



ADMINISTRATIVE BURDENS ADVISORY BOARD

Advisory Board Meeting
19 May 2005

Minutes of meeting on 19 May 2006

Administrative Burdens Advisory Board

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10.00-12.30 Room 2/65-100 Parliament Street

Advisory Board Attendees: Teresa Graham (TG), Ian Dewar (ID), Andrew Hubbard (AH), Dr Martin Jones (MJ), Julie Kenny (JK), Francesca Lagerberg (FL), Yvette Lamidey (YL) (for Karen Thomson), Simon Sweetman (SSw), Steve Sharratt (SSh), Roger Southam (RS)

Apologies: Emmeline Owens

HMRC Attendees: Theresa Middleton (TM), Steve Coad (SC), John Hinton (JH) (for Mike Shipp), Roy Massingale (RM), Pete Robson (PR), Sara Woollard (SW)

Apologies: Dave Hartnett

HMT Attendees: Edward Troup (ET), Ceri Smith (CS)

Secretariat: Jane Andrews (JA), Tim Salt (TS)

Welcome & Introductions

1. TG welcomed everyone to the first meeting of the Board. Attendees shared their background and experience.

Item 1: Governance (Paper - ABAB 2006/01)

Terms of Reference

2. The terms of reference were agreed, on the understanding that it was a living document which should be reviewed at the meeting after next to ensure that the terms of reference remain fit for purpose. ABAB members clarified with HMRC attendees that while business would be done using the Chatham House rule, there was agreement that members of ABAB who are from representative bodies may need to share information on a confidential basis with a limited number of subject matter experts.

Membership

3. In the light of the wide experience of members of ABAB the current membership was agreed.

Criteria for Success

4. TG suggested that the Board should adopt the practice of the Better Regulation Commission in defining what success for ABAB would be, adapted to meet the needs of this Board. The draft document was agreed. In discussion the following points were made:

- TG said the aim was to achieve a sustainable approach that led to a net reduction of existing burdens, and prevented future additional burdens. It was therefore important to influence implementation and enforcement in Regulatory Impact Assessments (RIAs) and ensure there was a feedback loop. CS explained that his team in Treasury worked closely with SME&EU to ensure that policy change took account of complexity.
- The Board emphasised the importance of a reduction in the amount of information asked for that served no purpose, was duplicated and did not relate to tax take. Since KPMG had not looked into how information was used, that would be work for ABAB to consider.

- Board members were concerned that HMRC avoid adverse impact from internal reorganisation on the drive for administrative burden reduction.
- The reporting of quick wins needed to be clear and visible. While it was important to see a statistical reduction, it was also necessary to identify change on the ground that people could see.
- TM suggested that the Board needed to input into Treasury policy areas, but with the understanding that the Government's broader policy agenda might constrain the work of the group. ET said Treasury policy makers would ensure that new policy took full account of the consequent administrative burdens the change would impose using the Regulatory Impact Assessment (RIA) process – which would include the SCM methodology in future, and needed to learn from ABAB how to improve this process. HMT was committed to making better policy and achieve a reduction in administrative burdens. In looking at specific policy measures, CS & ET were attending ABAB to pick up and feedback the views of the Board. Board members expressed interest in being involved in the redevelopment of RIAs.
- There was agreement among Board members that success was as much about understanding and dealing with the perception of burden on small businesses, many of which have a lack of experience or knowledge and ongoing nervousness that they may not get it right, as a statistical reduction in the total burden.

Public Relations/Stakeholder Management

5. TG explained that she was keen for the Board to have a proactive role in external stakeholder management. That meant getting early visibility of the Board and the administrative burden reduction work, and following that up at a later date to track progress. It also meant that the reduction work needed to include going public on some quick wins, and identifying some change that would make a real difference to the perception of businesses.

6. Towards achieving that, TG had had her first interview - with International Tax - which positively reported the forthcoming work of ABAB. Also, HMRC were setting up a web page on administrative burden reduction. She asked that Board members consider their contacts and stakeholders, and identify key opinion formers with whom contact should be actively cultivated.

Action point 1: ABAB members to identify influential stakeholders with whom there needed to be engagement to ensure the Board knew how reduction and change was being perceived.

