as other payments from registered pension schemes.

iii) Payments made after the member has died but where payment before death was not possible

40. When benefits become payable to a member, a scheme may not have information on the member and it may take some time before they can contact them. Where that person dies before these pension payments can be made, some scheme rules oblige the scheme to pay what would have been the member's arrears of pension, and any tax-free pension lump sum. Usually payments made in respect of the death of a member are authorised payments. However payments of pension and lump sum arrears in these circumstances can be caught as unauthorised payments.

Option 1 - Do nothing

41. These payments are currently treated as unauthorised payments. To do nothing would disadvantage those dependents that are due to receive these payments.

<u>Option 2 - Provide regulations under the existing powers to include these payments as authorised payments</u>

42. This would not allow regulations to apply to payments that have already been made and would not allow any arrears of lump sums to be tested against the lifetime allowance which would provide an unduly advantageous result.

<u>Option 3 - Amend the existing regulation making power and draft a regulation which would enable the payments to be authorised, taxable as income and subject to the lifetime allowance test</u>

43. This option allows schemes to treat members fairly and does not disadvantage the families of those who should be entitled to benefits resulting from the deceased's employments that they could have left some years before retiring. This change will allow schemes to pay a member's pension and pension commencement lump sum which is taxed in the same way as if the member had not died before payment.

<u>Decision</u>

44. For all scenarios the recommendation is that the Government pursue option 3, and amend the existing regulation making power within Section 164(f) Finance Act 2004 to

- allow regulations to have effect for payments already made provided it does not increase the person's liability to tax;
- describe in regulations how these payments must be treated for income tax purposes and who the tax charge should apply to and
- ensure that payments can be tested against the lifetime allowance if necessary.

Costs and Benefits

45. This measure should provide scheme operators with certainty over the treatment of certain payments and should allow a slight reduction in administrative burdens. It is not expected that schemes will face any significant costs as a result of these changes.

46. It is assumed that there will be no impact on the Exchequer from these changes as they chiefly amend legislation to ensure that pension payments are taxed in the same way as other authorised payments from pension schemes.

Specific Impact Tests: Checklist

Use the table below to demonstrate how broadly you have considered the potential impacts of your policy options.

Ensure that the results of any tests that impact on the cost-benefit analysis are contained within the main evidence base; other results may be annexed.

Type of testing undertaken	***Results in Evidence Base?***	***Results annexed?***
Competition Assessment	No	No
Small Firms Impact Test	No	No
Legal Aid	No	No
Sustainable Development	No	No
Carbon Assessment	No	No
Other Environment	No	No
Health Impact Assessment	No	No
Race Equality	No	No
Disability Equality	No	No
Gender Equality	No	No
Human Rights	No	No
Rural Proofing	No	No

Summary: Intervention & Options

Department /Agency:	Title:	
HM Treasury	**Impact Assessment of Property Authorised Investment Funds**	
Stage: Implementation Stage	**Version:** 1	**Date:** Budget 2008

Related Publications: "Property Authorised Investment Funds: a discussion paper" (Published July 2007); "Property Authorised Investment Funds: next steps" (Published December 2007)

Available to view or download at:

http://www.hm-treasury.gov.uk

Contact for enquiries: Sue Harper **Telephone:** 020 7270 6031

What is the problem under consideration? Why is government intervention necessary?

Authorised investment funds (AIFs) are retail investment funds that are regulated by the Financial Services Authority. Currently investors in AIFs that hold property can face different tax treatment than if they had invested in the underlying real property or UK-REIT shares directly. The Property AIF regulations aim to allow a way to address this for those AIFs that invest predominantly in property.

What are the policy objectives and the intended effects?

The policy objective is for investors to face broadly the same tax treatment as they would have, had they invested in the underlying real property or UK-REIT shares directly.

What policy options have been considered? Please justify any preferred option.

1. Do nothing - this would mean that certain investors in AIFs would continue to face different tax treatment than if they had invested in the underlying property assets directly.
2. Implement the new property authorised investment funds tax regime - this would mean that investors would face broadly the same tax treatment as if they had invested in the underlying property assets directly.

When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects?

The Government intends to monitor the effects of the policy on an ongoing basis.

