



ADMINISTRATIVE BURDENS ADVISORY BOARD

5 July 2007

**Minutes of meeting on 5 July 2007**

Final minutes of the meeting on 5 July 2007

10.30-13.30 Room 2/18 - 100 Parliament Street

**Advisory Board Attendees:** Teresa Graham (TG), Andrew Hubbard (AH), Roger Southam (RS), Karen Thomson (KT), Simon Sweetman (SSw), John Endacott (JE), Dr Martin Jones (MJ)

**Apologies:** Steve Sharratt, Narinder Gill, Francesca Lagerberg, Julie Kenny, Ian Dewar

**HMRC Attendees:** Stephen Banyard (SBan), Judith Knott (JK), Keith Lang (KL), Roy Massingale (RM), Callum Macfarlane (CM), Marc Casale (MC), Leonora Robertson (LR), Sally Beggs (SBe), Marie-Claire Uhart (MCU), Jim Ferguson (JF), Bob Wightman (BW), Simon Woodside (SW), Andrew Parkes (AP), Tricia Williams (TW), Greg Hobbs (GH), [Don Macarthur \(DM\)](#)

**Apologies:** Dave Hartnett, Geoff Lloyd, Theresa Middleton, Mike Shipp, Pete Robson, Sue Walton

**HMT Attendees:** Ceri Smith (CS), Simon Bor (SBo), John Harnedy (JH), Michael Swan (MS), Martin Beck (MB), Chris Yiu (CY), Katherine Green (KG)

**Apologies:** Edward Troup

**Secretariat:** Jane Andrews (JA), Jo Hegarty

**Welcome & Introductions**

1. TG welcomed everyone to the meeting. The minutes of the meeting on 5 March were agreed. The action points had been discharged, were in hand or were on the current agenda. After discussion, it was agreed to continue the practise of attributing comments in minutes.

**Item 1: Reviewing the irritants list**

2. TG explained that it was time to revisit the Board's list of priority irritants drawn up a year ago to consider those which should remain, those which should be dropped, and what might usefully be added.

**Irritant 1: Capital Allowances**

3. There was a discussion of the Corporation Tax package announced at Budget 2007. The Board were keen to be involved in the Treasury's development of the application of the ideas announced at Budget, and CS agreed that would be useful. The Board were also concerned that it was too soon to judge whether SME administrative burdens had reduced as a result of the Budget package. JA explained that HMRC undertook Compliance Cost Reviews on key policy changes such as this after the policy had bedded down (39 were planned for this year) which would review the actual effect on business. The Board remained interested in further policy change in this area to deliver visible simplification, although it was accepted that that was a policy matter for HMT to lead.
4. The Board agreed that Capital Allowances should be removed from the list of priority irritants, but considered it important to review progress on Capital Allowances once the Budget package was in place.

**AP1: Secretariat to ensure that the Advisory Board has the opportunity to be actively involved in the development of AIA and the new Capital Allowances regime.**

**AP2: Capital Allowances to be removed from the Board's current list of priority irritants.**

**Irritant 2: Industrial (and Agricultural) Buildings Allowance**

5. TG noted that the Budget package had included plans to remove the Industrial (and Agricultural) Buildings Allowance. AH and SSw highlighted the presentational difficulty – removing such a relief reduced the administrative burden, but left losers such as small hotels and farmers – although the policy had a lot to commend it. TG concluded that despite the presentational issues, the changes did offer the purest form of simplification.

**AP3: IBA (and ABA) to be removed from the Board's current list of priority irritants.**

**Irritant 3: Voluntary disclosure thresholds on VAT**

6. CM explained that HMRC would shortly be seeking Ministerial agreement to consultation on change options for the voluntary disclosure regimes in indirect taxes. The intention was to undertake formal consultation to ensure the views of large and small business were established. AH emphasised the importance of a system which made error correction easy. RS was keen to explore the potential for a threshold based on a percentage rather than a monetary limit. TG asked that the Board identify and support the option which made the most difference to business.
7. After discussion, it was agreed that CM would share his plans for consultation with the Board on a confidential basis, so that they might input their thinking to the work before it was published.

**AP4: Secretariat to arrange for Advisory Board to have input to the consultation planning.**

**AP5: Voluntary disclosure issue to remain on Board's list of irritants.**

**Irritant 4: Employment status**

8. SSw remained concerned about the fundamental problem over the need to decide whether a person was employed or self-employed. He considered the existing system flawed and open to abuse. KT shared disappointment that the issue has still not moved forward. MJ added that policy was not keeping pace with modern life and portfolio careers. CS accepted that the wider policy issues were complex, heavily connected with employment law, and therefore likely to run and run. While the current situation was kept under continuous review by HMT, he appreciated that there would be continued pressure for change from the Board.
9. The Advisory Board turned its attention to HMRC's Employment Status Indicator - an interactive IT tool designed originally to help decide employment status in the construction sector, but useful across all sectors. The Advisory Board had previously expressed concern about its promotion, presentation and accessibility. They considered the block on rolling out improvement due to higher priority work within HMRC entirely unacceptable.
10. SBan recognised people's frustration. RM and DM accepted that HMRC needed to provide a modern tool which provided binding rulings, and DM

added that if it was a success it could provide a model for other tax issues. The issue remained one of limited HMRC capacity.