Item 2: Overview of the Administrative Burden Assessment Exercise (Paper - ABAB 2006/02)

7. SW outlined the background to the Administrative Burden Assessment Exercise carried out by KPMG and HM Revenue and Customs, as explained in KPMG's report. The results showed that 85 of the 2692 obligations cause 85% of the burden on business – much of which related to key forms and returns. In addition, business comments had been collected which suggested that many of the things business found irritating were not burdensome at a macro level, but were burdensome at the individual level. Many comments also referred to a dislike of change and "grit in the system" operational inefficiencies. The remaining "long tail" of obligations added little to the overall burden but contributed to perceptions of complexity. The targets announced at Budget 2006 were designed to address all

these issues, rather than focus purely on the administrative burden, as it was clear that the perception of burden was as important to tackle as the reality.

Item 3: Reducing the burden of forms and returns: Simplification of the main income tax return & partnership return (Paper - ABAB2006/03)

8. RM explained that as HMRC's process owner for Self Assessment (and the Construction Industry Scheme (CIS)) he was fully engaged in work to simplify the Main Tax Return (MTR) and would be leading the work on the Partnership Return. The KPMG research had identified the potential for significant work around Self Assessment, and he was looking for ABAB to provide leverage to support his work.

9. Of the twelve most burdensome forms identified by KPMG, five were in his area of responsibility. He indicated that he was expecting the new CIS to contribute towards the administrative burden reduction target as the annual Contractor return would no longer be required from next year, and the new scheme would also reduce burden in other areas.

10. A significant contribution to the forms and returns reduction target was expected from improvements to the MTR. Following full external consultation a range of problems and concerns were currently being addressed – which included improved layout, reduction in the number of questions and more use of plain English. Board members drew attention to the amount of information on the form which was not relevant to most completers' circumstances. RM appreciated the issue, but said that submitting online can help by allowing people to jump through data fields on forms. Significant improvements were also planned to the statement of account.

11. He added that HMRC has already provided a four page short return for one million (mainly) non-business customers (with turnovers of less than £15,000 a year). As part of the MTR improvements businesses with a turnover of less than £40K – about half a million business customers – will be able to complete a new short business return page. RM sounded a note of caution – the timescale for change around HMRC's legacy systems could be time consuming and this improvement (taking into account design, testing and legacy systems) was unlikely to be released before 2008.

12. Effort has been focussed on the MTR because of the higher proportion of under-represented taxpayers in that general group. Most partnerships are represented by agents, so the administrative burden falls out differently.

13. RM had begun to speak to the "Big 4" accountancy firms, who accepted that partnerships were a necessarily complex area of the law. The greatest benefit in compliance cost terms could be gained through focussing on smaller partnerships – perhaps typified by the husband and wife firm. The Board agreed with that view. His next steps were to:

- look into the detail of KPMG research,
- visit Ernst & Young's return processing office,
- work with the Working Together group, and
- investigate electronic help for translation of information from partnership accounts to individual returns.

14. The Board welcomed HMRC's focus on these issues, and expressed considerable interest in supporting this work through playing an active role, which RM

welcomed. TG noted that a short partnership return would be a good start. SS suggested further consideration be given to aligning the presentation of information on the returns to standard accounting.

Action point 2: Board members to agree which members had the closest interest in the partnership return.

Item 4. Reducing the burden of audits & inspections (Paper ABAB 2006/04)

15. PR explained that to deliver HMRC's target to reduce the burden on compliant businesses of dealing with audits and inspection by 15% over five years and 10% in three years, the department would be focussing its efforts on the non-compliant, and minimising the impact on compliant customers.

16. This was being addressed by developing risk assessment processes, introducing a web based eRoom environment known as Shared Workspace, and using a range of lighter touch interventions before mistakes are made on the tax return. Reducing the fear factor was a longer-term ambition that should flow from these improvements. PR welcomed any view Board members might have on how well the proposed interventions will reduce burdens or does the lighter touch approach become a burden in itself?

17. Because the burden of audits and inspections was a statistically small part of the whole, PR was using management information available from within HMRC to try to develop alternative methods for demonstrating a burden reduction.