Ministerial Sign-off For implementation stage Impact Assessments:

> ***I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) the benefits justify the costs.***

Signed by the responsible Minister:

.... Date: 14 February 2008

Summary: Analysis & Evidence

Policy Option:	Description:

COSTS			
ANNUAL COSTS		Description and scale of **key monetised costs** by 'main affected groups'	
One-off (Transition)	**Yrs**	The main costs of this measure are one-off costs: (a) adapt IT systems to comply with the PAIF regime and (b) if required, a shareholder vote to convert to an open-ended investment company.	
£ 5-7 m	1		
Average Annual Cost (excluding one-off)			
£ negligible		**Total Cost** (PV)	**£ 5-7m**

Other **key non-monetised costs** by 'main affected groups'

None

BENEFITS			
ANNUAL BENEFITS		Description and scale of **key monetised benefits** by 'main affected groups'	
One-off	**Yrs**	Investors and fund managers can, as far as possible, make investment decisions based on commercial considerations, which is an ongoing benefit. **Because the regime is elective, the present value of benefits will exceed the present value of costs by definition of the choice to opt in.**	
£	1		
Average Annual Benefit (excluding one-off)			
£		**Total Benefit** (PV)	**£**

Other **key non-monetised benefits** by 'main affected groups'

Key Assumptions/Sensitivities/Risks

The key assumptions made regard the estimated number of AIFs that choose to convert and the one-off costs of converting. However, as an elective regime, the net benefits should be positive.

Price Base Year 2008	Time Period Years 10	**Net Benefit Range** (NPV) **£ Not below zero**	**NET BENEFIT** (NPV Best estimate) **£ Will be positive**

What is the geographic coverage of the policy/option?			UK	
On what date will the policy be implemented?			April 2008	
Which organisation(s) will enforce the policy?			HMRC	
What is the total annual cost of enforcement for these organisations?			£ Negligible	
Does enforcement comply with Hampton principles?			N/A	
Will implementation go beyond minimum EU requirements?			N/A	
What is the value of the proposed offsetting measure per year?			£ N/A	
What is the value of changes in greenhouse gas emissions?			£ N/A	
Will the proposal have a significant impact on competition?			No	
Annual cost (£-£) per organisation (excluding one-off)	Micro	Small	Medium	Large
Are any of these organisations exempt?	No	No	No	No

Impact on Admin Burdens Baseline (2005 Prices) (Increase - Decrease)

Increase of £ Negligible Decrease of £ Negligible **Net Impact** £ Negligible

Key: **Annual costs and benefits: Constant Prices** **(Net) Present Value**

Evidence Base (for summary sheets)

Background

Authorised investment funds (AIFs) are collective investment schemes authorised and regulated by the Financial Services Authority (FSA) under the terms of the Financial Services and Markets Act 2000 (FSMA00). A collective investment scheme is a form of investment fund that enables a number of investors to 'pool' their assets and invest in a professionally managed portfolio of investments, typically gilts, bonds and quoted equities. Some investments, however, may be in unquoted investments or property. In effect, investors in such schemes are able to spread or reduce the risk that is associated with investment in such assets as well as gain the benefits of professional management. The reduction in risk is achieved because the wide range of investments in a collective investment scheme reduces the effect that any one investment can have on the overall performance of the portfolio. Authorised Investment Funds are used by both retail and institutional investors.

Implementing Property AIFs

Note that for the discussion below, the option of doing nothing is considered as the base case, with all costs and benefits assessed relative to status quo.

Costs

The overall total cost of the Property AIFs regime is sensitive to the number of AIFs that choose to elect into it. There are currently around 30 AIFs that invest primarily in property, and it is anticipated that the majority will choose to convert, so as a spot estimate for estimating costs and benefits below, it is assumed that 20 will choose to convert.

There are a number of costs that Property AIFs will incur for entering and remaining within the regime, the most significant of which are one-off up-front costs for entering the regime, the two most significant of which are:

1. IT costs for changing systems to comply with the new Property AIFs regime. These costs will vary according to the flexibility of existing systems and may also be shared due to single Administrators covering multiple funds so the IT costs can be spread across multiple fund managers. We estimate that this will cost around £500,000 per fund administrator and that the 20 PAIFs that choose to convert are covered by 4-8 fund administrators, implying total costs of £2-4 million.
2. Electing into the regime requires a shareholder's vote to approve becoming a Property AIF, changing the prospectus and, if necessary, approval of converting from an Authorised Unit Trust (AUT) to an Open Ended Investment Company (OEIC). This may be avoidable if funds have already included provisions to convert in their existing prospectus, but otherwise there are likely to be costs involved. Based on an estimate of £150,000 cost per PAIF, this would create total costs of £3 million if 20 PAIFs convert and all require a shareholder vote.

There is also the smaller one-off cost of giving notice to HMRC of the intention to join the regime, and, in the case of AUTs converting to OEICs, of completing a land transaction return in order to claim Stamp Duty Land Tax relief. These costs are assessed as negligible.

Overall, these estimates suggest overall costs of around £5-7 million.

Benefits

The Property AIFs regime will be an elective regime, so in the case of any fund opting in, both the fund managers and the investors will have made the assessment that the benefits to investors of becoming a Property AIF outweigh the costs. As such, the expected value of the benefits outlined below will be greater than the costs outlined above, **even if monetary amounts cannot be placed on these benefits**.