11. TG concluded that the current situation was entirely unacceptable, and the Board were considerably disappointed at the low priority given to a key tool to help businesses and individuals through a complex policy area. In that light it must remain in the Board's priority list.

**AP6: Employment Status Indicator improvement to remain on Board's list of irritants.**

**Irritant 5: Coding & Benefits in Kind (BIKs)**

12. Coding issues were raised by SSw who explained that his concerns on coding were part of the wider debate on BIKs. Coding out of reimbursable expenses meant the coding was wrong and it caused unnecessary work, and in his view HMRC should not be doing it. JE added that HMRC should not adjust the coding, and just accept that there will be refunds due in year. DM explained that autocoding should reduce the error rate.
13. LR explained that the starting point was to consider whether expenses were wholly and necessarily incurred for business purposes. If so the employer should apply for a dispensation.
14. AH, supported by other Board members, was of the clear view that a business keeps tight control to ensure expenses are entirely for business purposes to protect its bottom line. HMRC should accept that, within limits and frameworks to prevent abuse, under a self assessment system only non business expenses should be reported.
15. LR accepted the case for simplification, and reassured the Board that through the Challenge Panels, plans were being developed to find more business friendly solutions. SBan added that dispensations provided a partial solution in the short term, and HMRC is working on better promotion of the facility. HMRC research suggested that of the 79k employers who looked to be potentially eligible for dispensations, only 4k had one in place. HMRC was experimenting with calling a sample of those businesses to see if that would increase the uptake. Board members highlighted business concerns about the amount of correspondence that followed a dispensation application.
16. The Board then turned its attention to the £8,500 threshold. TG was not convinced by HMRC's conclusion that the costs outweighed the benefits, and asked for further evidence. JE suggested the work be undertaken to explore the potential of more HMRC flexibility in the use of PAYE settlement agreements (PSAs) as an alternative to having a threshold. DM said that PSAs were for minor, irregular etc expenses.
17. On payrolling BIKs, KT said that the IPP had support from the major representative bodies and organisations for another IPP survey specifically on payrolling, including studying the experience of some large organisations already doing so. She hoped to be able to report progress at the meeting after next.

**AP7: The Board sought more work from HMRC on promoting dispensations, examining the case for self assessment, further**

consideration to be given to the £8500 threshold and a fresh look at the potential of PAYE settlement agreements.

**AP8: KT to report to the next meeting but one on the IPP's work on payrolling BIKs.**

**AP9: BIKs regime improvement to remain on Board's list of irritants.**

**Irritant 6: Car Benefits**

18. A particular irritant was around providing the same information on cars twice – on P11Ds and P46 CAR, which is perverse. In addition, the Board agreed that the wider issues around accounting for BIKs also applied to cars. However the tax issues surrounding cars needed to be examined holistically, e.g. claims for mileage interact with tax, VAT, CT deductibility etc. These interactions needed to be mapped out and better understood. The car benefits issue therefore needed to remain a separate item in the Advisory Board's list of priorities.

**AP10: Secretariat to commission work to map out the touch points of tax regimes with cars, and the commonality and differences in the rules.**

**AP11: Car benefits regime improvement to remain on Board's list of irritants.**

**Irritant 7: Capital Gains tax (CGT)**

19. MCU outlined the improvements to the CGT regime that could reduce burdens on business including: improving forms, guidance and HMRC's expert service; hiding complexity by developing an IT tool, and legislation improvement. She was also exploring the possibility of no return where there was no declarable gain – although that would need legislative change.
20. On rebasing, she explained to the Board that although it seemed attractive at first sight, it would actually bring more businesses into the regime if the date were brought forward, as only 1% currently have to do the 1982 calculation and most assets are sold after 7 years, and so the impact of rebasing has very largely died away.. After discussion, the Board accepted that rebasing would not offer business significant benefits. SSw suggested a system akin to the French – a 100% taper in 15 years. There was also discussion around the thorny issue of partnerships and the possibility of computing the gain at partnership level and then leaving the partnership to decide how to allocate it. The Board supported the suggestions. CY and CS from HMT agreed to think about the policy issues raised, but added that change needed to be seen in the context of ensuring that the Government's policy objectives were achieved.

**AP12: Rebasing CGT to be removed from the Board's current list of priority irritants**

**Irritant 8: Intrastat**

21. TG expressed pleasure that something might finally happen with Intrastat, but concern at the prospect of delay. TW said the solution lay with European negotiations and there was little scope of significant unilateral improvement by the UK. She accepted that progress was likely to be slow. The case for change had been scheduled for discussion in October but there will now be a discussion at EU level about a request to delay that. The plan is that the preferred options are then put out to the member states for thoughts in March.

22. At CS's suggestion, the Board agreed to consider TG writing to the Commission and Ministers as their Chair to apply pressure about this real concern for business.