18. There was a wide-ranging discussion. Board members expressed particular concern and interest in:

- PR's interpretation of any error as a non-compliant business, and therefore excluded from the targeted reduction. That view did not appear to fit with what was being said by the department through the Powers consultation.
- How Board members might best contribute towards addressing the "fear factor".
- The need for the Board to gain a better understanding of HMRC's approach to risk, so that ABAB can come back with suggestions.
- The improvements that could be made to customer perception. The Board focussed on two areas where they felt there was real scope for improvement. First, at the outset of an audit/ inspection, using a fact sheet or similar provide clear information up front about what the business could expect in terms of timescale, clarity of communication, or a questionnaire. But the real opportunity was learning through feedback (although care would be needed as that would constitute a burden), which would also track success. If an Inspector were required to get feedback at the completion of every audit/inspection it would go some way to ensuring that quality was being considered within the enquiry process, and driving customer focus through front line staff. This would need to be developed in a way that overcame bias a business might feel if they had received a tax bill, ensure that they were reassured adviser feedback would not affect HMRC's future dealings, and reassure staff that they were not going to be compromised.
- The current average elapsed time for an Income Tax Full enquiry resulting in no adjustments of 48 weeks, and the modest plans within HMRC for reductions in that timescale going forward. The Board was also concerned that culturally Inspectors appeared unable to work in co-operation with customer and on occasion appeared unwilling to close down an investigation.

- Tax Inspectors needed effective training on how business works – both to stop businesses having to rehearse the basics, and to prevent, for example, demands for traditional books when the business has moved to the e environment.
- The variety definitions of business size in use, particularly in relation to the reorganisation of HMRC's Local Compliance activity, which Board members were concerned to ensure did not provide a barrier to delivery of the reduction targets.

19. It was agreed that it was important that Board members should feed in their thoughts on the new compliance interventions through the current public consultation being undertaken through the Powers Review (deadline 30 June). To take forward work on baselining and providing measures of progress, PR would establish a working group. This would also take forward ABAB suggestions on improving customer perception. The Board would consider which members should be involved in that group. In the meantime HMRC were planning a paper for the next meeting of ABAB on the issue of baselines and measurement.

Action point 3: HMRC to provide more information on its future approach to risk.

Action point 4: Board to identify who will lead their input into HMRC's internal working group dealing with the audits and inspections target

5. Addressing the Third Target: Other Priorities for Streamlining & Modernisation – Jane Andrews

20. Board members had received volume 1 of the KPMG report. Volume 2 was a vast document – underneath which was a 25mb database. Analysts in SW's team will work on database to ask appropriate questions to tease out priority options for early action, on which the views of ABAB will be sought. In addition the team will train people within HMRC and the Treasury how to use database with a view to them identifying areas for administrative burden reduction. JA asked that Board members indicate which areas of volume 2 were of particular interest to them.

21. The challenge was to share information with ABAB, without asking the Board members to become analysts, and also to ensure that options for change were refined to a limited list for further investigation of their administrative burden reduction potential. In discussion the Board made a number of suggestions:

- HMRC's analysts should match the tax take against tax tail to identify better where we target.
- The Treasury might like to consider with Ministers the case for a Finance Bill deregulation section to provide a marker in the sand of a bold target to aim for.
- Thresholds could act as a barrier to growth, and the Board were very keen that analysts and policy makers focus their attention in that area
- The Board were interested in exploring whether there was a simpler way to collect Stamp Duty Land Tax.
- FL noted that a change of direction on the Lord Carter proposals would do much to improve perceptions of accountancy bodies and the business community. She considered that HMRC need to consult more widely on changes in filing dates and move any decision to implement to 2010.
- Board members raised the well known concerns brought out in the KPMG research about Form P11D (the employer's return of benefits and expenses received by an employee). There was general agreement that there should be a better way of obtaining information on benefits than through the P11D, but at the very least consideration should be given to the removal of the £8500 threshold.

Action point 5: Board members to indicate which areas of volume 2 were of particular interest to them.

Action point 6: Secretariat to find ways of taking forward the Board views within the programme of administrative burden reduction work, and report back on progress.

Item 6: Priorities for action

22. TG said that the meeting had been productive, but it was clear that work would have to take place between meetings in order to ensure that ABAB effectively prioritised efforts by HMRC to achieve the reduction in administrative burdens.

TG said that she had identified a number of actions:

Action point 7: JA to send members of the group the index for volume 2 of the KPMG report to enable them to identify which parts they wanted to study in detail

Action point 8: JA to send members of ABAB a hyperlink to a paper by the Institute of Directors on Tax Simplification.

Action point 9: Members of the group to volunteer their services to JA with suggestions of areas of interest.

Next Meeting: 9.30 to 12.30 7 July 2006 at 100 Parliament Street