The current tax treatment of Property AIFs represents an economic distortion that will cause some investors to choose other routes for investing in property such as directly or via UK-REITs based on tax reasons rather than due to commercial factors such as expected rate of pre-tax return, (non-tax) transaction costs and liquidity. This in turn will mean that funds will not necessarily flow to the most productive investments where the pre-tax returns are highest, instead being invested where post-tax returns are highest. The distortion towards direct investment in property rather than AIF investment will also lead to increased transaction costs for investors, which represent a deadweight welfare loss. Introducing a tax-transparent vehicle for Property AIFs would allow investors and fund managers to make choices without distortions, as far as possible.

Besides the benefits of broadly aligning the tax treatment of Property AIFs with other forms of property investment, the proposed Property AIF regime will also offer greater visibility of total tax rate paid by investors, which will result in more-informed choices, lower search costs and reduced uncertainty. Lastly, most of the benefits identified for the introduction of the UK-REITs regime (http://www.hmrc.gov.uk/ria/ria-reits.pdf) will also apply to the Property AIFs regime, including:

1. Improving choice for small investors;
2. Improving liquidity;
3. Improving efficiency of use of commercial property.

It is not possible to directly estimate the benefits identified above. Therefore, any measure of the benefits involves a very high degree of uncertainty. However, as an elective regime, AIFs will only elect into the regime if the benefits from doing so exceed the costs.

Consultation

Following discussions with industry and representative bodies, the Government published a framework setting out the key features of a proposed Property Authorised Investment Funds tax regime at Budget 2007. In July 2007 the Government put out a discussion paper, providing a partial set of draft regulations which delivered certain parts of the framework, and set out how the Government intended to take forward the remaining parts. This was followed in December 2007 with a summary of responses to the discussion paper, a full set of draft regulations and an impact assessment. Links to all of these documents can be found here:

[http://www.hm-treasury.gov.uk/consultations_and_legislation/property/consult_property_nextsteps.cfm]

Competition Assessment

The Office of Fair Trading outlines four criteria for a Competition Assessment, asking whether the measure would:

1. Directly limit the number or range of suppliers?
2. Indirectly limit the number or range of suppliers?
3. Limit the ability of suppliers to compete?
4. Reduce suppliers' incentives to compete vigorously?

The answer to all four questions is no for Property AIFs, which instead are likely to enhance competition by allowing suppliers to choose the optimal fund structure and by allowing into the market any fund managers that previously opted out due to the adverse tax treatment of Property AIFs.

Specific Impact Tests: Checklist

Use the table below to demonstrate how broadly you have considered the potential impacts of your policy options.

Ensure that the results of any tests that impact on the cost-benefit analysis are contained within the main evidence base; other results may be annexed.

Type of testing undertaken	***Results in Evidence Base?***	***Results annexed?***
Competition Assessment	Yes	No
Small Firms Impact Test	No	No
Legal Aid	No	No
Sustainable Development	No	No
Carbon Assessment	No	No
Other Environment	No	No
Health Impact Assessment	No	No
Race Equality	No	No
Disability Equality	No	No
Gender Equality	No	No
Human Rights	No	No
Rural Proofing	No	No

Summary: Intervention & Options

Department /Agency:	**Title:**	
HM Revenue and Customs	**Impact Assessment of climate change levy accounting document (CCLAD) simplification**	
Stage: Implementation	**Version:** Final	**Date: 31 January 2008**
Related Publications: N/A		

Available to view or download at:

http://www.hmrc.gov.uk

Contact for enquiries: Andy Wiggins **Telephone:** 0161 827 0363

What is the problem under consideration? Why is government intervention necessary?

Consultation with the larger suppliers has confirmed that the requirement to identify an energy bill as a climate change levy accounting document (CCLAD) for supplies of gas and electricity is an unnecessary burden that can be removed without any risk to climate change levy (CCL) revenues or the levy's environmental objectives. HMRC's Standard Cost Model identified the requirement for CCL registered energy suppliers to issue a CCLAD as the single most burdensome CCL obligation. Intervention is necessary as primary law change is required to effect the change.

What are the policy objectives and the intended effects?

The policy objective is to reduce business burdens.

The intended effect is to remove the requirement for electricity and gas suppliers to identify their energy bills as CCLADs, thereby allowing energy suppliers to bill customers in a less burdensome way while still being able to provide the information required by HMRC to assure the regime. It also will free up space on suppliers' energy bills by removing the requirement to include the phrase "climate change levy accounting document" or "CCL accounting document".

What policy options have been considered? Please justify any preferred option.

There are two options:

1) Do nothing - retain the obligation to identify a document as a CCLAD; and

2) Remove the obligation to identify an energy bill as a CCLAD. This is the preferred option.

At the time CCL was introduced in 2001 the obligation was considered necessary to create an accounting document for CCL and to support CCL bad debt relief claims. After consultation we believe that energy bills can achieve these requirements without the need to be identified as a CCLAD. The obligation can be removed without risk to CCL revenues or its environmental objectives.

When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects?