**AP13: Secretariat to prepare a draft letter and suggested addresses for TG to consider.**

**AP14: Intrastat burden reduction to remain on the Board's list of priority irritants.**

**Irritant 9: Improving the way HMRC communicates**

23. JA explained that HMRC had embarked on a number of strands of activity to improve the way HMRC communicates in writing with business. A recent piece of research was providing the building block of what businesses wanted from HMRC, on which a programme of communication improvement would continue to be built. KL outlined the findings of the research. The main finding was that tax is a low priority – it's in a basket called coping with legislation. But there were several insights:

- tax tends to be dealt with during the owners own time
- they were all willing to comply but not at any cost
- business view of compliant differs from ours – they view willingness and attempted compliance as key
- HMRC is considered unapproachable – we treat people as guilty until proven innocent so they don't want to approach us
- flexibility is a key need for 80% of SMEs
- HMRC takes too long to resolve disputes – there should be a guiding approach about what's needed
- HMRC needs to be consistent – the answer can differ with who you speak to
- Agents said that fast resolution of problems was their main priority.

24. The Board noted that the research confirmed what they had said previously, and were pleased the HMRC would now move forward with an improvement programme. They sought reassurance that concrete improvement would be delivered, and offered to support individual workstreams.

**AP15: Improved written communication with business to remain on the Board's list of priority irritants.**

**Possible addition to Advisory Board's priorities: ITSA**

25. JE welcomed the possibility of increasing the payment on account threshold from £500. AH concurred and said in principle he supported the doubling of the 3 line account threshold to £30,000 so long as RM confirmed that the level of enquiries would not increase. After discussion, the Board concluded that it strongly supported the plans that HMRC outlined.

**AP16: ITSA burden reduction for small business to be added to the Board's priority list.**

**Possible addition to Advisory Board's priorities: simplified CT for small business**

26. SW explained that the thinking on CT improvement was at a far earlier stage than that for ITSA, and was not yet ready for external consultation. He

outlined HMRC's latest thinking to provide a simpler regime for the smallest companies. Key issues were the interaction of such an arrangement with the Annual Investment Allowance announced at Budget 2007, the read across to ITSA, and devising an attractive system that did not result in tax leakage.

27. The Board discussed the proposal, and welcomed early sight of the ideas that were being developed.

**AP17: simplified CT for small companies to be added to the Board's priority list.**

**Possible addition to Advisory Board's priorities: new VAT annual accounting**

28. SW explained that on VAT, his teams had been working with representative bodies to understand the tension between the desire of many businesses and advisers to have the discipline of quarterly accounting, and the concern that caused in the need to get the tax absolutely right each quarter, rather than annually. The leading idea was to redevelop the Annual Accounting Scheme and retarget it at larger businesses. MJ and others were concerned whether the idea being developed was something business really wanted – many businesses preferred the quarterly system. SW accepted that would need to be tested through consultation if the idea proved to be workable.

29. In discussions the Board concluded that the high level of administrative burden arising from the VAT return justified exploring whether a workable option could be developed that was attractive to business. If this could be achieved it would be a big and noticeable prize.

**AP18: New VAT annual accounting to be added to the Board's priority list.**

**Possible addition to Advisory Board's priorities: Stamp Duty Land Tax (SDLT)**

30. JF gave some background to the plans to reduce the administrative burden caused by SDLT, particularly the current situation where 1 million forms were received on which no SDLT was due. The case for a SDLT threshold before a return was due had to be looked at in the light of the use made of the information currently received by the Valuation Office Agency, Land Registry etc. HMRC were currently exploring a £40k threshold which would reduce the number of returns by 300k. TG challenged whether a £100k threshold would be too great a risk. JF explained that he was actively engaged in discussions over the highest threshold with the VOA. In the longer term, e-conveyancing by the Land Registry would provide an electronic solution – but delivery of that was some way off.

31. RS noted that there was a link between SDLT and VAT – it is not possible to register for VAT until SDLT clearance has been given, which suggested that there was a case for a 1 page 'nil' return. There was also concern by the Board whether the Land Registry dependencies on our form had been sufficiently explored.

**AP19: JF to ensure that the links with VAT and the Land Registry are explored.**

**AP20: SDLT reform to be added to the Board's priority list.**

**Item 2: Progress on targets**

32. JA referred to the accompanying paper on HMRC's progress towards achieving its administrative burden reduction targets and the wider programme of change that would benefit business and which continues to be developed. In response to a question from AH, SBeg confirmed that the figures were net and reflected increases in admin burden like those from pensions reform.
33. SBeg introduced the flight path trajectory and explained it is a snapshot of where we are now against the forms and returns target, and the sort of contribution some of the ideas currently being discussed could make towards achieving the target by 2010-2011. While progress was good, a great deal more needed to be delivered, including some of the more tentative ideas, and lead times meant that the window of opportunity was narrow.
34. The Board discussed progress; the value that the Board was offering in driving the agenda and setting the challenge to make a noticeable difference to business, as well as the successful contribution Challenge Panels had made to idea generation.

**Item 3: AOB**

35. TG concluded by noting that it was CS's last meeting as he was moving on and expressed her thanks for his contribution.

**Next Meeting: Provisionally set for September at 100 Parliament Street.**

Jo Hegarty