A review will be undertaken once the policy has been implemented, probably between one and three years after implementation.

Ministerial Sign-off For final proposal/implementation stage Impact Assessments:

I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) the benefits justify the costs.

Signed by the responsible Minister:

Angela Eagle

.... Date: 20 February 2008

Summary: Analysis & Evidence

Policy Option: Remove CCLAD requirement	Description: Removal of the requirement for electricity and gas suppliers to identify their energy bills as climate change levy accounting documents (CCLADs).

COSTS

ANNUAL COSTS		Description and scale of **key monetised costs** by 'main affected groups' One-off initial costs will be incurred by CCL registered suppliers in amending the energy bill template and/or software re-programming costs. This cost will affect those CCL registered suppliers who opt to take advantage of the simplification measure - expected to be the vast majority of CCL registered suppliers (there is no compulsion on suppliers to do so).	
One-off (Transition)	**Yrs**		
£ 40-50k	1		
Average Annual Cost (excluding one-off)			
£ n/a		**Total Cost** (PV)	**£**

Other **key non-monetised costs** by 'main affected groups'

BENEFITS

ANNUAL BENEFITS		Description and scale of **key monetised benefits** by 'main affected groups' Removal of the CCLAD obligation will relieve £2.3m real costs of the administration burden (in 2007 prices). This should benefit the vast majority of CCL registered suppliers.	
One-off	**Yrs**		
£ n/a			
Average Annual Benefit (excluding one-off)			
£ 2.3m		**Total Benefit** (PV)	**£**

Other **key non-monetised benefits** by 'main affected groups' Removal of the requirement to include the CCLAD phrase will free-up space on the energy bill for other regulatory or customer information.

Key Assumptions/Sensitivities/Risks

It is assumed that 90% of energy suppliers will take advantage of this measure. Some may continue to issue CCLADs due to the costs involved in implementing the change.

Price Base Year 2007	Time Period Years	**Net Benefit Range** (NPV) £	**NET BENEFIT** (NPV Best estimate) £

What is the geographic coverage of the policy/option?			United Kingdom	
On what date will the policy be implemented?			Royal Assent FB 2008	
Which organisation(s) will enforce the policy?			HMRC	
What is the total annual cost of enforcement for these organisations?			£ neg	
Does enforcement comply with Hampton principles?			Yes	
Will implementation go beyond minimum EU requirements?			No	
What is the value of the proposed offsetting measure per year?			£ N/A	
What is the value of changes in greenhouse gas emissions?			£ Nil	
Will the proposal have a significant impact on competition?			No	
Annual cost (£-£) per organisation (excluding one-off)	Micro **n/a**	Small **n/a**	Medium **n/a**	Large **n/a**
Are any of these organisations exempt?	No	No	N/A	N/A

Impact on Admin Burdens Baseline (2005 Prices)					(Increase - Decrease)
Increase of	£ 0	Decrease of	£ 2.1m	**Net Impact**	£ 2.1m

Key: **Annual costs and benefits: Constant** **(Net) Present**

Evidence Base (for summary sheets)

Options

There are two options:

1) Do nothing; and

2) Reduce burdens on energy suppliers by removing the legal requirement to identify an energy bill as a CCLAD.

Option 1 - Do nothing

The 'do nothing' option maintains the status quo and therefore perpetuates the identified business burden. This would be contrary to the policy intention of reducing business burdens where appropriate.

Option 2 - Reduce burdens on energy suppliers by removing the legal requirement to identify an energy bill as a CCLAD

This is the option chosen.

HMRC is committed to reducing compliance costs to businesses, and in particular the administrative burdens incurred due to requirements to disclose information to HMRC or third parties. This "administrative burden" is assessed through the "Standard Cost Model" (SCM), an activity-based costing methodology which considers the activities that businesses need to do to comply with their legal obligations, and estimates the cost of such activities.

When the climate change levy (CCL) was introduced in 2001, the primary legislation (Finance Act 2000, Part I, Schedule 6) included requirements for energy suppliers to issue a climate change levy accounting document (CCLAD) and to include specified wording on their energy bills stating that the bill was a CCL accounting document. As well as providing an accounting document for CCL, these obligations were introduced in order to provide evidence in support of bad debt relief claims relating to CCL. This policy was agreed with energy suppliers.

Consultations with suppliers have confirmed that, if the legal requirement to identify an energy bill as a CCLAD is removed, they will continue to provide bills to customers that show details of the way the cost has been calculated. These bills will still show CCL and VAT charged and so can continue to be used to support claims for bad debt relief, as well as providing key information to customers on the total cost of their energy to inform decisions about using energy less or better or switching to non taxable sources (like renewables). The bill will remain the key document that records individual transactions to build up business records for company accounts and for audit. Suppliers have indicated that they will use the space the words "Climate Change Accounting Document" or "CCL Accounting Document" take up to provide better information to customers.

The SCM baseline for the obligation to issue a CCLAD is £4.2m per year for 225 CCL registered energy suppliers, on the basis of an estimated 9 million energy bills which are identified as CCLADs being issued each year. The administrative burden saving of removing the obligation to include wording on the energy bill stating that it is a CCL accounting document is estimated to be £2.3 million per year for energy suppliers (an average of £10,000 for each registered supplier), compared with a current baseline of £5.6 million per year for CCL as a whole (an average of £25,000 per registered supplier), all in 2007 prices. The remaining £1.9m of the CCLAD administrative burden represents a requirement to include the period covered on the energy bill which is necessary to maintain CCL regime integrity. As outlined above, these savings will not involve any additional risk to CCL revenues or the scheme's environmental objectives.

This measure will therefore repeal paragraph 143(2)(a) of Schedule 6 to the Finance Act 2000 and remove the obligation to state that an energy bill is a CCLAD by removing the requirement for energy bills to contain the phrase "climate change levy accounting document" or "CCL accounting document". This small primary law change will remove the superfluous requirement to add this information to energy bills, reducing a significant burden on energy suppliers.

Implementation

HMRC will update guidance to reflect these changes as soon as possible.

Enforcement

The change will make no difference to HMRC's assurance of the levy. HMRC will ensure continued compliance of the levy through their risk and assurance programmes, and will consider any comments received from industry on the effectiveness of this change in due course.

Competition Assessment

There are no competition implications since this measure removes the requirement to identify energy bills as CCLADs but suppliers will still be able to opt to continue this practice if the benefits of ceasing to identify energy bills as CCLADs are negligible (primarily this is likely to be smaller suppliers that send fewer bills and who might therefore not consider any system change would be warranted).

Annual Costs

This measure is not expected to have any impact on CCL revenues or environmental effectiveness as the obligation being removed is not integral in ensuring taxpayers pay the right amount of tax. The change is expected to create a one-off cost to businesses in removing the CCLAD identifying phrase from their energy bills, which is assumed to be around £100 per business to arrange for a revised energy bill template to be printed or around £250 per business to make appropriate changes to current software. Assuming 90% of CCL registered businesses do choose to take advantage of the removal of the requirement, the initial costs for revising energy bills across the industry would be around £40-50k in total. These will be more than offset by the impact of the change in reducing administrative burden costs.

Consultation

The administrative burden being removed by this measure was first revealed by the research into administrative tax burdens undertaken by KPMG and published in 2006. Subsequent to this, consultations with the large energy suppliers have revealed that they see this as a burdensome and superfluous requirement as it is not necessary in order to specify the point at which the levy becomes due and other assurance information can easily be provided by other means. Thus energy suppliers have welcomed the removal of the requirement. Those smaller suppliers that consider the cost of system changes outweighs any benefits in burden reduction will be able to continue their current practice as there is no compulsion on suppliers to take advantage of the removal of this requirement.

Specific Impact Tests: Checklist

Use the table below to demonstrate how broadly you have considered the potential impacts of your policy options.

Ensure that the results of any tests that impact on the cost-benefit analysis are contained within the main evidence base; other results may be annexed.

Type of testing undertaken	***Results in Evidence Base?***	***Results annexed?***
Competition Assessment	No impact	No
Small Firms Impact Test	No impact	No
Legal Aid	No impact	No
Sustainable Development	No impact	No
Carbon Assessment	No impact	No
Other Environment	No impact	No
Health Impact Assessment	No impact	No
Race Equality	No impact	No
Disability Equality	No impact	No
Gender Equality	No impact	No
Human Rights	No impact	No
Rural Proofing	No impact	No

Summary: Intervention & Options

Department /Agency:	Title:	
HMRC	Impact Assessment of the withdrawal of the VAT: Staff Hire Concession	
Stage: Implementation	Version: 1.0	Date: 12 March 2008
Related Publications:		

Available to view or download at:

http://www.hmrc.gov.uk

Contact for enquiries: Ian Broadhurst Telephone: 0207 147 0288

What is the problem under consideration? Why is government intervention necessary?

HMRC has been reviewing the staff hire concession, which allows employment businesses to charge VAT solely on the margin on their supplies of temporary workers. The concession was introduced in 1997 to ensure consistency in VAT treatment between employment agencies and employment businesses. Following changes to employment legislation, the concession is no longer necessary. It is also inconsistent with UK and EU law. Additionally, a number of tax avoidance schemes have been put in place which rely on the concession. Action needs to be taken to combat this avoidance and to protect the revenue.

What are the policy objectives and the intended effects?

The main policy objective is to maintain consistency with UK and EU VAT law. Following withdrawal, where supplies of temporary workers are made by employment businesses VAT will be charged on the full consideration received by them, in line with UK and EU VAT law.

Withdrawal will also neutralise the tax avoidance schemes that rely on the existing arrangements and this will protect a significant amount of revenue.

What policy options have been considered? Please justify any preferred option.

1. To withdraw the existing concessionary treatment and apply basic VAT rules, to ensure consistency in the VAT treatment of supplies made and to protect the revenue.

2. To do nothing and retain the existing concessionary treatment.

When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects?

A Compliance Cost Review will normally be carried out once the policy has bedded in, usually 1-3 years after the implementation of the policy.

Ministerial Sign-off For final proposal/implementation stage Impact Assessments:

I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) the benefits justify the costs.

Signed by the responsible Minister:

Jane Kennedy .... Date: 12 March 2008

Summary: Analysis & Evidence

Policy Option: Withdrawal	Description: To withdraw the existing concessionary treatment

COSTS

ANNUAL COSTS		Description and scale of **key monetised costs** by 'main affected groups'
One-off (Transition)	**Yrs**	One-off system changes to suppliers' systems estimated at £70,000; Familiarisation and notification costs of around £2.3m in respect of an estimated 72,000 affected businesses and other organisations (suppliers and customers).
£ 2.4m	1	
Average Annual Cost (excluding one-off)		
£ 0		**Total Cost** (PV) **£ 0**

Other **key non-monetised costs** by 'main affected groups'

(If further significant monetised or non-monetised costs or changes to administrative burdens are identified during the transitional period this Impact Assessment will be revised.)

BENEFITS

ANNUAL BENEFITS		Description and scale of **key monetised benefits** by 'main affected groups'
One-off	**Yrs**	
£ 0		
Average Annual Benefit (excluding one-off)		
£ 0		**Total Benefit** (PV) **£ 0**

Other **key non-monetised benefits** by 'main affected groups'

Key Assumptions/Sensitivities/Risks Withdrawal will result in an increased revenue yield of around £125m. In addition, a number of avoidance schemes that rely on the concessionary arrangements will be neutralised. HMRC estimates that around £75m a year, which is currently being contested, will be protected by withdrawal of the concession.

Price Base Year 0	Time Period Years	**Net Benefit Range** (NPV) **£ 0**	**NET BENEFIT** (NPV Best estimate) **£ 0**

What is the geographic coverage of the policy/option?			UK	
On what date will the policy be implemented?			01/04/09	
Which organisation(s) will enforce the policy?			HMRC	
What is the total annual cost of enforcement for these organisations?			£ no change	
Does enforcement comply with Hampton principles?			Yes	
Will implementation go beyond minimum EU requirements?			N/A	
What is the value of the proposed offsetting measure per year?			£ n/a	
What is the value of changes in greenhouse gas emissions?			£ n/a	
Will the proposal have a significant impact on competition?			No	
Annual cost (£-£) per organisation (excluding one-off)	Micro **0**	Small **0**	Medium **0**	Large **0**
Are any of these organisations exempt?	No	No	N/A	N/A

Impact on Admin Burdens Baseline (2005 Prices) (Increase - Decrease)

Increase of	£ 0	Decrease of	£ 0	**Net Impact**	£ 0

Key: **Annual costs and benefits:** **(Net) Present**

Summary: Analysis & Evidence

Policy Option: Do nothing	Description: To retain existing concessionary treatment

COSTS

ANNUAL COSTS		Description and scale of **key monetised costs** by 'main affected groups'	
One-off (Transition)	**Yrs**		
£ 0			
Average Annual Cost (excluding one-off)			
£ 0		**Total Cost** (PV)	**£ 0**

Other **key non-monetised costs** by 'main affected groups'

BENEFITS

ANNUAL BENEFITS		Description and scale of **key monetised benefits** by 'main affected groups'	
One-off	**Yrs**		
£ 0			
Average Annual Benefit (excluding one-off)			
£ 0		**Total Benefit** (PV)	**£ 0**

Other **key non-monetised benefits** by 'main affected groups'

Key Assumptions/Sensitivities/Risks The concession costs the Exchequer an estimated £180m a year. In addition, risks to future revenues from the use of contested avoidance schemes will persist. HMRC estimates that around £75m is currently at risk. Doing nothing also carries a risk of infraction proceedings by the European Commission.

Price Base Year 0	Time Period Years	**Net Benefit Range** (NPV) **£ 0**	**NET BENEFIT** (NPV Best estimate) **£ 0**

What is the geographic coverage of the policy/option?			UK	
On what date will the policy be implemented?			n/a	
Which organisation(s) will enforce the policy?			HMRC	
What is the total annual cost of enforcement for these organisations?			£ no change	
Does enforcement comply with Hampton principles?			Yes	
Will implementation go beyond minimum EU requirements?			No	
What is the value of the proposed offsetting measure per year?			£ n/a	
What is the value of changes in greenhouse gas emissions?			£ n/a	
Will the proposal have a significant impact on competition?			No	
Annual cost (£-£) per organisation (excluding one-off)	Micro **0**	Small **0**	Medium **0**	Large **0**
Are any of these organisations exempt?	No	No	N/A	N/A

Impact on Admin Burdens Baseline (2005 Prices)					(Increase - Decrease)
Increase of	£ 0	Decrease of	£ 0	**Net Impact**	£ 0

Key: **Annual costs and benefits: Constant Prices** **(Net) Present Value**

Evidence Base (for summary sheets)

1. Proposal

To withdraw the current concessionary arrangements in respect of supplies of temporary workers made by employment businesses.

2. Purpose and intended effect

The Staff Hire Concession was introduced on 1 April 1997 as a temporary measure (following the *Reed Personnel Services Ltd* High Court case STC 588) designed to prevent a distortion of competition between those employment bureaux acting as agents, accounting for VAT solely on their commission, and those acting as principals and accounting for VAT on the whole of the consideration received.

Although the concession was originally intended to expire at the end of 1998, it was extended pending changes to be made to employment regulations by the Department of Trade and Industry (DTI). In 2003 the DTI introduced the Conduct of Employment Agencies and Employment Regulations, which came into force on 6 July 2004.

Following the introduction of the new Conduct Regulations, all bureaux that operate on a similar commercial basis, i.e. hiring out temporary workers and paying them their wages, will be operating as employment businesses and acting as principals. The normal VAT rules will therefore no longer act to distort competition, since all those operating on a similar commercial basis and in line with the Conduct Regulations should, under basic VAT principles, charge VAT on the whole of the consideration that they receive as principals.

HMRC has also identified a number of tax avoidance schemes which rely in part on the use of the current arrangements. Removing the concession will neutralise these schemes and protect a significant amount of revenue.

The existing concessionary arrangements will be withdrawn with effect from 1 April 2009. This allows for a 12-month transitional period in order to give sufficient time for businesses and others to adjust to the changes, and to make any necessary preparations.

The main policy objective – to maintain consistency with UK and EU VAT law – will be achieved by withdrawal. Where supplies of temporary workers are made by employment businesses VAT will be charged on the full consideration received by them, entirely in line with UK and EU VAT law.

3. Consultation

In June 2006 HMRC commenced a review of the concessionary arrangements and issued a general invitation (*HMRC Business Brief 06/06*) to affected businesses and other interested parties to make a contribution. The review concentrated on:

- existing use of the staff hire concession and the effect of any withdrawal;
- the VAT treatment of employment bureaux, dependent on their status; and
- the impact of the DTI regulations.

HMRC met with a number of representative bodies and their advisers during the consultation period and received over 50 written responses. HMRC will publish a detailed summary of these responses, together with its own analysis, on 1 April 2008.

4. Options

Option 1: Withdraw the concessionary arrangements

There is no scope in UK or EU VAT law for the current concessionary treatment. Furthermore, following the introduction of the Conduct Regulations any bureau that supplies temporary workers should now be operating as an employment business and acting as a principal for VAT purposes. The original policy driver for the concession therefore no longer exists. Removing the concession will also help to combat tax avoidance.

Option 2: Do nothing

Although the concession had been justified historically, as a temporary measure to level the VAT playing field, this justification no longer exists, following the changes made to employment legislation. Furthermore, as there is no scope in UK or EU VAT law for the concessionary arrangements, continuing with the existing treatment also exposes the UK to infraction proceedings by the European Commission. Its retention would also increase the potential for the concessionary arrangements to be used for tax avoidance purposes.

5. Sectors affected

The withdrawal of the concession will affect all employment bureaux operating as employment businesses. It will also affect their customers – businesses hiring temporary workers – if they cannot recover the VAT charged to them in full.

There are approximately 10,500 recruitment firms operating in the UK but not all of these operate the concession. The customer sectors that will be most affected will be those sectors unable to recover VAT in full: the financial services sector (e.g. banking and insurance), private healthcare providers, private care homes, private and voluntary aided schools, higher education establishments (e.g. universities), other partly or fully exempt businesses, charities and some parts of the public sector.

6. Costs, benefits and risks

Option 1: Withdraw the concessionary arrangements

There will be some one-off compliance costs associated with this option, primarily in familiarisation with the revised VAT treatment. These are detailed below. Some businesses may look to renegotiate existing contracts, but this is not a specific requirement that arises from withdrawal.

HMRC will be looking to meet with business and relevant trade associations during the transitional period, to discuss any specific issues that arise from withdrawal. If further significant costs or changes to administrative burdens are identified during the transitional period this Impact Assessment will be revised.

Taking into account expected behavioural responses to withdrawal, such as commercial restructuring, it is anticipated that the likely revenue yield will be around £125m a year.

In addition, future revenues will be protected to the extent that avoidance schemes which rely on the concession will be neutralised. Current use of such schemes suggests that around £75m a year will be protected, although attempts may be made to try to avoid or minimise the effects of withdrawal through other means.

Any risk of infraction proceedings will also be removed, as the UK's VAT treatment will be entirely in line with EU VAT law.

Administrative burdens

On the available evidence, HMRC expects that there will be no impact on ongoing administrative burdens as HMRC believes that the withdrawal will not impact on a business's liability to register for VAT, change the way in which they prepare and submit VAT returns or produce any new administrative burden.

Compliance costs

HMRC believes that the only additional compliance costs that will be incurred as a result of the withdrawal of the concessionary arrangements are as follows:

- A one-off system change to suppliers' accounting systems to change the amount on which VAT will be accounted for;
- Time taken for suppliers to familiarise themselves with the change in the way in which supplies of staff are treated for VAT purposes;
- Notifications to be sent to customers informing them that VAT will now be charged on the full value of the supply;
- Time taken for customers to familiarise themselves with the change in the way in which supplies of staff are treated for VAT purposes.

Suppliers

Based on the Recruitment and Employment Confederation (REC) census for 2006 there are around 10,500 recruitment businesses around 95% of which would be considered to be micro or small as they employ 50 or less people. Although not all such businesses will currently be applying the concessionary arrangements, it has been assumed, for the purposes of calculating these costs, that they will all require some familiarisation.

Customers

Customers who currently benefit from the use of the concessionary arrangements fall into the following main categories:

- VAT registered partly exempt businesses
- Voluntary aided schools
- Care and Nursing Homes

It is estimated that there are around 40,000 partly exempt businesses that have their input tax recovery restricted, 4,250 voluntary aided schools and 17,500 care and nursing homes.

Suppliers' system changes

It has been assumed that these businesses will require on average around half an hour to implement system changes to ensure that VAT is accounted for on the full value of the supplies that they make. Using average hourly costs from the standard cost model this produces a compliance cost of around £70,000.

Suppliers' familiarisation costs

It has been assumed that these businesses will require on average around 3 hours to familiarise themselves with the new rules and using average hourly costs from the standard cost model this produces a compliance cost of around £430,000.

Issue of notifications of change in amount to be charged to customers

It has been assumed that each of these notifications will take on average an hour to produce and including postage costs produce a compliance cost of around £1m.

Customers' familiarisation costs

It has been assumed that customers will require on average around 1 hour to familiarise themselves with the new rules and using average hourly costs from the standard cost model this produces a compliance cost of around £900,000. As some businesses in the customer sectors may not consider the new rules if they do not routinely employ temporary staff, this estimate is therefore a maximum figure.

Overall cost

Overall it has been estimated that the withdrawal of the SHC will create compliance costs of just under £2.4m.

Option 2: Do nothing

Maintaining the status quo would not result in any additional costs for business.

It is estimated that the current concessionary arrangements cost the exchequer around £180 million a year.

HMRC has also identified a number of avoidance schemes which rely in part on the use of the concessionary arrangements, and estimates that around £75m a year is currently at risk in respect of these contested schemes.

In addition, the UK could face infraction proceedings if it does not align its VAT treatment with EU VAT law.

7. Small Firms Impact Test

A number of recruitment firms and affected customers are small businesses. The views of a number of these were obtained through HMRC's consultation. The Government has considered the impact withdrawal will have on small firms, but there is no scope for a specific exemption because of the nature of VAT and its general application.

8. Competition assessment

The impact of the proposed measure was assessed by applying the competition filter to the affected sectors. For the following reasons withdrawal of the concessionary arrangements is not expected to give rise to any competition effects:

- Withdrawal will not directly limit the number or range of suppliers;
- Withdrawal will not limit the number or range of suppliers, as it does not significantly raise the costs of new suppliers relative to existing suppliers, of some existing suppliers relative to others or of entering or exiting the affected sectors;
- Withdrawal does not limit the ability of suppliers to compete;
- Withdrawal does not reduce suppliers' incentives to compete vigorously.

9. Enforcement, sanctions and monitoring

HMRC staff, as part of the assurance of the businesses affected, will monitor compliance with the change in VAT treatment. Those businesses will be subject to the usual enforcement procedures for VAT registered businesses. No additional cost for HMRC is envisaged as a result of this.

A post implementation review will be carried out in April 2012.

Specific Impact Tests: Checklist

Use the table below to demonstrate how broadly you have considered the potential impacts of your policy options.

Ensure that the results of any tests that impact on the cost-benefit analysis are contained within the main evidence base; other results may be annexed.

Type of testing undertaken	***Results in Evidence Base?***	***Results annexed?***
Competition Assessment	Yes	No
Small Firms Impact Test	Yes	No
Legal Aid	No	No
Sustainable Development	No	No
Carbon Assessment	No	No
Other Environment	No	No
Health Impact Assessment	No	No
Race Equality	No	No
Disability Equality	No	No
Gender Equality	No	No
Human Rights	No	No
Rural Proofing	No	No

ISBN 978-1-84532-441-4